MINUTES OF THE REGULAR MEETING OF THE
OREGON STATE BOARD OF HIGHER EDUCATION (#776)
UNIVERSITY OF OREGON, EUGENE, OREGON
NOVEMBER 3, 2006

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MINUTES

1. CALL TO ORDER/ROLL CALL/WELCOME

President Henry Lorenzen called the meeting of the State Board of Higher Education to order at 9:42 a.m. Board members present included: President Henry Lorenzen, Gerry Blakney (arrived at 10:05 a.m.), Kirby Dyess, Adriana Mendoza, Dalton Miller-Jones, Tim Nesbitt (12:15 p.m.), John von Schlegell, Howard Sohn, and Tony Van Vliet. Board members absent included: Directors Don Blair (business) and Gretchen Schuette (personal).

Chancellor’s staff present included: Chancellor George Pernsteiner, Neil Bryant, Ryan Hagemann, Jay Kenton, and Susan Weeks.

Others present included: Presidents Dan Bernstine (PSU), Mary Cullinan (SOU), Martha Anne Dow (OIT), Khosrow Fatemi (EOU), John Minahan (WOU), and Ed Ray (OSU). Also in attendance were Provost Linda Brady (UO) and Assistant Provost Sam Connell (OHSU).

President Lorenzen reported that the State Board of Higher Education had met jointly with the State Board of Education. The primary focus of the meeting was the review of a report that is required as directed by SB 342. The report dealt with the alignment of the various educational sectors and the interests of the legislature that specified the nature of the reports relating to the joint education endeavors.

2. REPORTS

a. Chancellor’s Report

In the Finance and Administration Committee meeting that preceded the Board meeting, SOU President Cullinan began her consultation with the Board relative to financial planning. The President indicated that meetings would be held with campus constituents regarding retrenchment, re-visioning, and right sizing of the institution.

Discussions are continuing with the Department of Administrative Services (DAS) and the Governor’s Office regarding the 2007-09 budget. The Chancellor acknowledged that the proposals from the Board were moving along well, although this could be either enhanced or reversed depending on the outcome of the upcoming election.
Mr. Bryant, Consultant to OUS, reported that the polls were showing that Ballot Measure 48, the Tabor amendment, would likely fail. Measure 41, changing the Oregon tax credit from $154 to a federal exemption deduction of approximately $3,200 that would cost the state between $700-$800 million in the next biennium, appears likewise to be failing. The polling trends indicate that Governor Kulongoski will be re-elected and, if so, his budget would be published on December 1. The final revenue projections will be released on November 22.

b. Research Council

Dr. Rich Linton, Chair of the OUS Research Council, reported that the Council has been meeting routinely, with the initial focus on technology transfer issues within the State. One of the major themes of the Council’s work is ongoing policy and initiatives to optimize research and its connection to economic development. The Oregon Innovation Council has been very active within the last year working through a focused process to develop targeted recommendations that will help Oregon move forward in research and economic development. Eleven recommendations were issued in September, some of which are specific and some require new state investment. The bottom line is that the state must invest as well assist in acquiring long-term investment from federal, industry, and private sector sources. Dr. Linton emphasized that there must be stable state funding, strong K-20 education, a strong business climate, and a skilled workforce to build a strong foundation for research. The Council’s role as they envision it, is then to connect that foundation to targeted opportunities around research and economic development in two categories. One category is as enablers in areas of no cost policy changes that will help make research more efficient and will optimize resources. The catalysts are largely seed funds, targeted investments that create opportunities for Oregon where there is strength in the universities, industry, and globally for economic development.

Some of the tech transfer offices on the campuses have been in place for over 15 years and have developed legal capacity to manage the complexities of private sector/public university intersections. However, Dr. Linton pointed out, “we currently have a three level system of review and approval of agreements. We have the campus level, the system level, and, for certain areas of legal sufficiency, Department of Justice review.” This, he opined, is a burdensome system.

The Research Council has put forth several recommendations in the area of streamlining. The first one is the key to delegation of authority from the Department of Justice to the campuses in areas where they are currently required to have legal sufficiency review from DOJ. They are requesting delegation of authority on tech transfer agreements from OUS to the university presidents who, in turn, will delegate it to their designees at the campus level. The third recommendation relates to the venture fund, authorized under SB 853. Campuses have developed implementation plans as to how those funds would be utilized at the campus level and fundraising opportunities are being pursued. However, a number of barriers remain. One relates to policies governing reimbursement of the state for the tax credits. Campuses have worked through a policy where, long-term, the state would be repaid for the credits that are granted through income generated through efforts such as tech transfer commercialization,
licensing revenue, and equity holding. Still being worked out is the interpretation of the cap on the tax credit. There is a mixed interpretation at the state level between the Department of Revenue and DOJ. This is currently under review by DOJ and focuses on whether the cap is $50,000 total per gift or $50,000 per year per gift. A final area being that the Research Council would like to have, and is being negotiated, is an amendment that, to the extent to which institutions pay back the credits granted, the state would release additional credits. “I think that is a fantastic additional element to this so we get rewarded for success in tech transfer,” Dr. Linton explained.

c. Interinstitutional Faculty Senate (IFS)

Dr. Scott Burns provided an update on activities of the IFS. At their last meeting, IFS agreed to produce a one-page document centered on AP classes. They agree with what has been proposed concerning an institution of higher education acceptance of hours taken in AP courses as long as the student has taken an examination on the content of the course. “The problem we see is when a student takes an AP class at a high school and then the community college or university gives them credit without taking a test. It then goes on their transcript. We would like to have that course flagged on the transcript because a lot of other universities do no accept the credit if a student hasn’t taken the test.”

A second area of interest and concern for IFS is an examination of total faculty salaries. “At the last Board meeting, Ms. Weeks presented the performance report. I don’t know if we should put out an additional document that deals with academic quality that did not seem to be reflected in the numbers. One area concerns adjunct faculty and the percentage of faculty on the campuses who are not tenure track. Additionally, the percentage of hours being taught by teaching assistants as opposed to tenure-track faculty is something that has not shown up in the numbers and it is something that may also be an increase of the academic quality.

“In addition to headcount, the percentage of hours that are being taught by adjuncts needs to be examined. We also have the numbers of dollars being spent per student and nationally we are ranked 46th. We think that is something that should go into the report. The fund balances for our campuses, which are going down, is very telling and a bit disturbing and points to a potential crisis relating back to academic quality.” Finally, Dr. Burns pointed out that the amount of time a faculty member has available for research keeps being diminished by other responsibilities. (A copy of the full report is on file in the Board’s Office.)

d. Oregon Student Association (OSA)

Ms. Megan Driver, Chair for the Oregon Student Association (OSA), indicated that the students have enjoyed and appreciated being a part of the Board committees and working groups. She mentioned the Access and Affordability and the Excellence in Delivery and Productivity Working Groups as the types of areas where diverse groups of interests can come together. Also mentioned was participation in the Board’s long-range planning process.
Over the last six months, OSA has registered 21,850 students to vote. Candidate forums have been held and students have launched into their effort to make over 15,000 phone calls and knock on thousands of doors by Election Day. On Halloween day, seven campuses held “Days of Action” where they set up funerals for higher education or emergency rooms for the ailing higher education System in an effort to gain media attention. “Overall, we were able to talk with 11 media outlets statewide on different campuses and thousands of students signed the prescriptions which we hope to deliver to the Governor’s office in November,” she said. (A copy of the full report is on file in the Board’s Office.)

President Lorenzen thanked OSA for its support with regard to the System budget.

3. **CONSENT ITEMS**

a. **UO, Hayward Field, Increase in Limitation**

**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 increase by $25 million to be entirely funded through gifts. The Board and state Legislative Emergency Board approved an Other Funds limitation of $7,390,000 for the Hayward Field Improvements Project in June 2006. Board approval will authorize the UO to seek approval to expend up to $32,390,000 if donations become available. The improvements, to be funded entirely with gifts, will enable the UO to host the 2008 U.S. Olympic Track and Field Team trials. Since obtaining Board and Legislative approval for its previous request, the University has been awarded the NCAA Outdoor Track and Field Championships for 2010. The excitement of hosting these two events has generated considerable donor interest in expanding the project. Work has already begun on the improvements that were included in the initial authorization. Work must begin immediately to solidify potential donations, planning, and construction to complete the project before March 2008. Legislative Emergency Board approval is required. There is no General Fund impact associated with this request.

**Staff Report to the Board**

**Background:**
The 2008 U.S. Olympic Track and Field Team trials will be held June 27 – July 6, 2008. Approximately 1,000 athletes, 1,000 members of the media, and 300 officials will participate. Daily attendance is expected to range between 14,000 and 16,000. The estimated economic impact to the local community will be around $18 million. The NCAA Division 1 Outdoor Track and Field Championships for 2010, to be held June 9 – 12, is the oldest and largest NCAA championship.
As noted in the earlier request, the project includes improvements to lighting, audio and video systems, infrastructure, and the facilities themselves. Additional funds will be used for other infrastructure upgrades, increasing the quality and scope of the current proposed improvements, and, potentially, an additional practice track. The additional projects will be undertaken only when, and if, funds are donated for the project.

The combination of these two events has generated considerable donor interest in the project. Interested donors have expressed a reluctance to commit unless they have assurances that the UO will have authority to expend the funds, recognizing the tight window during which the projects must be completed. Because of the construction window, this means the Legislative Emergency Board must authorize this project so that donations can be secured and construction can be completed before March 2008 for the Olympic Trials.

Remaining Issues to be addressed:
We do not foresee additional issues needing to be resolved; understanding that permits will not be sought and construction will not begin until donor funds are secured.

Committee Recommendation to the Board:
The Finance and Administration Committee recommended that the Board approve the request in increase the Other Funds limitation for this project and that the Chancellor, or designee, be authorized to seek authority from the state Emergency Board to increase the Other Funds limitation by $25,000,000 to $32,390,000.

b. Allocations of State Lottery Funds to Intercollegiate Athletics Programs

DOCKET ITEM:

Background:
Since 1989, Oregon law has allocated the net proceeds from the sports action lottery to Oregon University System institutions. Most of the funds (88 percent) are directed to intercollegiate athletics programs at the campuses. The formula for distributing these funds to each institution’s Intercollegiate Athletic Department was established by the OUS Board at its November 1997 meeting to take into account the costs of the programs, the level of play, and gender equity. The remaining 12 percent of the proceeds has been provided to campuses for scholarships based on need (6 percent) and scholarships based on merit (6 percent). Much of the funding in the latter category has been used historically to support graduate students.

The distribution formula resulted in providing about $1.8 million in 2004-05 to campus programs. Each campus received allocations ranging from 5 percent of the total allocated to 31 percent of the total allocated, based on the criteria established in 1989. The formula was revised slightly in the mid-1990s when Portland State University’s intercollegiate athletic programs went from Division II of the NCAA to Division I. It was not adjusted when Western Oregon University later went from Division III to Division II, despite the criterion dealing with level of play.
The NCAA opposed the concept of betting on sporting events and has restricted its men’s basketball postseason tourneys in Oregon due, in part, to the existence of the sports action lottery. That led to an effort in the 2005 session of the Oregon Legislature to repeal the sports action lottery, effective in July 2007. The Legislature, mindful of the loss of revenue to campuses, included in the new law a provision that would allocate 1 percent of lottery profits to OUS to replace the sports action lottery revenue. OUS was asked informally during the discussions pending adoption of the new law to address some of the issues that had arisen under the existing sports action distribution formula. These included a view that OUS had not taken into account adequately the level of play of those campuses who had changed divisions since 1989 and the low level of funding available under the formula to the smaller campuses.

After discussions with campus representatives, a new distribution plan was developed by OUS staff, with the assent of each campus president. Its principle characteristics include several precepts carried over from the current distribution formula. In other words, that 6 percent of proceeds be used for need-based scholarships and 6 percent for awards based on academic merit, that 88 percent of the proceeds be used to support intercollegiate athletics (with 30 percent of that amount to be used to fund revenue sports [men’s basketball and football at UO, OSU, and PSU] and 70 percent to be used to fund nonrevenue sports [all other sports]).

The distribution formula would permit each campus to earn the same percentage of the total as it does under sports action until the amount received by OUS exceeds the amount received in 2004-05. In other words, no campus will receive less funding than at present unless the entire pool of funds is reduced. The formula would change after the current revenue threshold is reached so that the smaller campuses, particularly WOU and PSU, would receive greater shares of the total than in the past. These changes would address the concerns raised during the past legislative session. The details of the formula for any fiscal year are:

- Of the first $1.8 million, the University of Oregon would receive 31.15 percent, Oregon State University would receive 30.14 percent, PSU would receive 18.71 percent, and each of the other campuses would receive 5 percent.

- Of the next $500,000 received in that year, the shares for UO and OSU each would be 5 percent, the share for PSU would be 20 percent, the share for WOU would be 20 percent, and the shares for EOU, SOU, and OIT would be 15 percent.

- Finally, for any amounts received in excess of $2.3 million in a year, UO would receive 24 percent, OSU 23 percent, PSU 19 percent, WOU 10 percent, and the other campuses would each receive 8 percent.

Committee Recommendation to the Board:
The Finance and Administration Committee recommended that the Board approve the new lottery funds distribution methodology as stated above effective when the new Lottery funding mechanism is implemented.
BOARD DISCUSSION AND ACTION:

It was moved by Director Kirby Dyess and seconded by Director Gerry Blakney to approve the consent agenda. Those voting in favor of the motion: Directors Blakney, Dyess, Lorenzen, Mendoza, Miller-Jones, von Schlegell, Sohn, and Van Vliet. Those voting no or abstaining: None. Motion passed.

4. **ACTION ITEMS**

a. **PSU, PCAT Redevelopment Projection**

**DOCKET ITEM:**

*Background Information Regarding the Impact of the Light Rail Project on the PSU Campus:*

This report item is intended to provide background information regarding the impact of the TriMet Light Rail project on the Portland State University campus. It sets the context for two action items before the OUS Board at its November 2006 meeting: 1) the PSU PCAT Redevelopment project; and 2) the PSU Sale of Land (Jackson Street Lot) item. In addition, it sets the context for other transactions that PSU is currently contemplating as a result of the impact of this light rail project on the PSU campus.

The South Corridor Light Rail project will connect Clackamas County to the MAX system and expand MAX in downtown Portland on the Transit Mall on SW Fifth and Sixth Avenues between Union Station and I-405, which is the southern boundary of the PSU campus. The regional transportation agency, TriMet, will complete final design of the project in November and some advance utility work is already underway. The new line will open in September 2009.

PSU is integrally involved with the Portland community in support of this new light rail project. PSU’s involvement includes many years of participation on citizen and steering committees, providing support through its transit program for faculty, students, and staff of the University, and cooperation with the regional leadership in moving the full agenda forward. PSU’s vice president for finance and administration is serving on the Transit Mall Management Committee, which will become the managing entity for the Mall extension in downtown. University officials believe that expansion of this transit option is essential for Portland State’s future. PSU has financially supported development of transit options (street car and light rail) through agreements reached some years ago. Portland State is the largest Central City transit user and this will increase with the direct light rail service.

The University is currently in discussions with TriMet about TriMet’s design of the light rail stations and other impacts of light rail on the PCAT block (see map on page 25, Item A) and at the southernmost point of the rail extension between SW Fifth and Sixth Avenues and College and Jackson Streets (called Jackson/College Block) (see map on page 25, Item B). PSU is bringing two action items to the Board relating to the PCAT redevelopment project and the sale of the
Jackson Street parking lot (see attached map, Item C). In addition, PSU would like to preview the impact this project will have on several other properties on the Jackson/College block.

As a preview, TriMet intends to seek approval from the Federal Transit Administration (FTA) to purchase properties on the Jackson/College block to promote transit-oriented development. Additionally, TriMet is purchasing properties just south of Jackson Street for the rail turnaround. At this time TriMet is appraising properties and working towards a final plan for acquisition and regulatory approvals. After TriMet’s installation of the light rail lines, most of the College/Jackson Street block will be available for redevelopment. TriMet and PSU are working on a proposal for PSU to purchase all of the Jackson/College Block after the light rail installation for use as University housing and other development. With FTA approval, TriMet would transfer these properties to PSU at the 2006 cost to TriMet. Additionally, TriMet intends to seek to close Jackson Street to through traffic and to make air rights over the light rail turnaround track a part of the proposal in order expand the development opportunity at this location.

Portland State University is currently completing a Housing Master Plan, but the University anticipates that this location would be ideal for future freshmen housing as this block sits between two current major housing facilities, the Ondine and the Broadway. In its 2007-2009 capital construction request, PSU included a $34 million Article XI-F(1) bond request for housing and land acquisition authority. Within the next year, PSU will bring forward a proposal to purchase the properties on the Jackson/College block (save the currently owned Sixth Avenue building). Cooperation and the working relationship with TriMet on this major transaction have been excellent and PSU expects to make a proposal that works to the mutual benefit of all parties.

**PSU PCAT Redevelopment Project**

**Background for the PCAT Redevelopment Project:**

In July 2006, Portland State University (PSU) proposed and received approval from the Oregon University System Board for a capital construction project that would redevelop the PCAT block (located on SW Fifth and Sixth Avenues). This project was included as part of the OUS report to the January 2006 Emergency Board regarding Article XI-G bonds. The block is situated on the Urban Center Plaza, which is central to the campus and is one of the few remaining whole city blocks owned by PSU that might be redeveloped and is soon to become the corridor for the new light rail (MAX) lines.

In the July 2006 OUS Board discussion, Chairman Lorenzen noted the urgency of moving the construction of this project in tandem with the construction of the light rail. The urgency relates both to assuring that the construction of the project does not become too costly and, very importantly, to the successful completion and rollout of the light rail system that will serve the campus and the downtown retail and financial district of Portland. Should the PCAT project construction be delayed well beyond the light rail project construction, there will be significant cost implications for the PCAT project. Both SW Fifth and Sixth Avenues are integral to
automobile access to the financial core of downtown (with direct exits off I-405). Coordinating demolition of the existing building and construction of the new facility with light rail is consistent with the calls by downtown businesses to mitigate the impact on direct downtown access. The businesses and offices located along the downtown transit mall have worked for several years on plans to minimize the time the area is under construction.

A revised PCAT project strategy is needed to meet critical deadlines associated with the light rail project noted above. Thus, PSU is proposing a modification of the original project strategy to permit the early commencement of the project in late spring of 2007. Under this revised plan, the full project would be divided into two phases: the first of which would commence in 2006 at $51 million and the second of which would commence in the next biennium with a total of up to $30 million contingent upon the final approvals of the Governor and Legislature for requested Article XI-G bond authority and matching gifts authority. The second phase will include academic space with additional classrooms and offices for either the Graduate School of Social Work or School of Business.

This first phase of this revised project would utilize an existing project authority that the OUS Board, Governor, and legislature approved in the 2005-2007 Legislative Session for a student recreation center project combined with student housing. This state authorization resulted in state budget limitation of $42 million for this combination project. At that time, the project was expected to be built at a different location than the PCAT block. With further analysis over the course of a year, the campus refined the proposal and combined the student recreation center, academic program space, and retail services in the PCAT Redevelopment Project.

The $42 million in Article XI-F(1) bonds authorization for the student recreation/housing project provides sufficient state authorization to support the student recreation and retail portions of this project. These bonds would be repaid with student fees and student building fees. PSU could then use the $3 million it has from the City and Other Funds, combined with a $3 million short-term loan from the Chancellor’s Office and another $3 million from the Chancellor’s fund balance to build out the fifth floor for academic and Chancellor’s Office uses. These short-term loan funds from the Chancellor’s Office will be repaid in two years with gifts to be raised by the project or other campus funds. The total cost of this Phase I project is $51 million.

The PCAT redevelopment project is currently in pre-design and as the campus takes the project into design, the program will provide for the first six levels (including the basement level) as a stand-alone structure with sufficient structural features to allow construction of two additional floors contingent upon the approval of the Governor and the Legislature as part of the OUS 2007-2009 capital construction budget. Phase II of the PCAT Redevelopment Project would be the remaining academic program space. This would include the request to the Legislature for $10 million in Article XI-G bonds to build the top two floors of the building. The Article XI-G bonds require one for one match, which is anticipated to be fulfilled through gifts and other eligible match sources up to $20 million. Should the Legislature not approve this project, the campus will plan on completion at some later date.
**PCAT Redevelopment, Phase I**

**Student Recreation Center:**
Article XI-F(I) Bond Authority
Student Recreation & Building Fees ...... $35,000,000

**Retail Space: First Floor:**
Article XI-F(I) Bond Authority
Lease Revenues ........................................ $7,000,000

**Classroom/Chancellor’s Office Floor:**
Chancellor’s Fund Balance Funds .................. $3,000,000
Chancellor’s Short-term Loan .......................... $3,000,000
Additional Funds:
City of Portland ........................................ $2,000,000

Other Sources
Legal Settlement,
Energy Tax Credits & other ...................... $1,000,000

**Total Project, Phase 1 ......................... $51,000,000**

**PCAT Redevelopment, Phase II**

Academic Program space
Article XI-G Bond Authority ....................... $10,000,000
Match:
Gifts GSSW/SBA ........................................ $20,000,000

**Total Project, Phase II ......................... $30,000,000**

*Staff Recommendation to the Board:*
Staff recommended that the OUS Board take the following actions:

1. That the Board authorize the Chancellor, or designee, to seek authority from the Legislative Emergency Board for a change in uses and an increase in Other Funds limitation of the Student Recreation Center/Housing project by $9 million, bringing this revised Student Recreation, Retail, Academic, and Chancellor’s Office project limitation to $51 million. This action will accommodate Phase I of this project.

2. That the OUS Board approve a revision to the 2007-2009 capital budget to replace the $59 million PCAT Student Recreation, Retail, and Academic uses project with a $30 million PCAT Phase II project ($10 million in Article XI-G bonds and $20 million in Other Funds) in accordance with the revised plans outlined above.

3. That the Board authorize the Chancellor to loan PSU $3.0 million for two years from the Chancellor’s Office fund balance (short-term loan) for use as bridge financing for the PCAT Phase I project. Terms of said loan and related operating agreements are to be made in a form that is mutually agreeable to both the Chancellor and the PSU President.
4. That the Board expressly authorize the use of $3.0 million in Chancellor’s Office fund balance in order to obtain approximately 10,000 sq. ft. of office space in the PCAT Phase I facility for continuous use by the Chancellor’s Office.

BOARD DISCUSSION AND ACTION:

Ms. Lindsay Desrochers, Vice President for Finance at PSU, explained that the south corridor light rail project would connect PSU to Clackamas, a long-term goal of the institution. It will expand the light rail across from the east side and from Old Town above Burnside down to the very southern end of the PSU campus near I-405. It is anticipated that the project will be completed in September of 2009. Agreements were reached a number of years ago about how the project would work for the campus and it has turned out that PSU is the largest user of central city transit and participation will most likely increase with the completion of the light rail.

PSU is currently in discussions with TriMet about the design of the light rail stations and the impact of them on the blocks that PSU owns below Market Street. One of the items for Board decision dealt with the redevelopment of the PCAT block, which PSU would prefer to do in conjunction with construction of the light rail. PSU has been meeting with legislative leaders about the prospect of how the project can be accelerated. “You will recall that back in July the Board approved a PCAT redevelopment to go to the 2007-2009 legislature. In those conversations with legislators and leadership, it is my understanding that PSU inquired about accelerating a bill through the session because capital is typically one of the last things taken up in the session. Legislative leadership suggested that rather than do that, PSU should try to do something through the Emergency Board prior to the session beginning,” Dr. Kenton added.

Vice President Desrochers remarked that in July, the Board approved the concept of developing the PCAT block and approved going forward to the state with a request to develop it as a student recreation center and as a home for academic programs. “We took to heart the comments of the Board and the sensitivities expressed about making sure that we did this as consistently as we could with the TriMet light rail development. We are convinced that, for two important reasons, we should go forward. First, to ensure a successful role out of the light rail, to get our project substantially done so that when the light rail actually opens in September 2008, we are not blocking that roll out. And two, to ensure that we keep the project that we have envisioned for the PCAT within a reasonable cost level.”

PSU examined the previous authority they had to determine if they could at least get Phase 1 of the project started in the summer of 2007 with the recreation center, one floor of classroom space, and office space. Additionally, discussions were held with the Chancellor’s Office about some office space that would be made available to them for their use. “So, we have a combined package of $51 million Phase 1 Project which we believe the Emergency Board will approve and that will allow us to go forward. Phase 2 would involve the additional floors of academic space which we hope to build,” Ms. Desrochers explained.
Vice Chancellor Kenton added that PSU was “a little short on cash. We are recommending to you the use of $3 million of Chancellor’s Office funds as a bridge loan for two years to help them with this and, in addition to that, another investment of $3 million to actually purchase the square feet of office space in this building that would be used by the Chancellor’s Office.

“You will see that we are making four recommendations for your consideration. The first is that you authorize the Chancellor, or designee, to seek authority from the Emergency Board to take this 2005-2007 project and convert it into the PCAT Phase 1 project and add $9 million of Other Funds Limitation to that. Secondly, we are recommending that you acknowledge a revision to the 2007-2009 capital budget to change the PCAT project that was conceptualized in that budget to PCAT Phase 2. Third, that you authorize the Chancellor to loan PSU $3 million for two years as bridge financing for this project, with the terms to be mutually agreed upon between the President of PSU and the Chancellor. And, fourth, that you authorize the Chancellor to use $3 million of Chancellor’s Office fund balance as an investment in office space in this building,” he concluded.

President Lorenzen remarked that he was particularly impressed that this project was being done in conjunction with the light rail project. “If we don’t do it now, it means costs are going to be much higher in the future. Plus, we would not be partnering in a legitimate way with the City of Portland in the development of this project if we didn’t move forward now,” he said.

It was moved by Director Kirby Dyess, seconded by Director John von Schlegell, to approve the staff recommendations. Those voting in favor of the motion: Directors Blakney, Dyess, Lorenzen, Mendoza, Miller-Jones, von Schlegell, Sohn, and Van Vliet. Those voting no or abstaining: None. Motion passed.

b. PSU, Sale of Land (Jackson Street Lot)

DOCKET ITEM:

Summary:
Portland State University (PSU) sought OUS Board approval to complete the proposed sale of the parcel of land located at 527 SW Jackson Street to TriMet to accommodate expansion of light rail to PSU. The new TriMet Green Line will create a route down Fifth and Sixth Avenues between PSU and Union Station. Construction on the new rail line will begin in January 2007 with an anticipated opening date of September 2009. The Jackson street parcel would be used by TriMet initially to accommodate staging for the project, and ultimately to accommodate the needed rail turnaround at the end of the line.
**Background:**
Portland State University has worked closely with TriMet and other community partners to expand light rail on the Downtown Transit Mall on SW Fifth and Sixth Avenues. The expansion project, South Corridor Light Rail, will connect the University, which is the single largest transit user in downtown Portland, to the regional rail (MAX) system. This new transit service will enhance transit options for exiting students, faculty, and staff and support University growth by reducing demand for parking and promoting more intense transit-oriented development. The project represents a $557 million investment in transit access for downtown Portland and the University.

The Transit Mall light rail alignment requires a turnaround track at Interstate 405, the southern boundary of the University campus. (See map on page 25, Item A). TriMet is acquiring several additional privately owned properties in this area south of Jackson Street and also needs to acquire the 4,088 square foot property owned by the University. The property is currently striped for 16 spaces of parking. In the future, TriMet would like to combine air rights over the turnaround track with parcels to be acquired on the north side of Jackson Street to create a development opportunity for the University. Cooperation and the working relationship with TriMet on this opportunity have been excellent and the parties expect to bring forward a future proposal that works to the mutual benefit of all parties. In the meantime, TriMet needs to proceed with the acquisition of the University’s property south of Jackson in order to facilitate the proposed light rail project.

PSU is also integrally involved with the Portland community in support of the new light rail project. The University has historically provided financial support for the light rail and the Central City Streetcar through previous agreements and is currently the largest Central City transit user.

**Terms of the Proposed Transaction and Legal Considerations:**
An appraisal of the Jackson Street property prepared for TriMet by Integra Realty Resources as of August 2, 2006, lists the market value of the fee simple interest as $590,000. TriMet is offering to purchase the parcel at this appraised value. A second independent appraisal ordered by PSU through PGP Valuation, Inc., confirmed that the above offer is indeed at or above current market value. The Jackson Street lot was originally purchased with Article XI-F(1) bond proceeds. Debt service on the bonds was funded by PSU’s Transportation and Parking Services Auxiliary. Proceeds from the sale would be used to reduce Parking and Transportation’s overall outstanding debt.

The following conditions remain open and must be satisfactorily resolved prior to settlement:

**Seller – PSU/OUS:**
- Approval by the State Board of Higher Education; and
- Contract approval by the Assistant Attorney General and execution by the Board President and Secretary.
Buyer – TriMet:
• TriMet Board acceptance of the purchase price of $590,000 plus closing costs.

Staff Recommendation to the Board:
Staff recommended that the OUS Board approve the sale of the PSU Jackson Street property to TriMet for $590,000.

BOARD DISCUSSION AND ACTION:

It was moved by Director Kirby Dyess to approve the staff recommendation. Those voting in favor of the motion: Directors Blakney, Dyess, Lorenzen, Mendoza, Miller-Jones, von Schlegell, Sohn, and Van Vliet. Those voting no or abstaining: None. Motion passed.

c. UO, Acquisition of Land (Romania Property)

DOCKET ITEM:

Summary:
The University of Oregon (UO) sought Board authorization for the Chancellor, or designee, to seek Legislative Emergency Board approval to purchase the parcels located at 2020 Franklin Boulevard and 1425 Walnut Street in Eugene, referred to as the “Romania Property.” The University of Oregon Foundation, through its Oregon Future Expansion LLC (OFE), purchased this property in January 2005, using short-term financing; the UO currently leases the property from OFE. The purchase price is $5.3 million, plus associated closing costs and estimated environmental remediation not to exceed $400,000. The OFE is selling the property to the University for an amount equal to OFE’s outstanding debt on the property, plus its direct costs associated with the original transfer and with this transfer. If the UO does not complete the purchase prior to December 31, 2006, OFE must seek long-term financing and will incur additional costs, which will increase the cost to purchase the property. Additionally, while the property is owned by the UO, OFE must pay property taxes, which are passed on to the UO.

During the Board’s discussion regarding sale of Westmoreland Apartments, the UO indicated its intent to use Westmoreland sale proceeds to purchase the Romania property. The Westmoreland sale is complete so the UO seeks approval to move forward with the sale as quickly as possible to avoid increasing the cost of the property. Once the sale is complete the UO will redirect approximately $400,000 annually toward student housing needs. This is equal to the amount that the University currently pays OFE for lease and tax expense for the use of the Romania property.

Background:
The UO proposed to purchase two parcels of property located at 2020 Franklin Blvd. and 1425 Walnut St, in Eugene, often referred to as the Romania Property, because they were part of the real property that comprised the Romania car dealership for many years. The property lies to the east of campus one block from Graduate Village. The property, like other property east of
campus on the south side of Franklin, is important to the UO’s long-term development plan. The UO has not yet identified a specific use for the parcels.

There are two structures on the property, one on each of the parcels. The original dealership building, known as the Romania Building, is on the 2020 Franklin Blvd parcel. It is approximately 53,340 gross square feet. The building on the 1425 Walnut parcel is known as the Romania Annex. It is under 1,000 gross square feet. The UO currently uses the structures for storage and office space for the UO Facilities Services.

In 2005, at the suggestion of the UO, the University of Oregon Foundation, through OFE, its limited liability corporation, purchased the property with a short-term loan to hold for the University to purchase when it was able. OFE must arrange long-term financing if it retains ownership beyond December 31, 2006. The sale of Westmoreland made adequate funds available for the UO to purchase the property. OFE has agreed to sell the property to the UO for an amount equal to the costs it has incurred in purchasing and owning the property. By purchasing the property now, the UO will save later having to pay costs that would be associated with OFE re-financing and will save the costs passed on to the UO each year for property taxes and insurance costs incurred by OFE. (The UO sought, and was denied, an exemption from property taxes.) Once the property is owned by the UO, it will no longer be subject to property taxes, thereby resulting in a savings of approximately $60,000 per year.

The parcel at 2020 Franklin Blvd. consists of one block facing Franklin Blvd., the main southern entrance to Eugene and the UO. It is bounded by Orchard St. on the west, Walnut St. on the east, and E. 15th Ave. on the south. The parcel at 1425 Walnut St. is on the southwest corner of Walnut St. and E. 15th Ave., having approximately 200 feet of frontage on Walnut St. and 110 feet of frontage on E. 15th Ave.

OFE contracted for Level I and II environmental inspections that identified approximately $80,000 - $130,000 in remediation costs for removal of non-friable asbestos. These assessments also indicated that the property at one time had three underground storage tanks for heating oil. One of these tanks has been decommissioned, two of these tanks have not, but there is no evidence of any contamination in soils surrounding these tanks. Total cost to remove all three tanks is estimated at $30-40,000. In addition, all but one of the 16 hoists in the maintenance bays have been remediated and filled with concrete. Test bores found one area of limited underground contamination in the vicinity of a former hydraulic lift. This can be remediated in case of future development by excavation, engineering, or restrictions on activities. This site is considered adequate for commercial use. A preliminary estimate of total remediation based on the Level I and II ranged from $211-350,000.

ORS 351.060 and 351.140 authorize the Board to acquire real property. OAR 580-050-0015 requires that institution purchases real property at prices based on current market values, determined by averaging two or more independent appraisals. Department of Justice will approve the purchase and sale agreement and related documents for legal sufficiency.
Staff Recommendation to the Board:

Staff recommended that:

1. The OUS Board approve the purchase of the Romania property subject to the receipt of two independent appraisals for which the average value equals or exceeds the proposed purchase price; and
2. The OUS Board authorize the Chancellor, or designee, to obtain Legislative Emergency Board approval for an expenditure limitation that will allow the UO to purchase the Romania property using proceeds from the sale of Westmoreland Apartments to fund the acquisition.

BOARD DISCUSSION AND ACTION:

Vice Chancellor Jay Kenton remarked that there are advantages to the UO in purchasing the properties at this time, including the following: the UO Foundation has only short-term financing on the property that will have to be renegotiated in February 2007. Therefore, they need to know by the end of the year if the University intends to proceed in purchasing it so they don’t have to arrange alternative financing. Alternative financing would have a cost, loan origination fees, appraisals, and so forth that can be avoided through this action. Additionally, the Foundation purchased the land through a real estate development corporation that is subject to property taxation and this would save the University approximately $60,000 per year in property taxes.

It was pointed out that there was an error in the docket. It was stated that there were two parcels of property in the purchase; there are actually three.

Director Van Vliet indicated that he and other Board members had received considerable correspondence from a professor at the UO about real estate transactions being conducted by the UO. “I think it would be exceedingly prudent for the Board to at least feel that all of those transactions have been cleared and are above board and that there are no questions about them. I don’t mean to implicate this particular project; but it seems to me that we, as a Board, are responsible for transactions and how they are conducted by any of our institutions.”

Director Blakney indicated that he was not familiar with the situation to which Director Van Vliet was referring. President Lorenzen opined that it was in the news that a professor at the UO had filed a complaint with the Government Standards and Practices Commission, as well as the Oregon State Bar. “I have read those materials and I am convinced that there is nothing...well, let’s put it this way: I’ve stated in the past that I consider them to be without merit. I’ve reviewed them carefully, but it is not my decision. It belongs within the purview of the commissions that are reviewing the matter.”

Chancellor Pernsteiner offered that, “One of the allegations made in complaints filed by Professor Harbaugh against President Frohnmayer dealt with purchase of a residence by President Frohnmayer from Tom Williams. Tom Williams had once owned Williams Bakery. As you recall, the Williams Bakery property was bought by the Board on behalf of the University in
2005. The transaction between President Frohnmayer and Tom Williams, where President Frohnmayer bought a home from Tom Williams, occurred in 2005. I have received from Tom Williams and from President Frohnmayer documents dating back to 2001 that show that Tom Williams had no further relationship with Williams Bakery or United States Bakery, which had bought Williams Bakery, after 2001. So there is absolutely nothing in the record that would suggest a conflict of interest occurred or even an appearance of one. It is merely that the former owner of the bakery that we bought sold the house to the president of the University long after he had severed all relationships with that bakery and had no further relationship with that property. I have sufficient records provided by both parties to establish that,” the Chancellor concluded.

Director Van Vliet indicated that he still was not sure that everything had been examined over the past real estate transactions and expressed interest in clearing that up. Chancellor Pernsteiner offered that if it would be of use to the Board, the Chancellor’s staff could provide a report concerning all of the major property transactions at the University of Oregon over that period of time. “I do not myself believe that there is anything improper about this transaction and would support that the staff recommendation be approved. However, we’ll be happy to provide you with a report of the University’s property transactions at a subsequent Board meeting.”

It was moved by Director Kirby Dyess and seconded by Director Howard Sohn to approve the staff recommendation. Those voting in favor of the motion: Directors Dyess, Lorenzen, Mendoza, Miller-Jones, Nesbitt, von Schlegell, Sohn, and Van Vliet. Those voting no: Director Blakney. Those abstaining: None. Motion passed.

d. OUS, 580-023-0005 through 0065, Approval of Permanent Administrative Rules, Background Check Policy, Criminal Records

DOCKET ITEM:

Staff Report to the Board:
House Bill 2157 (Oregon Laws 2005) permitted the State Board of Higher Education to adopt rules to conduct criminal background checks. Proposed temporary rules were approved by the Board and have been effective since June 2, 2006. The temporary rules expire November 30, 2006. A public hearing is set for November 15, 2006. The proposed permanent rules have been circulated for comment to all institutional directors of human resources. Additional public comment has been received from the SEIU.

The permanent rules are the same as the temporary rules and will allow each OUS institution to establish policies to conduct criminal background checks on an employee, contractor, vendor, or volunteer who will be working or providing services in a capacity that is designated as “critical” or “security sensitive.”
The temporary rules sunset November 30; if substantial, substantive public comment is received on November 15, the Board will be requested to review it.

**Staff Recommendation to the Board:**
Staff recommended the Board approve the permanent rules, pending review and analysis by the Office of Legal Affairs of any written or oral comment received by the hearing date.

For the full proposed text of the Administrative Rule, go to: [http://www.ous.edu/state_board/meeting/dockets/ddoc061103.pdf](http://www.ous.edu/state_board/meeting/dockets/ddoc061103.pdf).

**BOARD DISCUSSION AND ACTION:**

It was explained by President Lorenzen that the temporary administrative rule relating to criminal background checks would sunset or expire at the end of November. “Normally, this would be brought on at this time to adopt as a permanent rule. However, we have not yet had the opportunity for the public hearing as required prior to the adoption of a permanent rule.

“Therefore, this will be one matter that will be taken up by the Executive Committee following the public hearing that is scheduled to occur on November 15, 2006. Because the rule will, in fact, expire before our next Board meeting, it will be necessary to have the Executive Committee to act on it,” President Lorenzen concluded.

No action was taken.

e. **OUS Fee Remission Report**

**DOCKET ITEM:**

Prior to this biennium, the legislature capped the level of programmatic tuition remissions to 8 percent of gross tuition. Due to concerns about how the cap limited access, particularly for first time and low-income resident undergraduate students, the legislature eliminated the cap and required OUS to report back to the legislature regarding how that elimination affected undergraduate students on the basis of need and merit.

The budget note required the additional fee remission authority above the 8 percent to be directed to fee remission programs that were need-based. The budget note further required OUS to report to the Joint Legislative Audit Committee and Emergency Board on the impacts of expanding programmatic fee remissions beyond the limit of 8 percent of gross tuition revenues that had been in effect during the 2003-2005 biennium. The report will include information on fee remission program awards for the 2005-06 and 2006-07 academic years and includes information on funding of need-based and merit-based fee remission programs, as well as the impact of expanding fee remission programs on the enrollment of lower-income resident students.
The projected level of fee remissions for the 2005-2007 biennium, based upon actual awards in 2005-06 and estimates for 2006-07, indicate remissions to be slightly under 8 percent. At the present time staff is compiling the data for the report and the report will be available at the board meeting.

BOARD DISCUSSION AND ACTION:

Assistant Vice Chancellor Glen Nelson indicated that the fee remission to which he was referring was in response to a budget note in the last legislative session related to the lifting of the 8 percent cap on fee remissions. In that budget note, OUS was requested to prepare a report to both the Joint Legislative Audit Committee (JLAC) and the E-Board in November of the current year. In the 2003 legislative session, a cap was imposed on fee remissions equaling 8 percent of total tuition. In 2003-04, most of the dollars had already been awarded in the spring prior to that cap being placed. The result in 2003-04 was that OUS had exceeded that 8 percent and was at 9.2 percent. Therefore, for the 2004-05 academic year, remission awards were drastically reduced so that the 8 percent cap could be met.

“In the 2005 legislative session, the cap was removed but again we saw the same effect in that before the cap was removed, we had awarded financial aid for the subsequent year. We were operating under the impression that we needed to meet the 8 percent cap, so the campuses were very diligent in holding to that,” Mr. Nelson pointed out. “The cap was lifted and now we only have one year to, in turn, expend additional remissions. The real significant finding that came out of this report was that we have not, in fact, increased remissions in excess of 8 percent of our total tuition. However, we have increased the amount of remissions that we are awarding to students. The need-based merit mix stayed the same between both biennia. We are at 69.6 percent,” he concluded.

President Lorenzen asked for a motion to direct the Chancellor to present the report to the JLAC and the Emergency Board. Director Tony Van Vliet, seconded by Kirby Director Dyess, moved that the Board authorize the Chancellor to submit the report to the appropriate agencies. Those voting in favor of the motion: Directors Blakney, Dyess, Lorenzen, Mendoza, Miller-Jones, von Schlegell, Sohn, and Van Vliet. Those voting no or abstaining: None. Motion passed.

f. WOU, Appointment of President

DOCKET ITEM:

On August 24, 2005, Dr. John Minahan was appointed as the interim president of Western Oregon University (WOU) pursuant to Oregon University System (OUS) Internal Management Directive 1.141. OUS Internal Management Directive 1.142, Selection of an Interim President as Permanent President, states, "When the Board must decide whether to conduct a national search or move an interim president to the permanent status, the procedures used in naming an interim president will be followed."
As such, in order to determine whether Dr. John Minahan be appointed as the president of Western Oregon University, the Board must follow procedures set out in IMD 1.141. Before the Board interviews and appoints Dr. John Minahan to WOU’s presidency, preliminary steps outlined in the IMD must be followed. Specifically, “the Board [must] authorize the Chancellor to conduct an assessment on its behalf.” This meeting is necessary to authorize the Chancellor to assess, with the assistance of three Board members appointed by the Board chair, whether Dr. John Minahan should be appointed as the next president of Western Oregon University.

**Staff Recommendation to the Board:**
Staff recommended the Board authorize the Chancellor to conduct an assessment of Dr. John Minahan for the WOU presidency on its behalf.

**BOARD DISCUSSION AND ACTION:**

Chancellor Pernsteiner reminded the Board that 15 months ago the Board, pursuant to recommendations by a subcommittee, asked him to look at who should be interim president of WOU. He, in turn, recommended to the Board and the Board accepted his recommendation to approve the appointment of Dr. John Minahan as the interim president of WOU in August 2005. “It is time, I believe, to take a look again at whether or not we should move forward to make President Minahan the permanent president of WOU,” the Chancellor indicated. “To do that, I believe it is necessary for me to begin consultation, both with a committee you appoint to advise me, and with various members of the campus community. The recommendation to you today is that you authorize me to begin those consultations. I will come back to you with a report and a recommendation,” he concluded.

Director Miller-Jones offered that he had problems with not engaging in national searches and an open process, for many appointments. “I understand this particular situation and I just urge us in the future to be mindful that we stand the risk of not bringing into the System very important possible ideas, new blood, and energy, especially around diversity issues,” he suggested. “In this particular case, I think if we’re going to vet the process appropriately and get full campus input from students, faculty, community, then I’m completely satisfied.”

Director Blakney expressed dissatisfaction with the fact that this particular item had not been included in the docket materials the Board had received. Rather, it had been added later and therefore, the campus community did not have a heads up that it was going to be considered.

It was moved by Director Kirby Dyess, seconded by Director John von Schlegell to authorize the Chancellor to conduct an assessment of Dr. John Minahan for the WOU presidency. Those voting in favor of the motion: Directors Dyess, Lorenzen, Mendoza, Miller-Jones, von Schlegell, Sohn, and Van Vliet. Those voting no: None. Those abstaining: Director Blakney. Motion passed.
5. **REPORT ITEMS**

a. **2006 Annual Report to the Board on Campus Performance and Target-Setting**

**DOCKET ITEM:**

This docket item is located at:
[http://www.ous.edu/state_board/meeting/dockets/ddoc061103-perf.pdf](http://www.ous.edu/state_board/meeting/dockets/ddoc061103-perf.pdf)

**BOARD DISCUSSION:**

Vice Chancellor Weeks indicated that the report was Part II of the Annual Report on Performance Measures. This report was intended to provide a little bit more granular look at performance measurement and she pointed out that there were some mixed results that needed to be highlighted. Of the 12-13 indicators, five are measures for which campuses set targets. In addition, each campus has two mission-based performance measures that they set. The targets are set through 2008-09.

“There are high and low targets. The high targets, from my perspective,” Ms. Weeks explained, “are a kind of exercise in optimism. It assumes that under very good conditions, this is what performance could be achieved. The low targets are based on current conditions for the most part. The long-range plan matrix includes the overall degrees awarded, sponsored research, degrees in shortage areas, degree completion rates, and graduate success measures.”

In terms of student:faculty ratios, Vice Chancellor Weeks explained that it isn’t, as in K-12, a measure of how many students are in a classroom. It is really a measure of the total workload for faculty and as a quality measure of not only how many students are in a classroom, but also the advising load, the mentoring, the non-classroom instructional activity that takes place and is key to all that faculty do. As that ratio of enrollment to full time faculty starts climbing, there are corresponding reductions in the amount of advising, mentoring, and curriculum development that regular faculty can do. Commensurate with that, there has been an increase in part time faculty in proportion to full time over the past 10 to 15 years.

Historically, the performance measures total compensation has been reported for faculty salaries. “What we were seeing in our total compensation comparisons was a great increase in the cost of benefits in Oregon and not that same kind of pattern in other states. So when we reported in the docket item the total compensation trends, we showed between 90-100 percent of our peer averages in total compensation. If you look at just faculty salaries, OUS is much lower in relationship to our peers,” Ms. Weeks highlighted.

There were three areas where the trends were almost uniformly positive. The research enterprise is strong and this is reinforced by performance measures every year. In the area of graduate success, some of the improvement in the number of students who are employed or
enrolled in graduate school may be due to an improved economy, but it is also worth noting that OUS students are increasingly becoming employed or seeking graduate enrollment.

Degree completion rates, not the number of degrees completed, are generally improving at most institutions. “When you go to the next point, there is a warning sign. Our degree completion rates reflect a six-year graduation rate. This would be the cohort of students who entered in 2000. In 1999 and 2000, OUS received a nice infusion of state dollars. We enrolled a lot more students, we had a lot more to offer in the way of retention support and student services. Subsequent to that time, we have had, as the presidents may tell you, a lot of cuts that have affected student services as well as student:faculty ratios and other aspects so the degree completion rates that we see now are very much in relationship to that cohort of students. When we look at just the first year persistence rates, we’re starting to see some breaking down of those very positive trends and so at several institutions, retention rates have started to decline.”

In terms of teacher shortages, three campuses target teacher education as one of the shortage area degrees to emphasize. At one of the campuses, there are improvements and at the others, it is a bit mixed. This is an area OUS needs to monitor generally because that is a shortage area for the state. The shortages are in specific areas such as math, science, special education – areas where there are some genuine challenges in enrolling students and producing degrees.

Oregon Institute of Technology has been within 2 to 5 percentage points of meeting all its targets. In total degrees awarded and sponsored research, they have improved over the targets that they set. There are times when first time freshmen enter in certain fields and the pre-medical imaging year or pre-nursing year programs are full. If the students can’t get into the professional programs, they become discouraged and transfer or drop out. OIT is attempting to work on that phenomena because it impacts the freshman to sophomore retention rates. OIT is more successful with the retention of transfer students. Since one of its strategic initiatives is partnerships and alignment with community colleges to enhance access, they are focused on these partnerships. A fairly sophisticated strategic enrollment plan has been developed that includes what is planned for retention as well.

OIT chose the engineering and computer science fields as its focus on degrees in shortage areas and the targets have been met. There has been concerted effort to attract women into these programs. The Engineering Technology Industry Council (ETIC) collaboration has been of great benefit because it has provided opportunities for internships that have greatly benefited students. The allied health fields are other areas of concentration and when the new building is completed OIT will be able to increase current enrollment by about 750 students. Strategically that is a very important target. The $10 million fundraising target for the building has been reached.

In terms of compensation, faculty have come off a three year salary freeze – two of those years the freeze was mandated by the Governor and one was self-inflicted so that OIT could survive. “If you look at our overall mission,” President Dow asserted, “almost all of our faculty, or a large
percentage of them are directly related to a professional discipline where our comparators are not only our peers in education but our peers in the private and corporate sectors as well.”

Oregon State University strives to be among the top ten land grant universities and has three strategic goals – academic excellence, a quality student experience inside and outside the classroom, and doing all they can go grow the resource base for the University. With the exception of the freshman retention rate, OSU has met or exceeded its targets for the other six performance metrics (total degrees awarded, degrees in shortage areas, graduate satisfaction, research expenditures, high GPA high school graduates, and student diversity).

With respect to academic excellence, OSU has invested $2 million per year for a period of five years in six multidisciplinary initiatives to promote educational research excellence in those areas. OSU has partnered with other OUS institutions to increase the capacity and quality in engineering and computer science programs and has made intentional efforts to increase enrollment in the University Honors College. Part of academic excellence at OSU is developing a diverse faculty and student body. To further those goals, an Office of Community and Diversity has been formed. Investments are being made in hiring faculty at the senior level who can bring diversity to the campus.

With respect to teaching and learning, an Academic Success Center and a Center for Teaching and Learning have been developed and are fully staffed. Student engagement is an area that OSU feels needs attention and they have targeted this for improvement. Initiatives that will be undertaken include providing a more purposeful academic curriculum and better integration of research, service, and learning and other experiential activities.

OSU is in the quiet phase of a capital campaign and results are beginning to be seen. Faculty have generated $194 million in research expenditures, which is $9 million more than the record that was set in the previous year.

Southern Oregon University will launch a strategic planning process in the near future, but for now the key priorities are focused on recruitment and retention. SOU feels a great need to get students to the institution and then to enable them to be successful. The student headcount this fall was up for the first time in three years and the president indicated she was advocating that the headcount be up another 100 freshmen by next fall. There is a goal of increasing the retention rate by 2 percent or more every year. SOU has a freshman advisor who is meeting with every freshman and freshman orientation has been significantly changed to meet new needs. Strong connections are being forged between students and faculty, including undergraduate research.

Program consolidation is underway to create a professional rank of faculty rather than a lot of adjuncts. “We are consolidating to have faculty who are full time and committed to students as well as the regular tenure track faculty. We are trying to keep our costs down, but also increase our commitment from faculty to increase the number of contacts between full time faculty and students,” President Cullinan explained. Southern is working to improve their numbers in the
shortage areas of computer science and physics and related areas. It is anticipated that there will be a strong set of offerings when Southern opens up the Medford Center, which will be opened in cooperation with Rogue Community College.

Two areas where Southern is rather immature are sponsored research and philanthropy. The Deer Creek Station, being developed in the Illinois Valley, will be a great addition for faculty, student, and sponsored research. “We have a lot of work to do and a lot of challenges, all of it in a constrained resource environment. I’m glad that we have these measures to help provide incentives for us to set goals,” President Cullinan concluded.

**Portland State University** – President Bernstine indicated that, given the type of student body they have, student retention is extremely important and something that must be closely watched. At the present time, PSU is hovering around the low target. While they have done better with students of color, the overall rate is still not up to the goals that they have set. In 2004, to address student retention, PSU raised the entering requirements to a 3.0 GPA and they anticipate having a larger number of students who will, then, be retained to the sophomore year. The demographics of the student body, generally, are becoming more traditional: students are moving to the residence halls and looking for the regular four-to-six year college experience. Additionally, the co-admission program with the community colleges in the region will, they hope, facilitate students moving between the community colleges and PSU more efficiently.

There has been significant improvement in graduate satisfaction and it is anticipated that will have some indirect impact on matriculation by students in general. In terms of degrees awarded, PSU is meeting its goals and there has been overall growth in the degrees in shortage areas of engineering and computer science. Research has grown dramatically and PSU has renegotiated the indirect cost rate to 46 percent and then to 46.5 percent after four years.

**Eastern Oregon University** – In three of the five areas of targeted indicators, EOU is within the target and in the other two they are above the target. Even though progress has been made in the area of freshman retention, Eastern continues to lose almost one-third of students before they become sophomores. An office has been established to coordinate freshman orientation and the first year experience. A program of integrated studies for students who enter EOU and need remedial work has been developed and some progress has been noted. “The bottom line is that we are still at 68 percent retention between freshman and sophomore years and that needs to increase a lot,” President Fatemi asserted. Graduate satisfaction rate is over 91 percent.

Over the past two years, Eastern has initiated a number of activities to address the challenge that only one out of eight high school graduates in eastern Oregon goes to an OUS institution. A number of activities have been initiated over the past two years in outreach activities. Contacts are made when high school students are freshmen, not seniors; there is a valictorian/salutorian scholarship program that has been quite successful in attracting bright students; and some classes are being offered on high school campuses.
The student per full time faculty ratio has been slowly going down every year since 2001-02. The percentage of part time faculty between 2001-02 and last year went from 25 percent to 12.8 percent. Faculty compensation is at 96 percent of comparators. “Total compensation doesn’t help us with recruitment, particularly with younger faculty. It is the salary figure they look at and we are significantly below that,” the president asserted. One area of increased success is philanthropy. The total pledges to the University the first nine months of this year were about 600 percent higher than a comparable period in the previous year. Additionally, we established an office of grants and sponsored research and that has resulted in EOU applying for significantly larger number of grants with additional funding.”

**Western Oregon University** – The level of sponsored research at WOU continues to climb. In one grant alone, there was a $10 million increase. Graduate satisfaction is up and President Minahan indicated it is difficult to determine what else the institution might do to make it higher. Teacher shortages are up 36 percent in math, science, and rehabilitative counseling – so the targets set a few years ago were too low and Western will raise them again.

Three areas, according to President Minahan, that need attention are freshman retention, first generation student retention, and transfer student completion. Western has two federally funded programs and within the program is built-in money that must be spent on counseling and advisement. Those programs are for at-risk students and directly address part of the institution’s mission. Western has had an Upward Bound program for several years that serves the people of Marion and Polk counties. Twenty-seven percent of the families in Marion County and 30 percent in Polk have incomes below $30,000 a year. Twenty-one percent of those children live in poverty and 64 percent of the undergraduate population at WOU qualifies as a low income, first generation family so that the Upward Bound and Student Enrichment Programs serve those populations. “With funding, 100 percent of our Upward Bound students return freshman to sophomore year. If we spend the money, it happens. It is the same with the Student Enrichment Program. Seventy-four percent, 172 of the students, progressed and completed their degrees; eighty-four percent of them met all of the academic performance levels required to stay in good standing; and 21 percent after graduating from the Student Enrichment Program were accepted into graduate school.

“After 2003, we held a series of critical admissions, recruitment, and counseling positions vacant. They contributed to the appearance of a very large fund balance at exactly the time that our enrollment was dropping and probably accounted for much of our retention problems. We have put those positions back in place,” President Minahan explained.

Western has stabilized its budget, added three FTE [Full-Time Equivalent] positions to advisement and counseling staff, and fully intends that in the next year there will be better numbers in the area of retentions. “We are looking forward to making the argument that the connection between serving first generation students in this state and a good budget is imperative. The other parts of our performance indicators are reasonable and in order but those three will determine whether we succeed with our mission,” the president concluded.
University of Oregon – In terms of total compensation, the UO is at approximately 91 percent of its peers, which is up from 83 percent in 2001-02. However, with salaries alone, it is at 81 percent of its peers and in particular when it is broken down by faculty rank. Full professors are at 78.6 percent of the average of its peers. There has, at the same time, been an increase in the number of non-tenure faculty being appointed to try to address instructional needs. “Given our mission as a research university, I am concerned about the increasing numbers of non-tenure related faculty,” Provost Brady said. “Many of them are full time, many of them are doing superb work in the classroom, but they do not have the kind of research agendas that are so critical for our institution.” The UO continues to make great improvements in the metric that recognizes the economic impact of research. There has been continued growth in research and development, sponsored research awards, and expenditures. Expenditures are up 43 percent over the last five-year period. The research and economic development index in 2005-06 is up to 30.3 percent and represents a 30-fold increase since the base year of 1995. Research expenditures in 2004-05 were just over $80 million.

The UO experienced a record total enrollment of 20,394 students, up from about 18,000 in 2000-01. Enrollment and quality are linked with gains in diversity as well. “We have our highest new freshman enrollment since we increased our admission standards in 2003 and we enrolled 84 more students of color this year than last year and 100 more non-resident students this year with an overall mean GPA for incoming freshmen of 3.5. The six-year graduation rate has increased from 58 percent in 2001-02 to 63 percent in 2004-05. The freshman retention rate has remained within or above predicted targets at about 83 percent. A number of initiatives have been implemented aimed at maintaining and improving persistence and the UO remains committed to developing additional programs to help students succeed. There has been a significant increase in satisfaction of the graduates over the last several years. The UO has raised, to date, $442 million in its campaign and $50 million of that is dedicated to faculty support. A fund for faculty excellence has been created which is designed to provide support for faculty who are vulnerable to recruitment by other institutions.

In summarizing the institution reports, Chancellor Pernsteiner noted that graduation rates, number of degrees, enrollment, funded research, philanthropy, and graduate satisfaction are all up. “Those are all very good indicators of a successful System and successful universities,” he said. “But I want to call your attention, also, to the warning signs. Just as last year when we had a very positive report we saw warning signs on the horizon. But there is a very distinct difference between the warning signs we saw last year and the ones that we see this year.

“This year, for the first time in a while, we are seeing on the warning signs some outcomes. We are seeing that some of the institutions are now beginning to award fewer degrees in this year than in prior years. That is new. We are seeing that some of the institutions are beginning to have difficulties in meeting their retention targets. We are seeing that some of the shortage areas that we said we will try to meet, we are now beginning to fall a little bit short on and that is new. These are outcome measures. These are, in fact, the effectiveness measures of what we
do and how we do it. I think it is directly related to a couple of other things you heard this morning if you were in the Finance and Administration meeting.

“Six of the seven campuses reduced their budgets coming into this year and are doing it right now so that six of the seven campuses will have fewer resources to educate the higher enrollment that we will have this year. The reduction of the kinds of support services that have been available to students, that problem will continue and be exacerbated in the current year on most of our campuses. The second thing we need to note is that we reduced the fund balance of the System by 22 percent in this biennium. Both of those things point out that we are not in a sustainable financial position as a System and, in fact, we have a very fragile financial condition. This underscores again the wisdom and necessity for the state to make the investment that this Board requested in the 2007-2009 budget. Without those, the fraying of the System financially will lead to reductions in the very kinds of outcomes that we have been accustomed to seeing improved over time. I can’t emphasize enough the necessity that we all move together to try to achieve the kind of budget that you proposed in July,” Mr. Pernsteiner concluded.

6. **Discussion Items**

   a. **Board Structure/Committee Appointments**

President Lorenzen opened a discussion on the structure of the Board and the function of Committees. He indicated that the committee structure had been very effective in deploying efforts and resources to accomplish critical tasks as they were identified. The question he posed was: Where do we go from here? What does the Board see as the critical roles and continuing involvement as far as committee requirements are concerned? “We are an engaged Board, over all. I think we have to be very careful on how we go about dividing up the responsibilities and assigning tasks,” he opined.

One challenge President Lorenzen highlighted was that, with a committee structure, decisions are sometimes made twice – once by the committee and then by the full Board. This, he cautioned, could become a redundant burden. “I have come to the conclusion that the committees are most appropriate with a task that is one of principle importance, that is ongoing, and requires the coordination among several groups and many individuals. The EDP [Excellence in Delivery and Productivity Working Group], UEE [Joint Boards Unified Education Enterprise], and JBAC [Joint Boards Articulation Commission] work does a particularly good job in harnessing the skills and the interests of individual Board members,” he pointed out.

The Finance and Administration Committee is one that, according to President Lorenzen, should be continued as it is currently structured. It can harness the resources of those persons who are most interested in serving in that area and who can relieve the workload of the full Board.

Another area where Board members have spent considerable time and talent is the Joint Boards, UEE, and EDP. Director Schuette has some concerns about this work and wants to be
sure that the foci and tasks associated with EDP will, in fact, be carried forward. President Lorenzen anticipated that there might be one ongoing committee into which the functions would be combined so that there would be better coordination.

Additionally, President Lorenzen indicated he had a strong desire that the Board would have a focus reflected in a committee structure that would deal with what he termed “a safe and fair workplace/learning environment.” He suggested several areas: the issue of diversity; issues relating to assuring that there are not hostile work environments; areas dealing with safety on the campus (sexual harassment, sexual assault); important issues of training and education; reporting; opportunities for investigations so people who are victims of sexual assault would have a mechanism for treatment as well as counseling. “This is an area that the Governor has indicated that he would be willing even to give us additional funds to assist in making certain that these programs and procedures would be in place,” President Lorenzen shared.

The Executive Committee would continue and would be used principally as a mechanism to accomplish matters that need to be done in between regular Board meetings. President Lorenzen asked, rhetorically, if the Board should set up a committee for every task or are items more appropriately handled by staff and then brought to the full Board. An area the Board has discussed at various times is governance and arriving at a clearer definition of the role of the Chancellor vis-à-vis the Board and institutions. President Lorenzen was not suggesting a committee, per se, but suggesting that the Board should decide on a mechanism to further explore these areas of governance. Likewise, there is a need for coordination of work with the legislature and the Governor. “Some of these duties can be brought within the purview of the Executive Committee or through working groups.”

Director Nesbitt questioned why the Access and Affordability Working Group had not been mentioned and indicated that he thought that the work should go forward as a project sponsored by the Board with continued consultation with some of the stakeholders who comprise the Working Group. “We need to fine tune the formula and the mechanics of the model,” he offered. “But I think it needs to stay a project of our Board because we have the leadership role in moving this forward.”

It was observed by Director Sohn that there should be a full and defined role for participation in the Joint Boards Working Group. He indicated there was clearly some overlap with EDP, but the methodologies and tools are very different and should be given further consideration. Director Dyess added that in forming working groups or committees, the Board should be very clear on the mission and the end point of the work. She highlighted that a lot of the success or failure of a working group or committee has to do with the interest of the people that are in the group. She reiterated that it was extremely important to have “ends” to the groups as opposed to having them go on forever. Additionally, the groups must have representation and leadership from diverse groups.

Director von Schlegell observed that in terms of strategic planning, the Board has come to a juncture with a plan that is on four or five pages. “That probably ought to be housed in the
Executive Committee. I’m not sure that a committee needs to be formed, but I’d like to take some of the charges you have laid out and keep tying it back to the strategic plan. We need someone to keep an eye on whether or not we are following our own strategic plan as we go forward.”

“There are really only two kinds of committees,” Director Nesbitt observed. “The Finance and Administration and the Executive Committees. They sift through and study and make recommendations to us on a whole range of things that involve a lot more detail than needs to involve the whole Board. Everything else needs to be focused on goals; needs to be project focused.”

Director von Schlegell said that he was not sure that his point was clear. “I would like to have you [President Lorenzen] and Chancellor Pernsteiner look at the strategic plan document and tie any committee back to it.” President Lorenzen offered that he would review the conversation the Board had just had, talk to Board members individually and get a feel for their interests, and discuss it with the Chancellor; he agreed to bring a plan to the Board at a later date.

b. Tax-Deferred Investment 403(b) Plan

DOCKET ITEM:

Summary:
Implementation of the redesigned Tax-Deferred Investment 403(b) Plan, targeted to occur in March 2007, requires adoption of a written plan document. The document is available in the Board’s Office or online at http://www.ous.edu/state_board/meeting/dockets/ddoc061103-TDI.pdf to permit its review prior to formal acceptance by the Board. In addition, an overview of reporting on investment performance is provided.

Background:
In September 2006, the Oregon State Board of Education adopted the Investment Policy Statement that guides selection of annuity and mutual fund products for the Tax-Deferred Investment 403(b) Plan, and delegated authority for operations and oversight of the plan to the Vice Chancellor for Finance and Administration.

The next step in updating this voluntary retirement savings program is adoption of a plan document that will guide administration and will serve as a basis for contractual relationships with administration and investment providers serving the plan. By adopting the plan document as part of the plan redesign, the OUS will be in compliance with Federal treasury regulations proposed in 2004 that require 403(b) plans to adopt a written plan document by January 1, 2008.
Plan Document:
Key elements of the plan document were drawn from IRS regulations that govern Section 403(b) governmental plans, existing vendor contracts, tax laws, and federal regulations that have become effective since the program was established in 1992, and operational features associated with converting to the unbundled record keeping and investment platforms for the new employer sponsored group plan. The plan document was prepared by a Special Assistant Attorney General with the firm of Hershner, Hunter LLP, appointed through the Oregon Department of Justice.

The plan document provides the requirements and permissions under federal and state laws, code, and regulations applicable to the IRC 403(b) Tax-Deferred Investment Plan. With detailed specificity, it describes Internal Revenue Service requirements for an IRC 403(b) plan, and provides the framework on which the policy decisions may be made by the Oregon University System as the plan sponsor. For example, the OUS plan permits in-service transfers from account balances to purchase service credits for a defined contribution plan, but the state’s defined benefit plan has, under its own authority, elected to not accept such transfers. Accordingly, the OUS may, under the plan document, determine whether to adopt procedures for transfers to defined benefit plans for this purpose, but is not obligated to force transfers to plans that have determined not to accept them. Application of OUS policy decisions, under the specific permissions and obligations of the plan document, will be outlined in plan summaries, vendor contracts, and participant materials.

Plan Document Components:
Section 1. Purpose and Effective Date
Section 2. Definitions
Section 3. Salary Reduction Contributions.
   Describes participant eligibility, salary reduction agreement requirements, limitations, and results; enrollment requirements; timing of contributions; contribution limits; contributions with respect to qualified military service.
Section 4. Investments.
   Describes investment types; participant-directed accounts; default enrollment options; procedures for management of annuity contracts, custodial accounts, and investments through the Plan; preclusion of employer liability for participants’ investment directions.
Section 5. Beneficiary.
   Describes designation procedures; controlling statutes; alternate payees.
   Describes distributable events; payment elections required; forms of payment; corrective distributions; rollovers and transfers; qualified reservist and hardship distributions.
Section 7. Participant Loans.
   Describes availability and requirements for loans from participants’ accounts.
Section 8. Claims Procedure.
   Describes claims that will be considered; effects and review of decisions; exhaustion of remedies; charges for claims expenses.
Section 9. Miscellaneous.
Describes contract rights limited to ORS 243.810 to 243.830; amendment and termination of the Plan; no employment contract through participation in the Plan; employer’s discretionary authority; interpretation under Oregon laws; captions; delegation; severability; tax consequences; plan year; non-assignment of rights and interests; indemnification; effect of Plan summary, information, forms; employer’s authority for alternative means of Plan administration; reliance on evidence of identity; powers of attorney.

The plan document will be periodically amended, as required by federal regulations, changes in administration, or investment options available to this 403(b) plan, vendor capabilities and products, and the performance of the Plan in providing an effective supplementary savings option for OUS employees.

Investment Performance Reporting
Investments for the 403(b) plan may include mutual funds, fixed annuity products, and variable annuity products that meet the standards established by the Investment Policy Statement of the Plan. Investment products will be monitored by the investment advisory firm of Arnerich Massena and Associates, Inc., and reported to the Investment Committee of the Plan. An annual report of investment performance will be prepared and provided to the OUS Vice Chancellor for Finance and Administration.

Investment performance will be reviewed quarterly during the first year after adoption of the Plan’s investment menu, with the option to convert to at least semi-annual reviews in future years. Investment products that under-perform the standards established for inclusion on the investment menu will be placed on a watch list, and may be replaced by the Vice Chancellor for Finance and Administration with an investment product recommended by the Investment Committee and Investment Consultant.

Investment products to be included in the investment menu for the Tax-Deferred Investment 403(b) Plan will be recommended for adoption in December 2006, and the first performance report will be provided to OUS by Arnerich Massena and Associates, Inc., at the end of first calendar quarter, 2007.

Next Steps:
Staff will request formal adoption of the plan document in December 2006.

BOARD DISCUSSION:

Ms. Denise Yunker, Director of Human Resources, introduced the Plan Document for the foundation of the 403(b) Tax Deferred Investment Plan. Previously, these types of plans have not required a written plan document. However, new Treasury regulations required the development and use of a plan document beginning in January of 2008. The document was provided in advance to the Board so that members would have time to read it and be prepared
to approve it at the December 2006 Board meeting. When the regulations are finalized sometime in the next year, there will be a need to make some amendments because OUS codified the current rules for 403(b) plans that will be changing. A pension attorney drafted the plan; it has been reviewed by the campuses and by a pension consultant so that at the present time, it is as finished as it can be. An investment advisory firm will do reporting on the planned investment on a quarterly basis. With that will come recommendations and annual reporting through the Vice Chancellor who, in turn, may choose to submit them to the Board. There is a formal reporting format for planned operations as well as for the investment management.

Vice Chancellor Kenton indicated that either he or the Chancellor would make an attempt to meet with all of the faculty senates and leadership on the campuses to incorporate comments and concerns into the design of the program. Director Miller-Jones supported the plan to meet with the faculty senates with sufficient lead-time to answer questions and possibly make adjustments.

7. **Committee Reports**

a. **Standing Committee**

*Finance and Administration Committee:* In the absence of Director Blair, Chair of the Finance and Administration Committee, President Lorenzen reported on the meeting held prior to the Board meeting. “The System as a whole continues to burn through its fund balance and it is projected that we will be moving further down to 9.3 percent fund balance. This is below the 10 percent target that we like to maintain on an institution-by-institution basis,” he explained. Eastern Oregon University has stabilized its financial situation and President Fatemi has a plan in place that he is implementing to deal with unexpected decreased enrollment this year.

The Investment Report for the quarter was something of an anomaly compared to past quarters and one- or five-year trends. “In virtually all of the categories of investments, OUS is below its benchmarks. Not significantly, but below with the exception of the fixed investments.” The Committee agreed that this trend needs to be closely monitored.

b. **Working Groups**

The Access and Affordability Working Group is continuing to refine the Shared Responsibility Model and doing outreach with various groups. The Plan received some national recognition through *Inside Higher Ed* and other newsletters. The challenge is to now move the Plan through the legislature. Director Nesbitt was commended for all of his dedicated work on this plan and questioned as to why more students didn’t take advantage of the Oregon Opportunity Grant last year. Director Nesbitt reported that more outreach was being done through the community colleges where the shortfall was the greatest. He pointed out that this was the first year that part-time students were eligible, but that word did not get out as early or as widely as it should have.
c. Other Board Committees

Director Nesbitt indicated that he is looking for opportunities to partner the Oregon Opportunity Grant with the Oregon College Savings plan in outreach efforts. “They do have a budget, which is growing, because it is a percent of the earnings of the fund that they can devote to outreach and marketing.”

8. Public Input

There was no public input.

9. Board Comments

There were no Board comments.

10. Delegation of Authority to Board’s Executive Committee

It was moved by Director von Schlegell and seconded by Director Miller-Jones to approve the Delegation of Authority as presented in the docket material. Those voting in favor of the motion: Directors Blakney, Lorenzen, Mendoza, Miller-Jones, Nesbitt, von Schlegell, and Sohn. Those voting no or abstaining: None. Motion passed. (Note: Directors Dyess and Van Vliet had already left the meeting.)

11. Adjournment

President Lorenzen adjourned the meeting at 1:38 p.m.

Henry Lorenzen
Board President

Ryan J. Hagemann
Board Secretary