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Committee members present included Chair Kirk Schueler and Directors Lynda Ciuffetti, Allyn Ford, Farbodd Ganjifard

Chancellor’s Office present included Chancellor George Pernsteiner, Vice Chancellor Jay Kenton, Doug Botkin, Bridget Burns, Michael Green, Jan Lewis, Di Saunders, Bob Simonton, Patricia Snopkowski, Marcia Stuart, Charles Triplett, Dan Temmesfeld, and Alice Wiewel.

Campus representatives present included President Mark Weiss (WOU); Vice Presidents Frances Dyke (UO), Mark McCambridge (OSU), Craig Morris (SOU), Monica Rimai (PSU), Lon Whitaker (EOU), and Mary Ann Zemke (OIT).

Others: Ms. Emma Kallaway (OSA), Ms. Emily McLain (OSA), and Bill McGee (DAS BAM).

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

   Chair Schueler called the meeting to order at 3:01 p.m.

2. **Action Items**

   a. **OUS, Internal Audit Division Progress Report**

   Chair Schueler called upon Executive Director Patricia Snopkowski, OUS Internal Audit Division (IAD), to present the IAD progress report.

   Three audits related to the PSU School of Extended Studies were conducted. Due to departmental reorganization and a fraudulent use of the department procurement card at the PSU Bookstore, the audit was expanded and the campus fraud alert heightened. Snopkowski explained that typically during an audit a review of travel is conducted; during this particular audit, an inadequately documented reimbursement request form was discovered. A closer review of supporting documents revealed that the claimed conferences were not legitimate. Based on the audit findings, the individual was reported to the state ethics commission for investigation and has repaid the monies to the University. A sample review of travel procedures and controls revealed that the university’s overall control structure is secure and that the breakdown was an anomaly. The results of this audit will be shared with the directors of business affairs across the System to ensure their campus’ compliance.
Ms. Snopkowski described modifications to the 2011 annual audit plan previously approved by the committee. These changes include an expanded review of compliance functions in the research departments at three campuses; a review of Asset Works (a facilities’ management software), and a review of the Veterinary Medicine department at OSU.

The OUS Audit Division received a “clean” opinion by an external audit review. Two strengths and best practices were highlighted: 1) organizational placement and the independence of working with and strong level of support from campus executive management, the Chancellor, and the Board; and 2) the changing of the annual planning process to incorporate more campus input and feedback. Three areas of improvement were recommended for consideration. The first is increasing staffing to support additional audits and the consideration of the risk profile in light of the System decentralization and the level of audit resources. The second concerned the NCAA compliance and the heavy reliance on the monies received due to the increased national profiles of OSU and the UO. The third recommendation is to document the material and non-material costs tied to the audit objectives.

Director Ciuffetti noted that, during her meeting with the external auditors, she was impressed with their level of engagement and investment in the audit process. Chair Schueler congratulated the System internal audit division for their professional work and successful external audit review.

**ACTION:** Following the report and discussion, Chair Schueler called for a motion to approve the July to September 2011 IAD Progress Report. Director Allyn Ford made the motion and Director Lynda Ciuffetti seconded. Motion carried.

b. Finance & Administration Committee Charter

Chair Schueler called upon Vice Chancellor Dr. Jay Kenton to present the item.

Dr. Kenton reminded members that during the September Board retreat, the Board expressed its desire to delegate authority to execute certain transactions to the Committee. The implementation of SB 242 is increasing the Committee’s workload and necessitates an expanded meeting schedule. Additional delegated authority will enable the Finance Committee to process transactional matters and keep the administrative affairs of the Chancellor’s Office and campuses running efficiently while allowing the Board to focus its energies on significant policy issues.

Proposed changes to the Finance & Administration charter include allocation and operating budget approval, approval of capital projects as required by Board policy or rule, and modifications to the procurement section. These changes require amending Board policy and Administrative Rules to substitute the Finance Committee for the Board. Dr. Kenton noted that requesting changes to the Administrative Rules is only the first step in a process described under the Administrative Procedures Act (APA) and will take several months to complete. Committee members discussed potential concerns with amending the charter to allow the
Committee to “review and approve annual campus and Chancellor’s Office General Fund allocations and operating budgets.”

Dr. Kenton also noted possible changes to classification, compensation, and other employee health options. Senate Bill 242 requires the formation of a labor management committee to explore a new employee plan design. Committee members inquired into the reporting relationship of the labor management committee to the Board. Chancellor Pernsteiner explained that the committee recommendation will be received by the full Board and proposed to the Legislature upon approval. The Chancellor noted that the process could take several years to complete.

The labor management committee will explore care plans such as the PEBB and a system similar to that which is available to the community colleges and public school districts or the universe of options available outside of the established plans. It may be that OSU will remain with PEBB, have a unique plan within the PEBB system, or develop an external plan. Overall, there are 13,000 benefits-eligible employees within the System, representing approximately 25 percent of the PEBB program.

**ACTION:** Following presentation and discussion, Chair Schueler called for a motion to approve and recommend the revised Committee charter to the Board for approval as presented and recommend the proposed rule changes contained in Appendix A to the Board to implement this new authority. Directors Lynda Ciuffetti and Farbodd Ganjifard made and seconded the motion, respectively. Motion carried.

**c. OSU/UO/REDCO, Authority to Modify Existing OSU Site License Agreement and Include Additional Sites at the UO**

Chair Schueler called upon Mr. Bob Simonton, Assistant Vice Chancellor for Capital Programs, to present the item. Mr. Simonton noted that this request includes a phase I revision to a project previously approved by the Committee. The modification relocates a ground array from an OSU location in Benton county to another OSU site in Benton county. The request also begins phase II of the project with three roof-top arrays located on the University of Oregon campus.

Committee members discussed benefits of the OSU locations, the necessary timeline of phase II to realize tax credits, and the likelihood of required approvals meeting the necessary timing.

**ACTION:** Following presentation and discussion, Chair Schueler call for a motion to approve and authorize the Chancellor, or designee, to modify the current OSU Site License Agreement to REDCO for the relocated parcel of land outlined in Exhibit A of the docket and authorize the Chancellor, or designee, to execute a Site License Agreement to REDCO for the three UO parcels of land outlined in Exhibit B, upon approval of the University and DOJ legal sufficiency review and that the Board authorize the Board President and Secretary of the Board to execute the necessary documents to effect this
lease in its final format. Directors Allyn Ford and Farbodd Ganjifard made and seconded the motion, respectively. Motion carried.

3. Discussion items

a. Guidance to Campuses for Tuition Rates for the Academic Year 2012-13 and Summer Term 2013

Chair Schuler called upon Ms. Jan Lewis, Assistant Vice Chancellor for Budget Operations and Planning, to direct the discussion and invited Ms. Emma Kallaway, Oregon Student Association, to join the discussion.

Ms. Lewis opened the discussion by describing the tuition-setting process recommended by the Governance Committee and its similarities or divergence from the traditional process. The new process incorporates greater student input and formalizes their involvement in tuition recommendations. It also brings together two distinct approval processes: academic year rates, typically approved in June, and summer term rates, typically approved in December. Ms. Lewis noted that summer 2012 rates will be set using the traditional process. Under the 2012-2013 process, the F&A Committee will approve tuition-setting guidelines but the full Board will approve final tuition rates as required by statute.

Chair Schuler noted that this agenda item is for discussion only. Vice Chancellor Kenton explained that several roadblocks prevented action at this time: the uncertainty of the economy, the Governor’s request for scenarios reflecting a 10.5 percent reduction to the biennial appropriation, and pushback from student associations on the issue of campus tuition-setting committees and the proposed timeline. Dr. Kenton also noted a performance goal established by the Governance Committee to meet 12 percent of the otherwise unmet student financial need through institutional sources such as scholarships, fee remissions/tuition waivers, room and board waivers, and other revenues.

Committee members discussed advantages and disadvantages of including the performance goal into the tuition guidelines. Members also discussed the current legislative budget note and its effect on any Board guidance. Chancellor Pernsteiner articulated the factors affecting tuition: legislative guidance included within the budget note, institutional enrollment forecasts, affordability objectives, inflation/deflation rates, forecasted Oregon family income, and the availability of federal and state financial aid (PELL and Opportunity grants); additionally, other factors include quality-enhancement initiatives, program costs, facilities costs, and legal compliance requirements. Given the uncertainty of the state appropriations, Dr. Kenton proposed that the tuition guidance plan be brought back to the Committee in the November meeting for approval.

Ms. Emma Kallaway informed the Committee that students prefer a student-only committee to the proposed committee including “at least 50% students, and an assorted composition of faculty, and others.” She noted the perceived success of the student-only building fee
committees currently utilized on the campuses. Ms. Emily McLain expressed students’ concerns with the proposed timeline that requires a tuition recommendation much earlier in the year. A student-only committee allows for a separate timeline that can take a more holistic view before engaging the Board and Legislature later in the year. Chair Schueler encouraged OSA to think of ways to engage students in a process but still work within the parameters of the governance proposal and the required timelines.

4. **Recess**

Chair Schueler recessed the meeting at 5:21 p.m., to reconvene at 8 a.m. the following morning.
Committee members present included Chair Kirk Schueler and Directors Lynda Ciuffetti, Allyn Ford, and Farbodd Ganjifard. Other Board members present included Jill Eiland, Hannah Fisher, Paul Kelly, and Rosemary Powers.

Chancellor’s Office present included Chancellor George Pernsteiner, Vice Chancellor Jay Kenton, Doug Botkin, Bridget Burns, Michael Green, Jan Lewis, Di Saunders, Bob Simonton, Patricia Snopkowski, Marcia Stuart, Charles Triplett, Dan Temmesfeld, and Alice Wiewel.

Other representatives present included Presidents Ed Ray (OSU) and Mark Weiss (WOU); Provost Kent Neely (WOU); Vice Presidents Frances Dyke (UO), Mark McCambridge (OSU), Monica Rimai (PSU), Lon Whitaker (EOU), and Mary Ann Zemke (OIT); Emma Kallaway (OSA), and Bill McGee (DAS BAM).

1. Reconvene the Meeting

Chair Schueler reconvened the meeting at 8:01 a.m.

2. Discussion Items (Continued)

b. OUS, Analysis of Financial Statements

Chair Schueler called upon Mr. Michael Green, Associate Vice Chancellor for Finance and Administration and Controller, to lead the discussion. Mr. Green advised that the purpose of the discussion is to foster a better understanding of OUS’ financial condition over a four-year period (2006-07 through 2010-11) and the analysis covers all funds.

In FY2011, OUS had its third consecutive year of 5 percent-plus increased enrollments, driving enrollment revenue sufficient to offset a continued decline in state support. OUS institutions operate on less state support than their peers yet continue to make improvements in key performance metrics. OUS institutions grew their reserves in FY2011, in part due to a last minute infusion of state funding to meet the ARRA matching requirements. Although FY2011 was a financially strong year in light of the state’s economic outlook and the trend of decreasing state appropriation revenues, the next biennium will likely see a decrease in reserves.

With the exception of OIT, all institutions experienced an increase in enrollment over FY2010; OSU—including OSU-Cascades, SOU, UO, and WOU exceeded their projected growth. As the campuses become more dependent on tuition revenues, the ability to more accurately project
enrollment has become more crucial and unanticipated changes in enrollment can have a significant impact on the bottom line. The majority of OUS institutions receive less state funding on a per-student FTE basis than their peers. The disparity is most prominent at the larger institutions. OUS tuition and fees (resident and nonresident) are below peers, with the exception of OIT and WOU. Grants and contract revenue per FTE faculty at OUS research institutions are well above their peers and is an indicator of faculty productivity.

All institutions experienced lower student services costs per full-time student than their peers but lower spending in this area could impact long-term enrollment. As a percentage of total expenditures, expenditures on administration and operation and maintenance of plants, six out of seven institutions spend less than their peer average and, as in student services and student aid, lower levels of spending may indicate less flexibility in looking to this area for cost reductions in a period of declining revenues. Deferred maintenance remains a concern due to challenges of funding basic operating needs in an aging infrastructure.

The primary reserve ratio – defined as expendable net assets as a percent of total adjusted expenses – measures an institution’s ability to make investments in new program offerings or efficiently manage financial challenges. For the small universities, their primary reserve ratio has improved since FY2010, with the exception of OIT. For the large universities, their primary reserve ratio improved relative to FY2010.

Debt burden ratios are calculated as principle and interest payments as a percent of total adjusted expenses. OUS debt policy established an upper limit of 7 percent of total expenditures. All OUS institutions’ debt burden ratio are under the debt policy limit but Mr. Green cautioned that OUS debt is rising and, looking longer term, may negatively affect revenues. Dr. Kenton added that, in FY2012, the debt service increases 25 percent on Article XI-F(1) bonds. Although the campuses face changes in debt service rates, Controller Green assured that no campus will reach the debt ceiling of 7 percent.

Higher primary reserves and lower debt burden ratios contribute to overall financial strength of the institution and its ability to take advantage of financial opportunities and manage financial challenges. The industry goal is to have a 40 percent primary reserve; with the exception of OIT, PSU, and WOU, OUS institutions’ FY2010 primary reserve ratio is less than their peer average and, with the exception of SOU and OSU, all institutions’ debt burden ratio is higher than their peers. This indicates that reserves have been hindered by the environment in which the institutions are operating and limits their financial flexibility.

Committee members engaged in a full and frank discussion of enrollment forecast practices, the impact of roll-up costs on labor agreements, under-estimated fund balances, the lack of deferred maintenance, and the availability of research funding.

Vice Chancellor Kenton expressed concerns regarding declining enrollment projections beginning as early as FY2012. Combined with continued decreases in state funding, declines in enrollment will have a serious effect on institutions’ ability to address financial issues.
Chancellor Pernsteiner added that community college enrollment has peaked and the transfer pipeline could be attenuated. Enrollment, enrollment mix, net tuition, and expenses are all being closely monitored.

3. **Senate Bill 242 Workgroup**

Controller Green briefly described the mission of a new SB 242 working group and provided background on legislative appropriations and spending limitations. The legislature traditionally appropriated monies or bonding authority and gave limitations to educate students and build buildings. The accounting system and budgeting process was used to prevent the use of monies inappropriately. These transactional controls were often frustrating and inefficient. The passage of SB 242 allows OUS to manage its finances differently and budget according to outcomes. The goal of the 242 work group is to establish a new budgeting process that recognizes the complexity of the enterprise while maintaining accountability points between the universities, the System, and the state.

Committee discussion focused on different items that the working group should consider, including: a single Chart of Accounts, commingling of funds, the political reality of a public System vs. a private enterprise, clean financial audit opinions, achievement of performance and an outcome focus, shared services (payroll services, legal services, etc.), and the governance vs. management balance of the Board. Members noted the importance of maintaining System accountability and credibility with constituents, donors, the Governor and legislature, and the public.

3. **Action Items (Continued)**

d. **OUS, Legal Services Transition Update and Policy**

Chair Schueler called upon Mr. Ryan Hagemann, OUS General Counsel to present the item.

Mr. Hagemann first reviewed the draft Internal Management Directive on Legal Review of Agreements and Documents and described the collaborative drafting process. This directive will replace legal sufficiency review currently performed by the Department of Justice. The IMD draft focuses on categories of agreements rather than dollar thresholds. These categories include employment, technology transfer, settlements, property, etc. Feedback on the draft has been mixed but concerns include inadvertently creating roadblocks due to the volume of activities on larger campuses. The draft will be shared with the SB 242 Workgroup and other operational staff before bringing it back to the Committee for consideration in November.

Mr. Hagemann then moved on to the action item — the **Policy on Legal Services**. He reminded members that OUS is one legal entity and noted concerns regarding consistency of legal advice. Chair Schueler asked how the creation of institutional boards would affect the policy. Hagemann responded that it would depend on the authority of the institutional boards and their
relationship to the Board. Chancellor Pernsteiner clarified that under the current model, attorneys are advisers to the single entity – the Board.

Mr. Hagemann quickly reviewed the role of lawyers: provide legal advice, issue legal opinions, retain outside counsel, etc. They do not provide personal counsel and do not counsel students unless they are acting on behalf of the entity.

Committee members asked about hiring authority for in-house attorneys. Under the current DOJ policy, the Chancellor and the presidents of OSU, UO, and PSU can hire attorneys subject to DOJ approval. The policy under consideration speaks to hiring employees in general but does not address hiring attorneys specifically. Chair Schuler noted that the issue of hiring authority for attorneys isn’t specifically addressed in this policy. Committee members also discussed how best to provide legal services to smaller OUS campuses. The Chancellor’s Office currently provides all legal services to these institutions. Committee members also noted potential effects on labor and contract law, issues of worker’s compensation, and related items.

Chair Schuler asked Counsel Hagemann to clarify his request for Committee action. Mr. Hagemann expressed his desire to move forward with the non-controversial part of the draft policy that would allow the Chancellor’s Office to hire additional attorneys and retain outside counsel to aid in the transition of legal services. He noted that any action is subject to the reconciliation of the final proposal.

**ACTION:** Chair Schuler called for a motion: subject to reconciliation with the final Policy on Legal Services and Board approval of amendments to the F&A Committee Charter, the Committee approved proceeding with the in-house and outside counsel elements in order to permit progress on the effective transition on legal services. Director Allyn Ford made the motion and Director Farbodd Ganjifard seconded. Motion carried.

4. Adjournment

With no further business presented, Chair Schueler adjourned the meeting at 10:04 a.m.