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Minutes

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

The meeting of the Board Finance and Administration Committee was called to order by Chair Don Blair at 9:00 a.m.

Committee members present included: Chair Don Blair and Directors Henry Lorenzen, John von Schlegell, and Tony Van Vliet. Director Kirby Dyess was absent due to a personal conflict. Other Board members present included: Gerry Blakney, Jim Francesconi, Adriana Mendoza, and Gretchen Schuette.

Chancellor’s Office staff present included: Chancellor George Pernsteiner, Neil Bryant, Ryan Hagemann, Jay Kenton, and Ben Rawlins. Presidents present included: Mary Cullinan (SOU), Martha Anne Dow (OIT), John Minahan (WOU), and Ed Ray (SOU). Other campus representatives included: Provost Linda Brady (UO) and Vice President Lindsay Desrochers (PSU).

2. **Action Item**

a. **PSU, Lease of Building**

**Docket Item:**

**Summary:**
Portland State University (PSU) sought Board approval to lease approximately 21,500 square feet from Harsch Investment Properties, LLC. The purpose of the lease is to provide temporary classrooms to accommodate instructional needs due to multiple capital projects underway and planned on the campus. The proposed building is located at 1433 Sixth Street, two blocks north of the PSU campus, and within a reasonable walking distance. The leased space can accommodate 8-10 classrooms (300-350 seats expected) and some temporary faculty/staff offices. The facility will be used to help compensate for temporarily displaced classrooms and offices over the next five years of planned campus construction and remodel projects.
Background:
PSU is currently utilizing space at 120 percent of OUS standards (20 percent more dense than recommended across campus). The campus has several important construction and retrofit projects planned over the next five years to help address its need for additional and better quality space. These projects will require PSU to temporarily take existing classrooms offline, resulting in a shortage of instructional space. Specific projects impacting classroom demand include:

- Shattuck Hall Seismic Retrofit (Current, approved by the 2005 Legislature)
- New Recreation and Academic Center (PCAT block) (Current, approved by November 2006 Emergency Board)
- Lincoln Hall Retrofit (2007-2009, included in Governor’s 2007-2009 Capital Construction Budget as a top priority)

Because PSU is an urban campus located within the city of Portland, the options for short-term instructional space leases are few. Students need to be able to get to and from instructional buildings during 10-minute intervals between classes. Many of the buildings surrounding campus are offered as Class-A office space and have quality levels, floor layouts, and rental rates that make them inappropriate for classroom use. Rates of Class-A space in the Portland area are generally $22 to $28 per square foot.

The subject property is close to campus and suitable for instructional use. The two-story building offers large open floor spans and can easily be converted to classrooms. The University has funds available to cover the cost of the conversion needed.

Terms of the Proposed Transaction and Legal Considerations:
The facility at 1433 SW Sixth Avenue is a two-story Class-B office building. The initial rental rate is $15 per square foot or $26,974 per month, with a 3 percent annual escalation factor negotiated in the lease. The term of the lease is five years, although the University has a one-time option to terminate at the end of 36 months. The lease is a gross lease, with PSU being responsible for increases in operating expenses and taxes above the landlord’s 2007 base year cost. This lease is expected to generate a net savings to the University, since PSU will no longer incur maintenance and utility expenses on the PCAT facility, which will be demolished to allow for the construction of the new Student Recreation Center/classroom/office complex. This savings will be used to partially offset PSU’s conversion expenses for the space (currently estimated at $350,000). The landlord is not aware of any environmental concerns affecting the proposed conversion. Costs of the lease and related conversion will be paid from the University’s General Funds. PSU has requested the landlord contribute $40,000 toward elevator improvements.

The following conditions remain open and must be satisfactorily resolved:
1. Negotiations and legal sufficiency review of final form of lease are in process by DOJ and in-house counsel.
2. Approval by the State Board of Higher Education.

Financial Analysis
6th & Clay

<table>
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<th>Description</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
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Financial Analysis

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* Estimated increases in taxes and utilities above 2007 base year.

Staff Recommendation to the Finance and Administration Committee:
Staff requested that the Board Finance and Administration Committee approve the lease and recommend it to the full Board for approval as a consent item.

COMMITTEE DISCUSSION AND ACTION:

Chair Blair introduced PSU Vice President Desrochers to discuss the request to lease the described property. Owner of the property is Harsch Investment Properties. The lease term is for five years, with a possible extension if needed.

"This is a very good opportunity for PSU. Most of the properties in this area range between $22 to $30 per sq. ft.; however, we are able to lease this space at $15 per sq. ft," Ms. Desrochers explained. "The annual lease cost is approximately $29,700 and there will be an escalator of 3 percent. The operating costs are included and there is an escalator for the operating costs. The good news is that those operating costs are estimated to a little less than $4,000," she explained.

Chair Blair asked if the $350,000 expenditure for the build-out was also for fixtures and furniture or actual modification to the building. It was explained that the same furniture that is in use in the PCAT facility for classrooms would be moved to this location. However, there is a need to construct temporary walls in the large open span on two floors. In addition, there is the
potential for a few offices around the perimeter of the area. Therefore, the cost is in the build-out of the walls for the classrooms.

Another question raised by Chair Blair was whether OUS or PSU had any kind of relationships with any contracting parties on this or any proposal that might come before the Board. "I’m not suggesting that we have that here. But, any time we look at any sort of a contracting situation, I assume you would let us know if there was any sort of related party connections?" Vice Chancellor Kenton assured him that he would certainly make that clear. "In this case, Harsch Investments is owned by the Schnitzer family. They’re major donors to some of our institutions. Other than that, I don’t perceive a conflict of interest in this transaction."

Director von Schlegell inquired if anyone had approached Harsch and asked if they would donate the space for five years. Vice President Desrochers indicated they had suggested that to the agent but that they did not go directly to the Schnitzer family. This is a piece of property that I think they want to eventually develop, she explained. Pusuing the question, Director von Schlegell wondered "if, before we go forward, somebody should ask them if they would donate it for five years." Ms. Derochers indicated that PSU could ask the question of the Schnitzer family.

Director Van Vliet asked if the three percent annual escalation was fixed and the response was that it is a fixed percentage over the five years of the lease.

In closing, Vice Chancellor Kenton reminded the Committee that there is an unwritten policy at the present time that any lease of five years or longer must come before the Board for approval. Leases shorter than that are institutionally approved. "In the Division 50 OAR 580-50 rewrites, we’re going to codify that requirement. However, that is why this item is before you today."

Director Lorenzen moved approval of the staff recommendation, seconded by Director Van Vliet. Those voting in favor: Directors Blair, Lorenzen, von Schlegell (who indicated that his approval was contingent on asking the Schnitzer family to waive the lease payments), and Van Vliet. Those voting no or abstaining: none. Motion passed.

3. **DISCUSSION ITEMS**

a. **Finance and Administration Committee Charter**

**DOCKET ITEM:**

**Background:**
At the July 2005 Board meeting, the following Finance and Administration Committee Charter was adopted. This Charter is being reviewed at this meeting for two purposes: first, as a means of orienting new members of this Committee as to its functions and second, to stimulate a discussion as to whether the Committee would like to see changes made to this document in
order to make the Committee’s deliberations more efficient or more meaningful. In terms of efficiency, should this Committee have broader delegation from the full Board to:

1. Approve leases of capital facilities with terms that are greater than or equal to five years;
2. Approve new capital projects or amendments to existing capital projects on behalf of the Board;
3. Approve tuition and fee rates;
4. Approve bond sale resolutions; or
5. Approve new administrative rules governing the finance and administrative policies as set out below.

At the time of this writing, the legality of these matters is pending legal review. However, it is hoped that some preliminary indications of the outcome of these reviews will be available by the Board meeting on March 2, 2007. If these items prove legally feasible, the Committee will want to discuss changes to this charter in order to recommend changes to the full Board. Thus, this is a discussion item only for this meeting, but could manifest into an action item at the next Board meeting.

OREGON UNIVERSITY SYSTEM
OREGON STATE BOARD OF HIGHER EDUCATION
FINANCE AND ADMINISTRATION CHARTER

The Finance and Administration Committee serves as a subcommittee of the State Board of Higher Education to:

- Advise the Board on the management of the ongoing financial and administrative affairs of the Oregon University System;
- Focus the business functions of the Oregon University System on supporting the System mission and the Board’s priorities; and
- Recommend policies to ensure that System resources are managed prudently, efficiently, and effectively.

Specifically, the Committee is charged with the following:

Audit
Review and recommend to the Board the internal audit mission statement, charter, and other governance documents related to both internal and external auditing activities in the Oregon University System. This Committee is delegated oversight responsibility to ensure that the System management is performing its duties of financial reporting, effective and efficient internal controls, and compliance with laws, regulations, and ethics as prescribed in the audit charter (see attached).
Review the annual internal audit plan and discuss with the internal auditor the extent to which it addresses high-risk areas.

Assure that the audit function reviews the system of internal controls and the adequacy of the accounting, financial, and operational policies and practices related to financial, accounting, and compliance and ethics reporting.

Receive quarterly internal audit updates regarding progress on the audit plan and other reviews. Review the annual report on the accomplishments of the internal audit department and discuss significant issues of internal control and compliance with the internal auditor and management.

Discuss the planned scope of the annual independent audit and other engagements with the independent certified public accountants. Review the results of the audit(s), reviews, and other engagements with the auditors, reviewers, and management.

Receive and review the annual financial report with the independent certified public accountants and management.

**Budget and Finance**

Consider and recommend to the Board on policy matters relating to budgeting for operating and capital needs, financial management, and long-range financial planning for the Oregon University System.

Monitor the financial performance of the institutions of the Oregon University System, including quarterly review of enrollment and managerial reports from each institution. The managerial reports will contain information and projections on enrollments, budgeted and actual revenues, expenses, fund balances, and other financial performance measures as determined by the Committee.

Request additional financial reports and analysis from management as required to assure a thorough review of financial activity.

Develop and monitor a set of financial performance and accountability measures for the Oregon University System.

Develop the investment policy guidelines and asset allocation, select investment managers, and evaluate investment and investment manager performance as needed. Review quarterly investment reports on pooled endowment funds and make recommendations regarding the selection of investment consultants.

Review and approve debt issuances and policies including refunding strategies.
Approve transfers from the Chancellor’s Office fund balance that exceed $250,000 or that aggregate to $1 million or more annually.

**Real Estate**
Consider and recommend to the Board on policy matters relating to facilities and real estate administration, including long-range planning; the purchase, sale, or lease of real estate; capital construction programs; capital repair/maintenance; and debt financing.

**Human Resources and Personnel**
Consider and recommend to the Board on matters relating to human resources and personnel policies, programs, and labor relations presented by the Chancellor.

**Operating Guidelines**
Certain docket items related to business and financial matters will be considered directly by the Board rather than referred to the Committee, including:

- Approval of Oregon Administrative Rules
- Approval of OUS Annual Operating and Capital Budgets

In general, docket items that require policy decisions should go to the Committee as “Items for Future Action” to allow sufficient time for discussion and consideration.

These items will be presented as “Action Items” at the subsequent meeting.

The Committee Chair will confer with staff and the Board President to determine when other docket items should be considered by the full Board.

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**OREGON UNIVERSITY SYSTEM**
**OREGON STATE BOARD OF HIGHER EDUCATION**
**AUDIT CHARTER**

**Audit Responsibilities**
The Oregon State Board of Higher Education has oversight responsibility to ensure that Oregon University System (OUS) management is performing their duties of financial reporting, effective and efficient internal controls, and compliance with laws, regulations, and ethics. As part of this oversight responsibility, the Oregon State Board of Higher Education shall have the following responsibilities and powers and shall perform the following functions as it relates to audits.

**External Audit Duties**
The Secretary of State Audits Division shall provide the Oregon State Board of Higher Education notice of the external auditors selected to complete the annual financial statement and A-133 audit of the Oregon University System.
The Oregon State Board of Higher Education shall meet with the external auditors annually to review the scope and nature of the annual audit and to review the results of the auditing engagement.

**Internal Audit Duties**

The Oregon State Board of Higher Education shall approve annually the Internal Audit Division’s audit plans and budget.

The Oregon State Board of Higher Education shall review at least semi-annually the results of Internal Audit recommendations and follow-up procedures. More frequent meetings will be held as deemed necessary.

The Oregon State Board of Higher Education shall approve, as recommended by the Chancellor, the appointment or removal of the Director of Internal Audit Division.

**General Duties and Powers**

The Oregon State Board of Higher Education shall review any recommendations the external auditors or OUS staff may have for improving internal accounting controls, management systems, or choices of accounting principles.

Any financial irregularity resulting in losses in excess of $10,000 or involving a member of senior management shall be brought to the attention of the Chancellor and the Oregon State Board of Higher Education.

The Oregon State Board of Higher Education shall devote, as necessary, a portion of the audit meetings to an executive session at which only the Director of Internal Audit Division and the external auditors are present with the Board to discuss matters exempt from public disclosure under Oregon Revised Statute Public Records Policy 192.

The Oregon State Board of Higher Education shall have and exercise all other powers, as it shall deem necessary for the performance of its duties.

The Oregon State Board of Higher Education has delegated these audit duties to the Finance and Administration Committee. The Finance and Administration Committee shall report the results of internal and external audit findings to the full Board at least once a year.
b. Finance and Administration Committee 2007 Proposed Key Initiatives; 2007 Proposed Agendas and Work Plan for Board and Committees

DOCKET ITEM:

Finance and Administration Committee 2007 Proposed Key Initiatives

The following is a listing of proposed key initiatives for the Finance and Administration Committee to consider for 2007. Following this outline is a proposed calendar for the year that shows the schedule of these activities during 2007. This is a draft document for discussion purposes only. Obviously, if changes are made to the Finance and Administration charter, those changes could affect these processes.

Finance and Administration Committee – Proposed Key Initiatives for 2007: (Note: These are in addition to the recurring quarterly updates, tuition/fee approvals and capital projects approvals.)

Proposed F&A Membership for 2007:
- Don Blair, Chair
- Gerry Blakney
- Kirby Dyess
- Henry Lorenzen
- John Von Schlegell
- Tony Van Vliet

Budget Model:
- Future directions
- Development of guiding principles
- Costs analysis
  - Update to cost of instruction study

Purchasing:
- Update of OUS Administrative Rules:
  - 580-40 – Competitive Procedures for the Purchasing, Procurement, and Contracting of Goods and Services
  - 580-50 – Real Property, Facilities and Campus Planning
- Minority, Women-owned and Emerging Small Business (MWESB) utilization expectations and performance measures
- Buy Oregon campaign and expectations and performance measures

Tuition and Fee Policies:
- Resource fee discussion
- Fee remissions
• Other

Capital Approval processes:
• Implementation of legislative concept regarding approval of self-supporting capital projects (assumes legislative concept is approved)
• Finance agreements/third party contract policy issues

Cash and Debt Management:
• Development of policy framework (assuming legislative concepts are approved):
  o Cash management
  o Investment management
  o Variable rate debt
  o Synthetic fixed rate debt
  o Chancellor’s Office staffing

Human Resources/Labor Relations (Assumes Committee would work in executive/closed session):
• Presidential evaluation
  o Performance expectations
  o Evaluation criteria
• 2007-2009 bargaining goals and expectations
  o Periodic bargaining updates (as needed)

Tax Deferred Investment (TDI) and Optional Retirement Plan (ORP) Updates:
• New framework discussion and approvals:
  o Investment policies
  o Plan document
  o Master record-keeper contract

Internal Audit:
• Annual audit plan approvals
• Other

Financial Sustainability – per strategic plan:
• Portfolio project – in conjunction with Strategic Initiatives Committee
• Expanded financial analysis data:
  o Peer institution ratios
  o Revenue and expense trend information
  o Enhanced costs analysis

Information Security Policies:
• Policy discussion and rule adoption
Athletics:
- Annual financial report
- Other issues

2007 Proposed Agendas and Work Plan for OUS Board and Committees

March 1-2, 2007 – Western Oregon University, Monmouth, Oregon
- Executive Committee:
  - SOU retrenchment
- Finance and Administration:
  - Consideration of F&A Charter approved July 2005
  - Finance and Administration proposed key initiatives
  - Board schedule
  - Revenue and expenditure analysis
  - PSU lease of classroom facility
- Consent:
  - PSU lease of classroom facility
- Full Board:
  - OSU-Cascades strategic vision and goals (Ray)
  - PreK-20 budget and financial analysis (Sager and Heiligman)
  - LFO requested 1%–4% budget reduction
  - Committee work plans – discussion

April 5-6, 2007 – Western Oregon University, Monmouth, Oregon
- Campus visitation
- Strategic Initiatives Committee
- Finance and Administration:
  - 580-50 capital projects revised rules discussion
  - Information Security policy discussion
  - Capital project placeholder
- Full Board:
  - OIT strategic vision and goals
  - Tuition and fee policy issues discussion
  - 580-50 capital projects rule adoption
  - Annual diversity report
  - ORP/TDI:
    - Investment policy discussion
    - Plan document discussion

May 3-4, 2007 – Chemeketa Eola Northwest Viticulture Center, Salem, Oregon
- Strategic Initiatives Committee
- Finance and Administration:
  - Quarterly updates:
- Audit
- Investment
- Managerial report
  - Capital project placeholder
  - Cash, investment, and debt management policy discussion (Legislative Concept)

- Full Board:
  - SOU strategic vision and goals
  - Information Security policy adoption
  - Tuition and fee policy discussion (continued)
  - ORP/TDI:
    - Investment policy adoption
    - Plan document approval
    - Master administrator contract approval

June 7-8, 2007 – OIT Metro Center, Clackamas, Oregon
- Strategic Initiatives Committee
- Finance and Administration:
  - Capital project placeholder
  - Self-supporting capital policy discussion (Legislative Concept)
  - Cash, investment, and debt management policy approval (Legislative Concept)
  - Budget model
    - Background and history
- Full Board:
  - EOU strategic vision and goals
  - 2007-08 tuition and fee policy approval
  - Executive session:
    - Annual presidential evaluations – report

July 12-13, 2007 – Portland State University
- Board Renewal – Move to November after campus presentations are completed?
- Strategic Initiatives Committee
- Finance and Administration:
  - Capital project placeholder
  - Self-supporting capital policy adoption (Legislative Concept)
  - Budget model:
    - Future directions
    - Principles
  - Executive Session:
    - Labor relations update (if needed)
- Full Board:
  - 2007-08 Operating budget discussion and possible adoption depending on legislative session outcomes
WOU strategic vision and goals
Oregon BEST update

August 2-3, 2007 – Portland State University or Telephonic (if needed)
- Strategic Initiatives Committee
- Finance and Administration:
  o Capital project placeholder
- Full Board:
  o 2007-08 operating budget discussion and possible adoption

September 6-7, 2007 – OSU Cascade Campus, Bend, Oregon
- Campus visitation
- Strategic Initiatives Committee
- Finance and Administration:
  o Quarterly updates:
    ▪ Audit
    ▪ Investment
    ▪ Managerial report
  o Financial Statement analysis:
    ▪ Key ratios
    ▪ Peer ratios
    ▪ Revenue and expenditure trends
    ▪ Enrollment trends
    ▪ Research and sponsored projects trends
    ▪ Philanthropy trends
  o Capital project placeholder
  o Discussion of new self-supported capital projects approval process (if approved)
- Full Board:
  o UO strategic vision and goals
  o Bond sale resolution (if needed)
  o 2007-08 operating budget adoption

October 4-5, 2007 – Portland State University
- Strategic Initiatives Committee
- Finance and Administration:
  o Capital project placeholder
  o Athletics financial report
  o 580-40 procurement rule discussion
- Full Board:
  o PSU strategic vision and goals
November 1-2, 2007 – N. Willamette Research Center, Aurora, Oregon
- Strategic Initiatives Committee
- Finance and Administration:
  - Quarterly updates:
    - Audit
    - Investment
    - Managerial report
  - Financial statement analysis
  - Capital project placeholder
- Full Board:
  - Enrollment update
  - 580-40 procurement rule adoption
  - OUS portfolio: integrated strategic vision and goals (renewal/retreat?)

December 7, 2007 – Portland State University or telephonic (if required)

January 2008 – Portland State University
- Strategic Initiatives Committee
- Finance and Administration:
  - External audit annual report
  - Capital project placeholder
- Full Board:
  - Summer tuition and fee approval
  - Bond sale resolution

COMMITTEE DISCUSSION of ITEMS A AND B:

Chair Blair explained that the primary purpose of the docket materials and discussion was to examine what the Committee has been trying to accomplish over the last several years and explore what might be the best way to operate in the future. Mr. Blair encouraged Committee members to contact either Vice Chancellor Kenton or himself between meetings if there were ideas or questions that could forward the work.

The Finance and Administration Committee Charter and the Audit Charter were provided as a starting point for contemplating how business would be conducted. Vice Chancellor Kenton explained that some of the items might require additional legal work to determine whether the Board can, in fact, delegate the proposed authority to a subcommittee of itself. "One of the things that I would like to get from you today is some indication of your level of interest so that the attorneys could do the work that may be required to determine if we even have the ability to do that," he explained.

Relative to the Audit Charter, Ms. Snopkowski, Director of Internal Audit, has followed it diligently and brought quarterly updates on audits, the annual audit plan that looked at an
assessment of the risks that were in the universe, and how IAD would attempt to address them. Additionally, budget and finance matters have been brought to the Committee, including: quarterly budget to actual status reports on unrestricted funds as well as projections out to the fiscal year end; use of Chancellor’s Office fund balance, and so forth. The Charter actually requires the Committee to approve transfers that exceed $250,000 or that aggregate to a million dollars on an annual basis. Reviewing debt issuances, real estate matters, including leases, purchase, construction, repair and maintenance, debt financing, and basically monitoring the fiscal health of the System are all part of the work of the Committee. Human resource matters and union negotiations are areas that have been discussed in this Committee, but generally those matters go to the full Board. "I believe there are areas where we might become more efficient by commissioning this Committee more authority. That is something for you to contemplate and for our attorneys to advise us," Dr. Kenton explained.

Director von Schlegell said he thought all of the Board deliberations should be viewed from the perspective of "how to get out of the minutia and be up on the bridge guiding the ship rather than getting down in the boiler room where we spend a lot of our time. The other thing I would like to see as we get into our 2007 strategic planning is a tighter reference to mission. It seems like we go in one group and talk mission; and then we go in the finance group and we approve leases and buildings; and, they’re not necessarily tied together."

It was pointed out by Director Lorenzen that two levels of delegation were actually being referenced. One is the delegation from the full Board to the Finance and Administration Committee and the other is the extent appropriate to delegate to the Chancellor’s Office duties that otherwise have historically resided with the Board, but under statutory authority the Board has the ability to delegate to the staff. Director Van Vliet noted that, with the expansion of the Finance and Administration Committee, there is almost a quorum of the full Board. It wasn’t clear what the ramifications were of this type of arrangement. There was discussion about whether items such as tuition and fees should go to the full Board and the general agreement was that they should have that type of public hearing and decision-making.

Chair Blair indicated that if the Committee was going to analyze some detailed information, sharpen the issues, and reach a recommendation for the full Board’s consideration, then it sometimes made sense to have the Committee consider a topic and then take it to the full Board. However, if the full Board was going to hear the same thing that the Committee heard and the Committee was not going to opine one way or another, it’s a waste of time. “We actually had great engagement from the full Board in this Committee meeting. Most people, even if they are not formally sitting on the Committee, tend to attend this meeting when they can. What we should do is rethink this whole question because if everyone from the Board is going to attend the Committee meetings and hear the same thing then we can probably operate more efficiently. I do think there is some merit on some complex issues if the Committee can actually frame it for the Board.”

Director Schuette observed that part of the reason so many Board members were in attendance at the Committee meeting that particular day was due to the timing of the
meetings. “It is a convenience to be here and to hear the conversation, but I think if we’re going to move in this direction, we might want to rethink that so you could actually do the deeper analysis and then present to the whole Board. In contrast, the other Committees meet at much different times and, therefore, have much less participation from Board members and I think to some extent, to the detriment of the work of those committees. So maybe rereading the timing of the new structure would be positive as well as thinking about what happens in those groups and then what comes to the whole Board.”

President Ray remarked that he thought the full Board should be involved in matters such as setting tuition and fees. “However, this Committee could think about how we get alignment between the way we manage financial resources and our rhetoric about the portfolio of institutions and the objectives of the System. So, for example, this group could have discussions about why we have resource fees at all. When are they justified? When are they not justified? What position should they hold relative to tuition? Why is tuition what it is? So, there is a discussion that could occur about what it would mean to rationalize tuition and resource fees within the System so that the resources and the rhetoric are aligned with one another.”

It was pointed out that there needed to be clarification of the terms management and staff. “I think those are two very different things. I think pretty clearly we view you (Vice Chancellor Kenton) and the Chancellor as OUS management. There is the role of the Board and there is the role of the management. For example, it talks about the Board Committee developing certain things or selecting investment managers, which I don’t think is really the Board’s role. To the point that was just made about what can we delegate to OUS management, how can management bring forward some of the strategic issues such as the ones that Dr. Ray was just talking about, whether it be rationalization of tuition structures or trying to take a little bit more of a market view of what the tuition rates are at various institutions, that’s definitely been the domain of the Board. I think to the extent to which we can progress that evolution as we go through this process of defining the roles, that would be desirable,” Chair Blair offered. “We’re not very well equipped to get into some of the details, but we are fairly well equipped to bring some experience from a variety of other places and help make good decisions. I just want to make sure we’re getting the right division of labor here,” he concluded.

Director Francesconi said that his initial reaction was that spending a lot of time with the lawyers about delegation of power is not productive because some of the items could be done quickly. “The question is the relationship between this Committee and the full Board and whether there is trust that this Committee is going to be the place to flesh things out. The idea of having the same discussion in both places makes no sense and you don’t need lawyers to sort that out,” he emphasized.

It was noted by Director Schuette that there might be an analogous structure for academic matters “where the Board would want to further clarify, maybe not with a charter, but what our expectations are for the System management to bring to the full Board. I’m still a little confused about our structure with regard to academic matters and Board discussion.”
Director Lorenzen responded that academic matters are handled through the mechanism of the Provosts’ Council. “In the past, we had an Academic Affairs Office of the Chancellor’s Office. That was streamlined substantially with the responsibility for undergraduate courses residing in the Provosts’ Council, with recommendations to the Board. We would then follow or not follow the Provosts’ Council recommendation to us. The one portion that is still missing is the review, recommendation, and approval process relating to graduate programs. That is now waiting for the hiring of a person who would have direct responsibility for it. Is there a Board committee dealing with this specifically? The answer is that there is not. This is something that could fit within the broad framework of the Strategic Initiatives Committee. At this point, this is evolving and waiting for the full implementation of the original concept of the reorganization of the Chancellor’s Office.”

In an effort to clarify her question, Director Schuette indicated that she wasn’t asking about program approval, either undergraduate or graduate. Rather, she was thinking about strategic, high level issues with regard to the academic and student support mission of the University System.

Vice Chancellor Kenton briefed the Committee on several key initiatives that are contemplated for the coming year. The first was the budget model. At this time, funding allocations have been frozen based on 2002-03 enrollments and a number of other facets that are slightly disconnected from the realities of the present day. “First, I think we need to have a philosophical conversation about future directions and the development of guiding principles,” Dr. Kenton outlined. He further indicated that it was time the model probably had ‘a tune up.’ There have been a lot of changes since the RAM was adopted in 1999.

Secondly, the area of purchasing needs to be examined. There are several Administrative Rules – 580-40 and 580-50 – that basically deal with competitive procurement and also real property procurement. These rules need to be updated. Several things need to be emphasized in the rules such as doing more outreach with the minority, women owned, and emerging small business community and the Buy Oregon initiatives. There need to be some performance measures in these areas as well as generally updating our procurement thresholds and processes. The tuition and fee policies need to be examined. “I took the liberty of working with Melissa Unger, the director of OSA, and a committee has been formed that includes Lindsay Desrochers from PSU; Nancy Heiligman from OSU; Elizabeth Bickford, director of financial aid at UO; Shonna Butler, one of the staff of the budget office; Melissa Unger and perhaps her legislative director; and me. The student body presidents at OSU, UO, and SOU are going to meet and talk about the issues and start to deal with some of the angst around resource fees,” he reported. There has also been a lot of legislative interest in these topics as well. Kurt Schrader, in particular, has shown considerable interest.

Approval of capital projects is another area for review. OUS has a legislative concept that has been embraced by the Governor that would give the System the ability to go to the legislature and have them set a total expenditure limitation on Article XI-F(1) and other funded projects such as gifts and federal grants and then give the Board the authority to allocate that limitation
project-by-project within the macro level that the legislature would approve. “That would save us a lot of time going to the E-Board. But we would need to decide on the policy guidance around such things as to whether the subcommittee or full Board would want to approve those items.”

Another area of discussion is financing agreements and third party contract issues similar to those regarding the OIT housing project. Cash and debt management is a legislative concept contained in HB 2198 and 2199. There will be some policies around how OUS wants to manage cash, investments, variable rate debts, and synthetic fixed rate debts. Labor relations, human resources, presidential evaluations and performance expectations, as well as collective bargaining goals and expectations are other areas for Committee consideration. The tax-deferred investment and optional retirement plan processes are areas of concern for faculty and there is an Advisory Committee of faculty working on them. Just recently, the Advisory Committee agreed to the new model it had been working on. OUS is on track to implement the new structure by January 1, 2008, and the Board will need to give it a thorough review.

Financial sustainability is an area where there is overlap between the Finance and Administration Committee and the Strategic Initiatives Committee. “As you know, we are engaged in a process where each campus does a presentation at a Board meeting, discussing its mission and some of the activities and strategic endeavors. Vice Chancellor Weeks and I will be working to coalesce those two projects in the fall after the presentations are complete, flesh out what we mean by the portfolio approach, and what is meant by a financially sustainable System. At that point, the full Board will determine future directions. By that time, we’ll know our budget, our resource levels, and we are thinking of expanding our financial analysis,” Vice Chancellor Kenton continued.

The IAD determined there were some gaps in the policy framework around information security. A subcommittee, led by a person at OSU with representatives from PSU, UO, and OIT, has been commissioned to draft an umbrella policy. Finally, athletics is an area that the Finance and Administration Committee has dealt with in the past, in particular the three programs at OSU, UO, and PSU.

There was discussion about comparative performance studies that would show how efficiently the System and the institutions are operating compared to their peers. Another area for examination is in the quality of personnel in the finance and administration positions across the System. “It would provide an opportunity to talk about who the people are and what skills and training programs we have, where the holes are, and how to assure we’re developing the people over time,” Director Blair pointed out.

It was agreed that this is a fairly aggressive agenda and may well require that the Committee spend more time than in the past.

Director Schuette observed that the plan was “a wonderful skeleton that reflects the key initiatives, particularly of the Finance and Administration Committee. My question is does it
reflect the discussions the Board should have around the academic and student support mission that will effectively lead us up to that fall discussion about integrated strategic vision and goals? A subset of that question is: are Board members who serve on Joint Boards and also on the UEE being effectively prepared through Board discussion to represent the interests well and are we getting effective direction from management, or are we giving effective direction to management on those issues along the way? Maybe this will fall out in some of the discussions about structure, but I remain concerned. I think we have laid out the set of topics in Finance and Administration. Have we laid out the other topics?” she questioned.

Vice Chancellor Kenton responded that they were excellent questions. He noted that the Strategic Initiatives Committee has not had a chance to meet and formulate their agenda for the year. The plan that has been presented was for the Finance and Administration Committee and was intended to provide a framework of the agenda of each meeting to eliminate as much of the minutia as possible.

Returning to the broader issue, Director Schuette agreed. “I just wanted to put some special emphasis on the fact that we have worked over sometime now to strengthen our own understanding of the Joint Boards. I think we’re still relatively weak in understanding the potential power of that to improve public education in Oregon. We certainly want Board members who go to Joint Boards and the subcommittee to bring the sense of the Board, not just our individual wisdom. That’s going to take some structural change to get that happening in the timeframe. Things are already occurring at Joint Boards and UEE, so we need some attention there.”

Vice Chancellor Kenton provided an update on a Board action the previous month relating to the use of Certificates of Participation proceeds for the Veterinary Medicine Clinic at OSU. The Board authorized the Chancellor to take the item forward to the legislature. A hearing was held with the Education Subcommittee and the item was carried to the full Ways and Means Committee. “OUS has received approval for that transaction and the COPs will be sold in the March sale and OSU will benefit from the pieces of equipment requested for the academic program,” he highlighted.

Controller Mike Green indicated that the financial data being presented represented unaudited results of the previous five years for the E&G funds. The numbers do not include certain year-end consolidating and elimination of entries such as capitalization of capital outlay and the recognition of deferred revenue. However, the net operating results are consistent with the quarterly management reports. (A copy of the full presentation is available in the Board's Office.)

First, he pointed out, net tuition and fees have increased 50.9 percent over the last five years as a result of both enrollment growth and rate increases. Secondly, appropriations have declined 8.5 percent over the same time period. On the expenditure side, there have been significant percentage increases in payroll, benefits, and utilities and smaller increases in other expense
categories. As expenditures have increased at a faster rate than revenues, we’ve used fund balance in both 2005 and 2006 and that trend continues in 2007.

Vice Chancellor Kenton reminded the Committee that OUS was asked by the legislature to identify efficiencies and qualitative improvements for the Ways and Means process. “As I look at the controllable portions of our expense budget, in regard to salaries and wages, yes, we can control the number of people we hire. However, as you probably remember from our last meeting, once the SEIU agrees to a salary settlement, our faculty pretty much expects to follow suit. I’m not sure we have total control over our rate per se. We have very little control over our other payroll expenses,” he observed.

It was highlighted that OUS has control of about 15 percent of its budget and has done a good job of controlling it. The percent of change over five years in those areas over which OUS has control is less than inflation.

Some comparisons were offered on revenues and expenditures. Tuition and fees now represent 51 percent of total revenues for OUS compared to 40 percent in 2002 and appropriations are about 40 percent compared to 52 percent in 2002. After adjusting for inflation, tuition and fees have increased 39 percent since 2002 and appropriations have declined about 16 percent. Total revenue from both tuition and fees and state appropriations has increased only 3.2 percent over the last five years after adjusting for inflation. Salaries and wages now represent 53.6 percent of total expenditures compared to 57.2 percent in 2002. Other payroll expenses, which include pension, healthcare, and taxes, now represents 26.4 percent of total expenditures compared to 21.8 percent in 2002. After adjusting for inflation, salaries and wages have increased 6.5 percent since 2002 while other payroll expenses have increased 37.4 percent. Other expenses, which are supplies, fees, services, maintenance, communications, rent, and travel, have only increased 3.3 percent over that period of time. Real salaries and wages have increased 3 percent and other payroll expenses have increased 33.6 percent. On a per employee basis, after adjusting for inflation, health care costs have increased 46.1 percent in the last five years and retirement costs have increased 32.5 percent. Lastly, there have been significant increases in both electricity and natural gas rates. After adjusting for inflation, natural gas costs have risen 80.6 percent since 2002 and electricity has increased 27.1 percent. While these numbers on a total budgetary basis are not a significant portion of the budget, those cost increases have come at an extremely difficult time and have required the campuses to reprioritize budgets to deal with them.

Dr. Kenton indicated that the presentation was intended to provide some facts for comparison purposes. “If you correlate some of these data with other trends in the marketplace, the cost of housing in Portland, for example, has gone up 50 percent from 2000 to 2005. Our wages have barely kept pace with inflation and I worry about some of our younger faculty and staff being able to realize the dream of home ownership. There are significant factors that will affect recruitment and retention,” he opined. “I believe it’s impacting our recruitment of faculty and the ability to retain them because when they get offers from other institutions in the lower
housing cost marketplaces, they probably are a lot more attractive, both in terms of the salary they are able to attain and the cost structure they will face when they get there.”

Director Blair asked if the modeling agenda item proposed for the July meeting was similar to the one that had been done in the past where individual institutions were examined and projections of trends made into the future. “I would be interested in seeing that. I understand there is an interaction with what comes out of the session that will drive a lot of assumptions. Perhaps it would be the September or October meeting, whenever you think it’s appropriate but soon.”

“One of the charts showed the General Fund support on a per student FTE basis, as well as tuition on a per FTE basis. If you add those two together, you end up with essentially what is being expended to educate an FTE student,” Director Lorenzen observed. “Again, I would be very interested in knowing how this compares with other institutions in terms of whether we are doing an ‘efficient’ job.” Vice Chancellor Kenton cautioned that this type of analysis doesn't allow for costs such as research and public service. “So it isn't just the instructional function. But I understand your question and we'll endeavor to bring that forward,” he concluded.

4. ADJOURNMENT

There being no further business, Director Blair adjourned the meeting at 10:15 a.m.