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

The meeting of the Budget and Finance Committee of the Oregon State Board of Higher Education was called to order at 8:30 a.m. by Chair VanLuvanee.

On roll call, the following Committee members answered present:

- Mr. Tom Imeson
- Dr. Geri Richmond
- Mr. Tim Young
- Mr. Don VanLuvanee

Absent: Director Bill Williams

**Other Board members present:**

- Kerry Barnett
- Jim Lussier
- Roger Bassett (arrived at 8:45)
- Erin Watari
- Leslie Lehmann
- Phyllis Wustenberg

**Chancellor’s Office staff present:** Chancellor Richard Jarvis, Tom Anderes, Shirley Clark, Michael Green, Grattan Kerans, David McDonald, Ben Rawlins, Bob Simonton, Virginia Thompson, Diane Vines, and Susan Weeks

**Others:** Dan Bernstine (PSU), Philip Conn (WOU), PhillipCreighton (EOU), Bill Danley (IFS), Martha Anne Dow (OIT), Dave Frohmayer (UO), Lesley Hallick (OHSU), Andy Saultz (OSA), Tim White (OSU), and Elisabeth Zinser (SOU)

Meeting attendees also included other institutional representatives, members of the Chancellor’s Office staff, and interested observers.

2. **Approval of Minutes**

- October 18, 2002, Budget & Finance Committee Meeting Minutes
- January 17, 2003, Budget & Finance Committee Meeting Minutes

The Committee dispensed with the reading of the October 18, 2002, and January 17, 2003, Committee meeting minutes. Director Young moved and Director Imeson seconded the motion to approve the minutes as submitted. The following voted in favor: Directors Imeson, Richmond, Young, and VanLuvanee. Those voting no: none.
3. **ACTION ITEMS**
   
a. **Report on 2002-03 Tuition Surcharge Rates**

**DOCKET ITEM:**

**Background**

During the 2001-2003 biennium the Oregon Legislature met in five Special Sessions to direct a series of state appropriation reductions from the amounts first set by the 2001 Legislature. In the fifth Special Session, the Legislature referred Measure 28, an income tax surcharge, to be voted on in a special election on January 28, 2003.

In anticipation of the possible defeat of that measure and in attempt to mitigate the impact of the pending cuts, the Board approved a temporary rule amending the 2002-03 Academic Year Fee Book (OAR 580-040-0040) authorizing tuition surcharges to be assessed winter and spring terms. This action was first approved by the Executive Committee of the Board on November 15, 2002, and subsequently ratified by the full Board December 20, 2002. Institutions were given the option of assessing the surcharges in advance of the election with the directive to refund them if Measure 28 passed, or to delay until after the election and then assess winter term enrollees. EOU, OIT, PSU, SOU, and WOU elected to assess the surcharges in advance. OSU and UO elected to delay assessment until after January 28, 2003.

As the state’s economic outlook continued to decline, an additional state appropriation reduction was ordered by the Governor in December 2002. Subsequently, on January 17, 2003, the Board approved supplemental tuition surcharges requested by OSU, SOU, and UO to help offset this further reduction.

Since the first tuition surcharges were approved in November 2002, well in advance of the January 28, 2003, election, the approved rates of the surcharges were allowed to be considered preliminary. The staff had assured the Board it would report to the Board, at the first opportunity following the January election outcome, the final tuition surcharge rates being assessed.

Following are the individual institution decisions on the 2002-03 tuition surcharges.

**Institution Decisions**

**EOU**

EOU began assessing its tuition surcharges with the beginning of winter term and will continue spring term. Undergraduates are assessed $12.50 per credit hour for all credit hours enrolled. Graduates are assessed $50 per credit hour for all credit hours enrolled.

Total tuition and fees for undergraduates taking 14 credit hours will increase 14.3 percent and graduates taking 11 credit hours will increase 25.4 percent for residents and 14.5 percent for nonresidents over the original 2002-03 rates. The surcharge is expected to generate approximately $1 million over the two terms.
EOU intends to assess a tuition surcharge in summer term of $12.50 per credit hour for undergraduates and $50 per credit hour for graduates, the same surcharge being assessed spring term.

**OIT**

OIT began assessing its tuition surcharges with the beginning of winter term and will continue spring term. All students are assessed $12.50 per credit hour up to the plateau, with additional charges above the plateau.

Total tuition and fees for undergraduates taking 14 credit hours will increase 11.7 percent for residents and 3.4 percent for nonresidents; for graduates taking 11 credit hours, the rates will increase 6.4 percent for residents and 3.7 percent for nonresidents over the original 2002-03 rates. The surcharge is expected to generate approximately $577,000 over the two terms.

OIT intends to assess a tuition surcharge in summer term of $12.50 per credit hour, the same surcharge being assessed spring term.

**OSU**

OSU delayed assessment of its surcharges until after the January 28, 2003, Special Election. It had also determined to assess the supplemental tuition surcharge approved in January. It will now assess the combined surcharges for winter term and will continue spring term. Undergraduates are assessed $13 per credit hour up to a maximum of $157. Graduates are assessed $17 per credit hour up to a maximum of $157.

Total tuition and fees for undergraduates taking 14 credit hours will increase 11.7 percent for residents and 3.2 percent for nonresidents; for graduates taking 11 credit hours, the rates will increase 6.0 percent for residents and 3.5 percent for nonresidents over the original 2002-03 rates; for Pharm D students taking 14 credit hours, the tuition and fee rates will increase 5.1 percent for residents and 2.5 percent for nonresidents; and, Vet Med tuition and fees will increase 3.8 percent for residents and 2.0 percent for nonresidents. The surcharges are expected to generate approximately $5.2 million over the two terms.

OSU is not assessing any tuition surcharges at its Cascades Campus since the 2001-2003 budget reductions separately impacted this campus.

OSU does not intend to assess any surcharges during summer term.

**PSU**

PSU began assessing its tuition surcharges with the beginning of winter term and will continue spring term. Undergraduates were assessed $10 per credit hour up to a maximum of $120. Graduates are assessed $14 per credit hour up to a maximum of $126.
Total tuition and fees for undergraduates taking 14 credit hours will increase 9.3 percent for residents and 2.7 percent for nonresidents; for graduates taking 11 credit hours the rates will increase 5.2 percent for residents and 3.1 percent for nonresidents over the original 2002-03 rates. The surcharge is expected to generate approximately $3.1 million over the two terms.

PSU intends to assess a tuition surcharge in summer term of $10 per credit hour for undergraduates and $14 per credit hour for graduates, the same surcharge being assessed spring term.

**SOU**
SOU began assessing its first tuition surcharge with the beginning of winter term. It had also determined to assess the supplemental tuition surcharge on resident students approved in January 2003, but will not assess a combined surcharge until spring term. Resident undergraduates are assessed $4.16 per credit hour winter term and $9.16 per credit hour spring term up to the plateau, with additional charges above the plateau. Nonresident undergraduates are assessed $10 per credit hour up to the plateau with additional charges above the plateau. Resident graduates are assessed $10 per credit hour winter term and $12.25 per credit hour spring term, up to the plateau with additional charges above the plateau. Nonresident graduates are assessed $16.66 per credit hour, up to the plateau, with additional charges above the plateau.

Total tuition and fees for undergraduates taking 14 credit hours will increase 8.9 percent for residents and 3.1 percent for nonresidents; for graduates taking 11 credit hours the rates will increase 5.1 percent for residents and 4.0 percent for nonresidents over the original 2002-03 rates. The surcharge is expected to generate approximately $725,000 over the two terms.

SOU intends to assess a tuition surcharge in summer term of $6.50 per credit hour for undergraduates. This is $2.66 less than the combined spring term surcharges.

**UO**
UO delayed assessment of its surcharges until after the January 28, 2003, Special Election. It had also requested approval to assess the supplemental tuition surcharge on all students as approved in January but, at the time of this report, had not yet decided whether or not to assess a combined surcharge spring term. All students are assessed $10 per credit hour winter term and may be assessed $13 per credit hour spring term for all credit hours enrolled. Law students are assessed $15 per credit hour for winter and spring term for all credit hours enrolled.

Total tuition and fees for undergraduates taking 14 credit hours will increase 12.5 percent for residents and 3.4 percent for nonresidents; for graduates taking 11 credit hours, the rates will increase 5.5 percent for residents and 3.2 percent for nonresidents; and for Law students taking 11 credit hours, the rates will increase 2.5 percent for residents and 1.8 percent for nonresidents over the original 2002-03 rates. The initial surcharge approved in December 2002 is expected to generate approximately $4.2
million over the two terms. If the supplemental surcharge is assessed spring term it is estimated to generate an additional $700,000.

UO intends to assess the $10 per credit hour surcharge summer term.

**WOU**

WOU began assessing its tuition surcharges with the beginning of winter term and will continue spring term. All students are assessed $12 per credit for the first hour. Undergraduates will be assessed an additional $8 per credit hour up to the plateau, with additional charges above the plateau. Graduates will be assessed an additional $11 per credit hour up to the plateau, with additional charges above the plateau.

Total tuition and fees for undergraduates taking 14 credit hours will increase 8.1 percent for residents and 2.5 percent for nonresidents; and graduates taking 11 credit hours will increase 4.6 percent for residents and 2.6 percent for nonresidents over the original 2002-03 rates. The surcharge is expected to generate approximately $500,000 over the two terms.

WOU intends to assess a tuition surcharge in summer term of $8 per credit hour for undergraduates and $11 per credit hour for graduates, the same surcharge being assessed spring term.

**Supplemental Material**

A summary of the tuition surcharges by institution is included in the supplemental material to this docket item.

**Staff recommendation to the Budget and Finance Committee**

Staff recommended that the Board approve the report on the 2002-03 Tuition Surcharge Rates as submitted.

**COMMITTEE DISCUSSION:**

Vice Chancellor Anderes reminded the Committee that the surcharges are temporary, filling the gap for the remainder of this biennium. The Committee will be addressing this issue again in April, at which time there will be a combination of enrollment and tuition plans from the institutions. There are permanent General Fund reductions that may be further reduced if the Governor and/or legislature create a rainy day fund, for example. Dr. Anderes explained that in April “the Committee would review a plan that, within the best limits of our knowledge at that time, suggests where we can go in terms of enrollments and what would be, for each campus, needed as far as tuition rate increases.”

In response to a question from Director Imeson as to whether there were any themes or similar patterns among the institutions, Vice Chancellor Anderes indicated there were not. Each institution is looking at the problem from a different perspective, taking into account fund balances, projected enrollment, and so forth.
It was pointed out that each institution is setting aside an amount of the surcharge that is proportional to the amounts they had under previous tuition scenarios for the most financially at-risk students. Director Young asked for a report on these plans.

**COMMITTEE ACTION:**
It was moved by Director Imeson and seconded by Director Young to approve the staff recommendation. Those voting in favor: Directors Imeson, Richmond, Young, and VanLuvanee. Those voting no: none.

**b. Annual Financial Audit Report**

**DOCKET ITEM:**

**Summary**
The report titled *Annual Financial Statements 2001-2002* (see supplemental materials) was prepared by the Chancellor’s Office and the financial statements included within were audited by Moss-Adams, LLP, under contract to the Secretary of State, Audits Division. The audit opinion issued by Moss-Adams, LLP, is an unqualified opinion, which means that their opinion as to the fair presentation of the financial statements was issued without qualification.

The information included in the report differs significantly from prior years due to the implementation of Governmental Accounting Standards Board (GASB) statement number 35, as well as other related GASB statements. These new accounting principles are intended to provide for greater comparability between the financial statements of public and private higher education institutions as well as make them more reader-friendly by making them similar to financial statements of private industry.

The most obvious difference is the format of the financial statements; moving from a multi-column format, which separated the financial activity by major fund group, to a single column format, which combines all fund groups and eliminates interfund transactions. Other significant changes include: the addition of a narrative section called “Management’s Discussion and Analysis,” which is intended to provide an objective and easily readable analysis of OUS’s financial activities; classifying assets and liabilities on the statement of net assets into “current” and “non-current” classifications; replacing the term “fund balance” on the statement of net assets with “net assets” to more clearly reflect the nature of the amounts presented; recording depreciation on capital assets; capitalizing expenditures made for capital assets; displaying net income or loss from operations; reporting appropriations as “non-operating” income; and including a statement of cash flows.

As stated above, Moss-Adams, LLP, has audited the financial statements of OUS and, in conjunction with that audit, has issued a letter to OUS Management (see supplemental materials) communicating observations and recommendations relating to OUS internal controls. OUS Management has issued a letter in response to these observations and recommendations (see supplemental materials) that includes general agreement with the observations and planned actions in response. None of the
observations made by Moss-Adams, LLP, represent significant deficiencies in the
design or operation of internal control.

Staff Recommendation to the Budget and Finance Committee
Staff recommended that the Budget and Finance Committee accept the Annual

COMMITTEE DISCUSSION:
Representatives from the State Auditor’s Office, Moss Adams (OUS contracted
accounting firm), and Mike Green, OUS Controller, were present. It was highlighted that
the financial statements looked much different than in the past because of new
standards the System implemented.

Mr. Green explained the financial statements and how they varied from previous years.
He highlighted that the change in format made it very difficult to show comparability
between years, since the data are presented in very different formats. He explained that
this would improve over time as the system is fully implemented.

Nancy Young, Audit Administrator with the Secretary of State Audit Division, indicated
that the Oregon Secretary of State has the constitutional responsibility to audit the
accounts and the financial affairs of all state agencies and state aided institutions. The
Audit Division elected to contract, through a competitive bidding process, with an
outside firm. The firm chosen was Moss Adams and Ms. Young introduced Mary Case,
partner with the firm, and Scott Simpson.

Ms. Case explained the role that Moss Adams played in the present audit and the types
of letters and reports they issued to OUS.

Ms. Young discussed some new accounting and auditing standards occurring in the
accounting profession. One of them relates to Statement and Auditing Standard 99 that
covers fraud in a financial statement audit. She explained that “management is
responsible for adopting sound accounting policies and for establishing and maintaining
internal control that will, among other things, initiate, record, process, and report
transactions consistent with management’s assertions embodied in the financial
statements. As such, management should set the proper tone, create and maintain a
culture of honesty and high ethical standards, and establish appropriate controls to
prevent, deter, and detect fraud. When management and those responsible for the
oversight of the financial reporting process fulfill those responsibilities, the opportunities
to commit fraud can be reduced significantly,” Ms. Young explained.

Ms. Young also explained that the way in which audits have been performed would be
changing as well. Risks facing OUS will have to be identified, assessed, and responded
to. “This will mean that we’ll be required to do some surprise type of activities that may
include coming at a different time and performing different procedures than we
performed the year before,” she explained.
It was pointed out that the Audit Division has just initiated an information technology audit within OUS. This audit begins with a risk assessment at each institution regarding controls over information technology practices.

Director Imeson asked if the auditors had any observations or recommendations for the Board in terms of its responsibility in dealing with audits and, specifically, if they saw a need for a separate audit committee. Ms. Young observed that the important element is that the auditors have access to the right individuals within the System and the Board is a good representation of that. “It is key that the Board considers each of the recommendations and looks at the actions that have or have not been taken and ensures that there is follow-up to each one of those recommendations, whether it comes from the Internal Audit Division or an external auditor. That is a key role for the Board to play,” she concluded.

Continuing to explore the issue, Director Imeson indicated that there are instances, perhaps more in the private sector than in the public sector, when there is a direct relationship to the internal and external auditors by a board to ensure “that they are receiving, in an unfiltered and unvarnished way, whatever they need to receive. Perhaps we do need to look at our own structure to ensure that we have that capability.” Director Lehmann concurred, adding that since the Executive Committee was not meeting on a regular basis there might be another venue for audit considerations.

COMMITTEE ACTION:
It was moved by Director Richmond and seconded by Director Young that the Committee approve the staff recommendation. Those voting in favor: Directors Imeson, Richmond, Young, and VanLuvanee. Those voting no: none.

c. Sale of Land and Approval of Housing and Academic Services Agreement, PSU

DOCKET ITEM:
Summary
Portland State University (PSU) sought Board approval to authorize the Vice Chancellor of Finance and Administration to complete the proposed sale of two parcels of land with office facilities and associated parking, located at 621 SW Jackson Street and 1975 SW Sixth Avenue in Portland, Oregon, to Broadway Housing LLC, a wholly owned limited liability corporation affiliated with the PSU Foundation, for $625,000 for both parcels. Board approval is being sought to sell the facilities at cost and enter into an agreement that will result in the construction of a 10-story multi-purpose facility featuring first floor retail, second floor academic space, and eight floors of student housing with approximately 380 studio apartments. This $49 million facility will be owned by Broadway Housing, LLC, and will be operated and managed in accordance with University specifications. This 10-story, approximately 220,000 square foot facility will occupy three-quarters of a block, bounded by Broadway Street (to the west), Jackson Street (to the south), 6th Avenue (to the east), and College Street (to the north). Plans call for groundbreaking in April 2003, with construction to be completed by August 2004.
It is imperative that the facility be completed in time to meet the housing and academic needs associated with Fall 2004 enrollments.

**Staff Report to the Board:**

**Background**

During fall term 2002, PSU had an enrollment of nearly 23,000 students yet has only 919 student housing units to service this demand. A 2002 OUS study conducted by Anderson, Strickler LLC, entitled “Public Private Partnerships for Student Housing,” indicated that PSU is operating at capacity with a 98 percent occupancy for the academic year and that “there is pent up demand for more housing.” As evidence of this fact, the University currently has a waiting list for student housing that averages 500 students at any one time, with many more students who express interest in campus housing yet fail to sign up on this wait list as they feel the campus housing situation is hopeless. In addition, the PSU Admissions office reports that many potential students and parents (especially those from far away places in Oregon, out-of-state, and international areas) who have applied for admission and intend to enroll are lost due to this housing shortage. The University is embarking on a strategy for managing the budget reductions being encountered today by recruiting and enrolling more non-resident and international students as these students pay higher non-resident tuition. As mentioned above, a critical component of non-resident recruitment involves the availability of convenient and affordable student housing, which is presently in short supply.

The facility will also provide needed retail services to students residing in the building, as well as serving the campus and neighborhood demands and will provide the University with needed academic space. Finally, the project will provide needed urban renewal for an area of campus that is currently underdeveloped and will assist in economic development through the provision of construction jobs, retail and facility/housing management job opportunities.

**Terms of the Proposed Transactions**

The facility will be funded with a combination of tax-exempt and taxable economic development revenue bonds issued by the City of Portland, through the Portland Development Commission. The tax-exempt bonds will cover the costs of the academic space, eight floors of housing, and a portion of the retail space (up to the maximum allowed under the private activity limitations associated with tax-exempt financing). Taxable bonds will fund the balance of the financing. The tax-exempt bonds issued will have a 40-year term in order to keep tenant rents to a minimum. The taxable bonds will have an 18-year term in order to limit the higher costs associated with taxable issuances. The bonds will be issued by Key Bank and will be insured by Ambac Financial.

The bond proceeds will be loaned to Broadway Housing LLC, a wholly owned LLC of the PSU Foundation. Pursuant to the loan documents, Broadway Housing LLC, will use the proceeds to: 1) purchase the land; and 2) build and operate the facility to PSU specifications as described above for the benefit of PSU. Broadway Housing will use the
initial bond proceeds to purchase title to the land upon which this facility is to be built. The project combines several parcels of land comprising three-quarters of a block or 30,000 square feet. The two parcels that are owned by PSU/Board of Higher Education (the Beau Bradley properties acquired by PSU in March 2002) will require the approval of the Board to sell and complete the required property disposition processes in accordance with Department of Administrative Services rules. It is PSU’s intention to sell these parcels to Broadway Housing LLC, at cost due to the desire to keep project costs and therefore future student rents to a minimum. The other two parcels are owned by Urban Housing (the entity in which PSU engaged in a land lease earlier this fall). The sale of these Urban Housing properties to Broadway Housing LLC, will result in the cancellation of these pre-existing lease agreements and obligations between PSU and Urban Housing.

Broadway Housing LLC, will enter into a Development Agreement or Construction Management Agreement with Urban Housing LLC, an affiliate of Gerding Edlen Development Company. This agreement will call for the construction of the building according to agreed construction documents and will have required performance bonds. The agreement will also require that the project be developed in compliance with the public works statutes, including required payment of prevailing wage rates.

Broadway Housing or its designee will enter into: 1) rental contracts with PSU students, 2) a lease or license agreement with PSU for the use of the academic space on the second floor, and 3) retail lease agreements with the retail tenants on the first floor. Student housing rents are currently estimated to be in the $540-$560 per month range and cost-saving value engineering and other efforts are underway to reduce these rents as much as possible in order to offer students affordable housing. All rent payments will be paid to Broadway Housing LLC, and will be deposited into a trust fund established by the Bond issuer or insurer to 1) make bond payments when due, and 2) establish a reserve for operating expenses for the facility.

Subject to Board approval, PSU will enter into a Housing and Academic Services agreement with Broadway Housing LLC. Pursuant to this agreement, Broadway Housing LLC, will own and operate the building in accordance with PSU’s needs for housing, academic, and ancillary retail space. The term of this agreement will mirror the 40-year term of the bonds. The building will be operated by Broadway Housing LLC, although they may contract the management out to a party acceptable to PSU, or have PSU perform these management services directly.

The fee paid by PSU to Broadway Housing LLC, will roughly equal: 1) the difference (if any) between the bond payments and the rental deposits; 2) a lease or rental fee for the academic floor; 3) the difference (if any) between the operating costs of the building and the rental deposits and operating reserve funds of Broadway Housing LLC; and 4) a reasonable management fee. If PSU is called upon to make any payments with regard to items 1 and 3 in the previous sentence, such payments shall be reimbursed by Broadway Housing LLC, (with interest) at such time as it begins to establish a surplus in its rental collection fund. Total annual rents from the facility are estimated at $3.4M.
Annual expenses are estimated as follows: debt service $2.8M, operating costs, including maintenance of required reserves $.5M, and management fees of $.1M.

Eric Iverson and Wendy Robinson, assistant attorney generals with the Department of Justice, have been working with PSU and Chancellor’s Office staff to ensure that all terms and conditions outlined above are legally sufficient and are done in compliance with applicable State and OUS regulations and procedures.

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

Seller - PSU
Approval by the State Board of Higher Education.
Conveyance approved by the Assistant Attorney General and executed by the Board President and Secretary.

Buyer- Broadway Housing LLC
Acceptance of the purchase price; $625,00 plus closing costs.

Staff Recommendation to the Budget and Finance Committee
Staff recommended that the Board approve Portland State University’s request to perform the following actions, assuming that all conditions are met and that the final details are agreed upon by all parties, subject to final approval by the Vice Chancellor for Finance and Administration.

- Sell two properties, located at 612 SW Jackson Street and 1975 SW Sixth Street in Portland, Oregon, to Broadway Housing LLC, for $625,000.
- Enter into a Housing and Academic Services Agreement with Broadway Housing for a term of forty years.
- Request the Chancellor and Board to acknowledge, in accordance with the requirements of the administrative rules governing University/Foundation relationships (OAR 580-046-020), that the Foundation has established a limited liability corporate affiliate for the purpose of providing student housing services to PSU.

COMMITTEE DISCUSSION:
Vice Chancellor Anderes introduced the unique request from PSU and President Dan Bernstine, Jay Kenton, Vice President for Finance and Administration at PSU, and Wendy Robinson, Assistant Attorney General with the Department of Justice who provided the context for the current request.

Dr. Kenton underscored the importance of the project to PSU and the unique role that the PSU Foundation was playing in establishing an LLC to manage or contract with a management firm to operate the facility. Ms. Robinson clarified that the bonds would be issued at a floating rate of around 1.25 percent to the LLC. “At the time of closing, PSU
would choose when it was going to trade the bonds for a fixed rate and during the period of time before it trades them for the fixed rate it continues to pay at this very low rate. Obviously, it can move up and down, but historically, over the past 20 years, it has never gone above about 5.5 percent and it is not expected within the period of time we have to swap, to increase above that amount. Then we swap in for the fixed rate and pay the interest rate at the fixed rate.”

Director Wustenberg asked why the LLC would swap. Ms. Robinson replied that with the flexible rate there is quite a bit of risk that the rate could increase significantly and the university is not willing to take that risk. “We’re willing to take the risk over a period of zero to 12 months. We’re not willing to take it over 30 years,” she added.

Director Young raised a question concerning management of PSU facilities and if PSU would at some point be looking to assume the role. Dr. Kenton responded that PSU has been extremely satisfied with College Housing Northwest, with whom they have worked since 1969. In response to a question regarding the risks or obligations to the System with approval of this transaction, Dr. Kenton explained that one of the greatest risks would be if the rentals of the units were not to materialize. The present demand is so high that this does not look like a very great risk. The bond payments would need to be met whether occupancy occurred or not.

COMMITTEE ACTION:
It was moved by Director Young and seconded by Director Richmond to approve the staff recommendation. Those voting in favor: Directors Imeson, Richmond, Young, and VanLuvanee. Those voting no: none.

d. Resolution for the Sale of Article XI-G Bonds

DOCKET ITEM:

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<tr>
<th>2003 Spring Bond Sale for Capital Projects</th>
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<tr>
<td>5 Campuses Served with 5 Individual Projects</td>
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<td>A Total of $61,330,500 Recommended for Sale</td>
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Summary
Staff recommends the Board request the State Treasurer to issue $61,330,500 of bonds for construction projects under authority of Article XI-G of the Oregon Constitution. This sale is currently scheduled to be held in May 2003.

Staff Report to the Board
Background. The 2001 Legislative Assembly authorized the Board of Higher Education to issue general obligation bonds, in specified amounts by fiscal year, with the proceeds to be used to finance capital construction and facilities repair and renovation projects in higher education. These bonds were authorized under two sections of the Oregon Constitution, Article XI-G and Article XI-F(1).
Article XI-G bonds are issued to construct and repair facilities classified as Education and General use, including classroom facilities, libraries, teaching laboratories, and general administrative space. These bonds are matched by an appropriation from the state General Fund and are general obligations of the state; the debt service is paid from the General Fund. The Legislature also established a mechanism whereby the General Fund match may be generated through gifts and/or federal and local governmental funds. These are first deposited to special project accounts in the Treasury and then treated as General Fund moneys for purpose of the match.

Article XI-F(1) bonds are issued to construct and repair facilities that are self-financing and self-supporting as determined by the Board, in accordance with Article XI-F(1) of the Oregon Constitution. Bonds of this type have been issued to cover projects for the construction and renovation of auxiliary enterprises space (such as parking facilities or student housing) where the source of debt service is from auxiliary funds. Bonds have also been approved for projects in student facilities (such as student unions, student health facilities, or student recreation facilities) where the debt service is repaid from the student-building fee or from a special fee approved for this purpose by the Board. The preponderance of bonds sold for capital construction in higher education has been under Article XI-F(1).

2001-2003 Higher Education Bond Bill Authorization. House Bill 2276 authorized a maximum issuance of $108,835,776 of Article XI-G bonds and a maximum issuance of $308,109,808 of Article XI-F(1) bonds. Due to a conflict with the existing limitation for Article XI-G bond issuance for the 2001-03 biennium, between the Capital Construction Bill and the Bond Bill, separate legislation is being introduced this session to correct SB 5525, which was not amended correctly to account for an increase in the amount of Article XI-G bonds to finance OSU's new Engineering Building.

Request for Board Authorization to Issue. The institutions are now seeking authorization from the Board to issue a total of $61,330,500 in Article XI-G bonds, as part of a sale currently planned by the State Treasurer for May 2003. All projects to be financed by these bonds have been authorized by the State Legislature or the Emergency Board of the State Legislature.

Prior to sale, a portion of the sale may be designated as taxable, due to space utilization by private entities in the projects to be financed under this sale. At present, the percentage of the total square footage for private use affected under this sale is not sufficient to cause any portion of the sale to be taxable.

Several tables are provided herein:

- Table A, also included in the resolution, identifies the Article XI-G projects recommended for the Spring 2003 Bond Sale.
Table B displays information on Article XI-G bonded debt, beginning with 1991-1993, through 2001-2003. It compares the amount of the debt service paid with the total biennial budget for E&G all sources and General Fund E&G.

Table C projects annual Article XI-G bonded debt outstanding and annual debt service beginning with the 1997-1999 biennium through 2004-2005, assuming approval of the proposed Spring 2003 Bond Sale.

In addition, summary information on each of the projects included in the proposed sale is provided in a supplement to this item.

Resolution for the Sale of Bonds for Capital Projects

The resolution before the Board authorized staff to pursue the sale of bonds for all projects currently identified by the campuses as needing bond funding consistent with the overall bond limitation imposed by the Legislature for the period 2001-2003. With this sale, a total of $101,221,792 of Article XI-G bonds will have been sold during the biennium.

Staff Recommendation to the Budget and Finance Committee

Staff recommended the Board: 1) adopt the following resolution for authorizing the sale of Article XI-G bonds for capital projects.

RESOLUTION FOR THE SALE OF BONDS FOR CAPITAL PROJECTS

WHEREAS, ORS 286.031 states, in part, that the State Treasurer shall issue all general obligation bonds of this state after consultation with the state agency responsible for administering the bonds proceeds; and

WHEREAS, ORS 286.033 states, in part, that the state agency shall authorize issuance of bonds subject to ORS 286.031 by resolution; and

WHEREAS, ORS Chapters 351, 288, and 286 provide further direction as to how bonds are sold and proceeds administered; and

WHEREAS, House Bill 2276, Chapter 849, Oregon Laws 2001, establishes Oregon Constitution limitations on the amount of bonds that may be sold pursuant to Articles XI-G and XI-F(1) for the 2001-2003 biennium; and

WHEREAS, Senate Bill 5525, Chapter 845, Oregon Laws 2001, lists those projects that may be financed pursuant to Articles XI-G and XI-F(1); and

WHEREAS, Chapter 890, Oregon Laws 1999, lists those projects that may be financed pursuant to Articles XI-G and XI-F(1) of the Oregon Constitution; and

WHEREAS, it is appropriate for this Board to authorize the State Treasurer to issue bonds for projects authorized by previous Legislation and pending bills, once adopted
by the Legislature and signed into law by the Governor, and in amounts not greater than
authorized by the bond bill and for other projects as may be provided by law and as
otherwise required by law for the 2001-2003 biennium without requiring further action of
this Board;

NOW, THEREFORE, be it resolved by the State Board of Higher Education of the State
of Oregon as follows:

Section 1. Issue. The State of Oregon is authorized to issue general obligation bonds
(the "Bonds"), in such series and principal amounts as the State Treasurer, after
consultation with the Vice Chancellor for Finance and Administration of the Department
of Higher Education, shall determine are required to fund projects authorized by Oregon
law. The Bonds shall be designated, dated, authenticated, registered, shall mature,
shall be in such denomination, shall bear such interest, be payable, be subject to
redemption, and otherwise contain such terms as the State Treasurer determines,
including the designations as Oregon Baccalaurate Bonds, after consultation with the
Vice Chancellor for Finance and Administration. The maximum net effective interest rate
for the Bonds shall not exceed 10 percent per annum.

Section 2. Article XI-F(1) Projects. N/A

Section 3. Article XI-G Projects. Bonds are authorized to be sold to provide funds for
projects previously authorized or as may be authorized by the Oregon Legislature and
as may be revised by the Vice Chancellor for Finance and Administration as authorized
by Oregon law.

**Table A - Article XI-G Projects Recommended for Spring 2003 Bond Sale**

<table>
<thead>
<tr>
<th>Article XI-G Projects</th>
<th>Estimated Bond Cost</th>
<th>Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>EOU-Regional Agricultural, Health and Life Sciences Building</td>
<td>$14,470,500</td>
<td>30 years</td>
</tr>
<tr>
<td>OSU – Veterinary Medicine Small Animal Hospital</td>
<td>$4,000,000</td>
<td>30 years</td>
</tr>
<tr>
<td>PSU – Northwest Engineering Science Center</td>
<td>$26,500,000</td>
<td>30 years</td>
</tr>
<tr>
<td>SOU - Library</td>
<td>$10,000,000</td>
<td>30 years</td>
</tr>
<tr>
<td>UO – Museum of Art Addition &amp; Alteration</td>
<td>$6,360,000</td>
<td>30 years</td>
</tr>
<tr>
<td><strong>TOTAL XI-G Projects</strong></td>
<td><strong>$61,330,500</strong></td>
<td>NA</td>
</tr>
</tbody>
</table>

Section 4. Maintenance of Tax-Exempt Status. The Board covenants for the benefit of
the owners of the Bonds to comply with all provisions of the Internal Revenue Code of
1986, as amended (the "Code"), that are required for Bond interest to be excluded from
gross income for federal income taxation purposes (except for taxes on corporations),
unless the Board obtains an opinion of nationally recognized bond counsel that such compliance is not required in order for the interest to be paid on the Bonds to be so excluded. The Board makes the following specific covenants with respect to the Code:

(a) The Board shall not take or omit any action if the taking or omission would cause the Bonds to become "arbitrage bonds" under Section 148 of the Code, and shall assist in calculations necessary to determine amounts, if any, to allow the State to pay to the United States all "rebates" on "gross proceeds" of the Bonds that are required under Section 148 of the Code.

(b) Covenants of the Board or its designee in its tax certificate for the Bonds shall be enforceable to the same extent as if contained herein.

Section 5. Sale of Bonds. The State Treasurer, with the concurrence of the Vice Chancellor for Finance and Administration, shall sell the Bonds as the State Treasurer deems advantageous.

Section 6. Other Action. The State Treasurer, the Vice Chancellor for Finance and Administration, or the Controller of the Department of Higher Education is hereby authorized, on behalf of the Board, to take any action that may be required to issue, sell, and deliver the Bonds in accordance with this resolution.

Additional Information on Debt and Debt Service

**Table B - Article XI-G Bonded Debt Historical Trends**

(dollars in millions)

<table>
<thead>
<tr>
<th>Biennial E&amp;G All Sources*</th>
<th>Debt Service Percent of E&amp;G Total</th>
<th>General Fund E&amp;G</th>
<th>Debt Service General Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991-1993</td>
<td>$818</td>
<td>1.55%</td>
<td>$515</td>
</tr>
<tr>
<td>1993-1995</td>
<td>866</td>
<td>1.47%</td>
<td>482</td>
</tr>
<tr>
<td>1995-1997</td>
<td>991</td>
<td>1.67%</td>
<td>422</td>
</tr>
<tr>
<td>1997-1999</td>
<td>1,062</td>
<td>1.73%</td>
<td>496</td>
</tr>
<tr>
<td>1999-2001</td>
<td>1,395</td>
<td>1.33%</td>
<td>740</td>
</tr>
<tr>
<td>2001-2003</td>
<td>1,539</td>
<td>1.39%</td>
<td>749</td>
</tr>
</tbody>
</table>

E&G = Education & General

* Excludes non-limited funds (such as sponsored programs).
Table C - Article XI-G Bonded Debt Outstanding Actual and Projected
(dollars in millions)

<table>
<thead>
<tr>
<th>Year-Period</th>
<th>Beginning Bonds Outstanding</th>
<th>Annual Debt Service</th>
<th>Biennial Debt Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-1998</td>
<td>$64.2</td>
<td>$8.5</td>
<td>$18.0</td>
</tr>
<tr>
<td>1998-1999</td>
<td>73.6</td>
<td>9.5</td>
<td></td>
</tr>
<tr>
<td>1999-2000</td>
<td>75.8</td>
<td>9.7</td>
<td>18.6</td>
</tr>
<tr>
<td>2000-2001</td>
<td>94.4</td>
<td>8.9</td>
<td></td>
</tr>
<tr>
<td>2001-2002</td>
<td>89.3</td>
<td>9.7</td>
<td>21.4</td>
</tr>
<tr>
<td>2002-2003</td>
<td>123.2</td>
<td>11.7</td>
<td></td>
</tr>
<tr>
<td>2003-2004</td>
<td>177.4</td>
<td>16.2</td>
<td>30.8</td>
</tr>
<tr>
<td>2004-2005</td>
<td>170.5</td>
<td>14.6</td>
<td></td>
</tr>
</tbody>
</table>

COMMITTEE DISCUSSION:
Robert Simonton, Director of Capital Construction Planning and Budget, explained that the recommendation before the Committee was for approval of $61,330,500 in Article XI-G Bonds for five projects at five institutions. Mr. Simonton explained that the sale is late enough in the biennium that the first debt service payment will not incur until the next biennium. "This sale maintains a very conservative posture with regard to the OUS credit limit and does not impact the current biennia’s operating budget," Mr. Simonton concluded.

COMMITTEE ACTION:
It was moved by Director Richmond and seconded by Director Young that the Committee approve the staff recommendation. Those voting in favor: Directors Imeson, Richmond, Young, and VanLuvanee. Those voting no: none.

4. **CONSENT ITEMS**
a. **OSU Veterinary Medicine Additional Funding Request**

DOCKET ITEM:
*Summary*
Oregon State University (OSU) sought Board approval to authorize the Vice Chancellor of Finance and Administration, or designee, to seek an additional $2.2 million of Other Funds limitation from the Legislature for additional costs associated with the OSU Veterinary Medicine Expansion Project.
Staff Report to the Board

Background
The April 2002 Legislative Emergency Board approved a total of $8.0 million in spending authorization for the project. The authorization included $4.0 million of Article XI-G Bonds matched with an equal amount from the General Fund. Subsequent to this approval, a Legislative Special session reduced the General Fund authorization by $180,000. However, this reduction was later restored by the Legislature with an Other Funds limitation funded by a gift from the OSU Foundation.

Since the initial authorization, design and coordination of the equipment and the building have been substantially completed. Cost estimates and early construct ability reviews have shown that the earlier authorization will not be sufficient to complete the instructional laboratories and small animal hospital expansion. Early plans envisioned a freestanding building. The current plans combine the existing large animal hospital with the new small animal hospital as an expansion of the existing Marauder Hall. The combination allows a smaller surgical staff to respond to emergencies in multiple surgery suites without having to travel between buildings. The reduced staffing more closely mirrors private sector surgical staffing conditions and is a marked reduction in operating costs. Relocation of existing offices allows the surgical core to expand into the first floor of the new addition. All told, these new elements result in the need for an additional $2.2 million in authorization and can be summarized as follows:

- Renovation of existing surgical suite and instructional space: $1,055,000
- Added Exam and Treatment Rooms with reduced Lab Fit-out in new expansion: $168,000
- Relocation of Business Office and Library: $947,000

Statement of Need
As a Land Grant University, this program is integral to Oregon State University in fulfilling its mission to support agriculture in the State of Oregon. This project was considered an “emergency” under the definition of the State Legislative Emergency Board, which approved the capital project in order to implement the approved expansion of the College of Veterinary Medicine DVM program from a two-year to a full four-year resident program. The Washington Idaho Oregon (WOI) contract, which was signed in 1981 by Oregon State University and Washington State University, provided 36 seats for Oregon State University students in the Washington State University second and third year small animal DVM program. This contract will expire in 2004.

Schedule
Design of the project is substantially complete. The construction contractor has prepared initial bids and review of the building, which awaits the additional funding authorization to proceed with construction. If approved during the 2003 Legislative Session, ground breaking would occur in mid-April, with completion in August 2004.

Financial Considerations
The OSU Foundation in the form of gifts will provide funds for the unforeseen work.
Staff Recommendation to the Budget and Finance Committee

Staff recommended that the Board approve Oregon State University's request to authorize the Vice Chancellor of Finance and Administration, or designee, to seek additional Legislative spending limitation for $2.2 million in unforeseen costs associated with the OSU Veterinary Medicine Project.

COMMITTEE ACTION:

It was moved by Director Imeson and seconded by Director Young that the Committee approve the staff recommendation. Those voting yes: Directors Imeson, Richmond, Young, and VanLuvanee. Those voting no: none.

b. OSU Intercollegiate Athletics Department Fiscal Status Report, December 31, 2002

DOCKET ITEM:

Summary

The purpose of this report was to communicate the fiscal status of the Intercollegiate Athletics Department (Athletics) of Oregon State University (OSU) in accordance with the request of the Budget and Finance Committee (Committee). In their April 19, 2002, meeting, the Committee requested monthly reports on the financial condition of OSU Athletics in order to more closely monitor the progress being made by Athletics in meeting their deficit reduction commitments.

The attached financial statement presented the revenues, expenses, and changes in fund and cash balances of Athletics as of December 31, 2002 and 2001. The year-to-date amounts as of December 31, 2002, were compared to the results as of December 31, 2001, and explanations for material variances between the year-to-date amounts were provided by OSU (see below). Footnotes to the financial statement are also attached to provide additional disclosure and explanation.

University’s Analysis of Operations

Variances in the operating results through December 31, 2002, from the operating results through December 31, 2001, that were in excess of $0.5 million were identified for further analysis. The amounts reported for Operating Revenues varied from the prior year results by over $0.5 million and explanations have been provided below for these variances:

- Operating revenues totaled $6.1 million through December 2002, compared to the prior year amount of $5.4 million, resulting in an increase of $772 thousand. The increase in current year receipts is attributed to Football revenue. OSU Football had seven home games in 2002 compared to five home games in 2001 and increased prices for the University of Oregon game.

- Operating expenses totaled approximately $11.3 million through December 2002, compared to the prior year amount of $10.3 million, resulting in a variance of $1
million. Approximately $407 thousand of the variance is a current year depreciation expense. This expense category was not recorded until January the prior year. Insight Bowl expenses are attributed to $330 thousand of the variance. The balance of the variance is related to increased compensation and other operating expenses.

It is expected that Athletics will meet the Board’s mandated deficit reduction commitment for the fiscal year ending June 30, 2003.

Chancellor’s Office Review
Process
The Chancellor's Office has reviewed the financial statement and analysis prepared by OSU to test the reasonableness of the amounts reported, the projections presented, and management's assumptions. This review included the following:

- Reconciliation of amounts reported to the accounting records
- Selected review of unusual amounts, trends, etc.
- Review of material accounts receivable balances
- Review of management's explanations of material variances for reasonableness

Analysis
The amounts reported in the financial statements reconciled to the accounting records and review of material accounts receivable balances further substantiates the operating results. In addition, the explanations provided by OSU for the material variances between actual amounts reported through December and the prior year amounts for the same time period were reasonable.

The fiscal condition of OSU Athletics has improved over the prior year by $.2 million. The University’s projections indicate that Athletics will meet its deficit reduction commitment for the year ending June 30, 2003.

Staff recommendation to the Budget and Finance Committee
Staff recommended that the Board accept the OSU Intercollegiate Athletics Department Fiscal Status Report, December 31, 2002, as submitted.
Oregon State University Intercollegiate Athletics  
Fund Balance, Revenue, Expense, and Cash Analysis  
Fiscal Year-to-Date December 31, 2002 and 2001

<table>
<thead>
<tr>
<th>Description:</th>
<th>12/31/2002</th>
<th>12/31/2001</th>
<th>Current Yr. vs. Prior Yr.</th>
<th>Favorable (Unfavorable)</th>
<th>% Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Fund Balance (Deficit)</td>
<td>$ (4,684,091)</td>
<td>(5,633,020)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating</td>
<td>6,149,336</td>
<td>5,377,155</td>
<td></td>
<td>$ 772,181</td>
<td>14.36%</td>
</tr>
<tr>
<td>Student Fees</td>
<td>413,973</td>
<td>387,600</td>
<td></td>
<td>26,373</td>
<td></td>
</tr>
<tr>
<td>Lottery</td>
<td>203,921</td>
<td>113,900</td>
<td></td>
<td>90,021</td>
<td></td>
</tr>
<tr>
<td>Gifts, Foundation, and Booster</td>
<td>1,870,410</td>
<td>2,081,753</td>
<td></td>
<td>(211,343)</td>
<td>-10.15%</td>
</tr>
<tr>
<td>Other</td>
<td>45,296</td>
<td>47,872</td>
<td></td>
<td>(2,576)</td>
<td></td>
</tr>
<tr>
<td>Total Revenues</td>
<td>8,682,936</td>
<td>8,008,280</td>
<td></td>
<td>674,656</td>
<td>8.42%</td>
</tr>
<tr>
<td>Expenses:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating</td>
<td>11,286,229</td>
<td>10,280,325</td>
<td></td>
<td>(1,005,904)</td>
<td>-9.78%</td>
</tr>
<tr>
<td>Scholarships</td>
<td>3,106,976</td>
<td>3,238,221</td>
<td></td>
<td>131,245</td>
<td>4.05%</td>
</tr>
<tr>
<td>Other</td>
<td>209,808</td>
<td>322,500</td>
<td></td>
<td>112,692</td>
<td>34.94%</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>14,603,013</td>
<td>13,841,046</td>
<td></td>
<td>(761,967)</td>
<td>-5.51%</td>
</tr>
<tr>
<td>Net Income (Loss) from Operations</td>
<td>(5,920,077)</td>
<td>(5,832,766)</td>
<td></td>
<td>$ (87,311)</td>
<td>-1.50%</td>
</tr>
<tr>
<td>Fund Balance (Deficit) Before Subsidy</td>
<td></td>
<td>(11,465,786)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Institutional Funds Subsidy</td>
<td>2,012,595</td>
<td>2,640,736</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ending Fund Balance (Deficit)</td>
<td>$ (8,591,573)</td>
<td>(8,825,050)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash (Overdraft)</td>
<td>$ (4,342,187)</td>
<td>(3,848,945)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans Outstanding</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due General Fund (note 3)</td>
<td>(4,500,000)</td>
<td>(8,000,000)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash (Overdraft) – Net of Borrowed Funds</td>
<td>$ (8,842,187)</td>
<td>(11,848,945)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Unedited - Prepared for Management Purposes Only
Oregon State University Intercollegiate Athletics
Notes to Financial Statement
Fiscal Year-to-Date December 31, 2002 and 2001

1. **Basis of Presentation**
   The statement includes only the operations of OSU Intercollegiate Athletics. This statement is for internal use only; it is not purported to be presented in accordance with generally accepted accounting principles.

2. **Material Variances from Prior Year Amounts**
   Variances in the operating results through December 31, 2002, from the operating results through December 31, 2001, that were in excess of $0.5 million were identified for further analysis. The amount reported for Operating revenues varied from the prior year results by over $0.5 million and the explanation provided by OSU Management is summarized below for this variance:

   - **Operating Revenues**
     Operating revenues through December 31, 2002, were $.8 million higher than the prior year amount for the same time period. Current year revenues were higher in football due to having seven home games in 2002 compared to five in 2001 and increased prices for the University of Oregon game.

   - **Operating Expenses**
     Operating expenses through December 31, 2002, were $1.0 million higher than the prior year amount for the same time period. Current year expenses were higher by $.4 million relating to depreciation which was not recorded in the prior year, $.4 million relating to the Insight Bowl, and increases in compensation and other expenses.

3. **Loans Outstanding Due General Fund**
   As of December 31, 2002, OSU had advanced a total of $4.5 million from its E & G funds to cover Athletics’ cash shortages. The advances are treated as interest bearing loans and are to be paid back on or before June 30, 2003. Interest is being charged at the Oregon State Treasury rate for S8 Bank overdrafts.

   Unaudited - Prepared for Management Purposes Only

**COMMITTEE ACTION:**
It was moved by Director Imeson and seconded by Director Young that the Committee approve the staff recommendation. Those voting in favor: Directors Imeson, Richmond, Young, and VanLuvanee. Those voting no: none.
5. **REPORT ITEM**
   a. **Report on the History and Current Status of Fee Remissions**

**DOCKET ITEM:**

**Summary**

Fee remissions have been part of the financial aid structure of the Oregon University System (OUS) for several decades. Fee remissions are financial incentives provided to students through discounting the tuition and fees participating students pay. Due to a statute prohibiting the institutions of OUS from using state appropriation for financial aid, fee remissions have always been underwritten by tuition income from the student body at large.

Fee remissions are provided in two broad categories: Graduate assistant fee remissions and programmatic fee remissions.

The Graduate Assistants are integral to the instructional and research faculty resources for several OUS institutions. Graduate Assistant fee remissions are a form of compensation for these students who support teaching and research efforts while they are working on their graduate degree programs.

The programmatic fee remissions have varied target student populations, but all with the same overriding goal: to provide financial aid to students meeting certain criteria as incentive to encourage them to enroll. A number of programs require requalification annually, while other are offered with the intent they be awarded for a given number of years.

Historically, total fee remissions have represented between 14 percent and 15 percent of total tuition Systemwide. This ratio varies by institution. In 2001-02, a total of $41.2 million of fee remissions was awarded: $17.3 million to graduate assistants and $23.9 million to programmatic fee remission awards.

In 2001-02, over 15,200 students were provided financial assistance through the various fee remission programs. Of this number, 3,100 were graduate assistants and 12,100 were programmatic fee remission recipients.

**Background**

The OUS’s Fee Remission program is similar to many programs offered across the country. Fee remissions are supported by tuition income and are also referred to as fee waivers or tuition discounts at other public and private colleges and universities. The objective of the fee remission is to provide a student sufficient financial incentive and support to enroll in the institution offering the remission. Fee remissions may be offered to undergraduate or graduate students at any point in their enrollment. However, they are primarily used to recruit new students. Remissions offered beyond the first year are part of an overall campus retention strategy.
Fee remissions have been a part of OUS institutional financial aid programs for decades. They are a key element in enrollment management by allowing the institutions flexibility in recruitment efforts to attract the best students; create diversity of student populations; provide need-based support of students to offset previous high tuition rate increases; facilitate various Board initiatives to improve enrollment in specific programs; and provide major support of Graduate Assistantships for teaching and research. Fee remissions function as an integral part of maximizing both enrollment numbers and entering class composition.

As one of the basic forms of financial aid available to institutions, awards are made in the spring of each year for the following fall term. Historically, a significant share of the fee remission programs are awarded as multi-year awards, providing the student continues to meet the program qualifications. Currently, there are thousands of students to which OUS institutions have committed fee remission assistance. Commitments by an institution to a student for fee remission are often for up to five years. Financial aid packages are already being committed to students for 2003-04 on the historical assumption that fee remissions are a secure part of their financial aid programs.

The Graduate Assistant Fee Remission programs are integral to the instructional and research faculty resources for several OUS institutions. These remissions are a form of compensation for these students who support teaching and research efforts while they are working on graduate and post-graduate degrees.

Board approved fee remission programs are codified in the Academic Year Fee Book as OAR 580-040-0040. Oregon Revised Statutes 351.070 (3) (c) prohibits OUS from using the state general fund for student financial aid. For several decades, fee remissions within OUS have been supported by tuition.

In 1999, with implementation of the Resource Allocation Model, the Board Budget and Finance Committee directed the institutions to maintain levels of fee remission allocations of tuition at levels comparable to those of the 1998-99 academic year until further review.

**Summary of Fee Remission Allocation and Participants**

The accompanying tables are historical data of fee remission allocations by major category, by institution, and totals of fee remission program participants. Historically, total fee remissions have represented between 14 percent and 15 percent of total tuition Systemwide. This ratio varies by institution. Of the seven OUS institutions, all offer various programmatic fee remissions; and all but EOU and OIT offer graduate assistant fee remissions.

In 2001-02, over 15,200 students, or about 20 percent of the student body, were provided financial assistance through the various fee remission programs. Of this number, 3,100 were graduate assistants and 12,100 were programmatic fee remission recipients.
OUS Fee Remission Programs
The following fee remission program descriptions are extracted from the 2002-03 Academic Year Fee Book. Fee remissions are funded through institution resources. The policies governing each fee remission program specify the extent to which the mandatory enrollment fees are to be remitted under each program.

1. Oregon University System Educational Diversity Initiative

The Educational Diversity Initiative replaces four other fee remission programs: the Minority Achievement Scholarship Program for First-Time Freshmen, Underrepresented Minorities Achievement Scholarship Program, Portland Teacher Plan, and the Oregon Laurels Program. Students who were admitted in the original programs will continue under those program guidelines. New students admitted effective fall 1998 will come under the policies of the Educational Diversity Initiative. These original four programs were completely phased out and eliminated from the Fee Book by the Board on July 19, 2002.

Criteria: This program is open to all students, resident or nonresident, undergraduate or graduate. Under the guidelines approved by the Board October 17, 1997, each campus may have a program of its own design and may describe the program in the manner it wishes. Similarly, the program may consider different factors in making awards and may offer one or more tuition and fee remission programs as long as it maintains its commitment to diversity. However, the condition of a student’s race may not be a factor. Remissions may be awarded to nonresidents, with the understanding that nonresident recipients will be charged nonresident tuition.

Awards: Rather than a prescribed allocation of funds for educational diversity fee remissions, each institution will be allocated a total amount of tuition it may remit and can allocate those funds as it chooses. Campuses may make partial or full waivers based on need or to expand the number of students who receive at least some support. Awards are not transferable. Students may not take a tuition remission with them if they move to another OUS institution, but will be evaluated based on the receiving school's educational diversity needs.

2. International Cultural Service Program

a. International Fee Remission Program

Criteria: This program is for students who are undergraduate or graduate with foreign student status.

Awards: Awards may vary in amount but cannot exceed the total nonresident undergraduate or graduate Mandatory Enrollment Fees (Tuition, Resource, Building, Incidental, and Health Service Fees). Remission of the Resource, Building, Incidental, and Health Service Fees is at the institution’s option.
b. **Cultural Service Program**  
*Criteria:* This program is for students who are undergraduate or graduate with foreign student status; who are competitively selected on the basis of academically meritorious achievement; and who fulfill community service requirements of the program while receiving the award.

*Awards:* Awards may vary in amount but cannot exceed the total nonresident undergraduate or graduate Mandatory Enrollment Fees (Tuition, Resource, Building, Incidental, and Health Service Fees). Remission of the Resource, Building, Incidental, and Health Service Fees is at the institution’s option.

3. **International Exchanges**

a. **International OUS Exchange Program**  
*Criteria:* This program is for students who are attending Oregon University System institutions as a part of an approved Systemwide exchange program.

*Awards:* Awards may consist of remission of all or some of the Mandatory Enrollment Fees, depending upon the reciprocal agreement under which the student is enrolled.

b. **International Institution Exchange Program**  
*Criteria:* This program is for students who are attending Oregon University System institutions as a part of a Board-approved institution exchange program.

*Awards:* Awards may consist of remission of all or some of the Mandatory Enrollment Fees, depending upon the reciprocal agreement under which the student is enrolled.

4. **Contract and Grant**

a. **Contract and Grant: Academic Year**  
*Criteria:* This provision is for students who participate in specific courses or programs during the academic year funded by grant or contract with an outside agency or firm.

*Awards:* Awards are generally for remission of the Tuition and any applicable Resource Fees only, depending upon agreement with the granting agency.

b. **Contract and Grant: Summer Session**  
*Criteria:* This provision is for students who participate in specific courses or programs during the summer session funded by grant or contract with an outside agency or firm.

*Awards:* Awards are generally for remission of the Tuition and any applicable Resource Fees only, depending upon agreement with the granting agency.
5. **Western Undergraduate Exchange (WUE)**

The fee remission policy for WUE has been replaced by a specific tuition rate. See “Tuition Policies Section I. G" of the Academic Year Fee Book.

6. **OUS Supplemental Tuition Grant**

*Criteria:* Previously named the Tuition Surcharge Waiver, beginning in the 1991-1993 biennium, this program is continued as the OUS Supplemental Tuition Grant. This is a need-based tuition grant available to qualified Oregon resident students.

*Awards:* These Supplemental Tuition Grants may vary at institutional discretion but may not exceed the total Tuition assessed for the regular academic year.

7. **Nonresident Athlete Fee Remission**

*Criteria:* This program is for eligible non-resident athletes. It was approved by the Board July 2001.

*Awards:* Awards are at the institution option. The awards may vary in amount but cannot exceed the total non-resident Undergraduate or Graduate mandatory enrollment fees (Tuition, Resource, Building, Incidental, Health Services, and Energy Surcharge Fees).

8. **Other Remission Programs**

a. **University of Oregon Law School**

*Criteria:* This program is for students enrolled at the University of Oregon Law School who meet the criteria for need relative to the Law Resource Fee.

*Awards:* A fee remission may be granted on the basis of need for the Law School Study Resource Fee. No other fees assessed for the Law School are covered under this provision.

b. **PSU/Washington Merit Fee Remission Program**

*Criteria:* This program is for Washington residents enrolled at PSU who meet the high school grade point average requirements set by PSU. It was approved by the Board July 2001.

*Awards:* Awards are variable (from $4,500 to $6,000 per year) based on high school GPA, to remit against the non-resident tuition rate.

*Summaries by Institution*

See supplementary tables summarizing the annual allocations and enrollment levels of the fee remission programs by institution.
COMMITTEE DISCUSSION:
Dr. Dave McDonald, Director of Enrollment Services for OUS began the discussion by indicating there was an error in the data as reported. The UO had undercounted the number of fee remission students by 3,000. He reminded the Board that fee remissions fall into the categories identified by the Board: affordability, access and participation, and enrollment management.

Fee remissions are a very common national practice and are a tool that has several advantages. First, it is a primary way in which students who are from lower income backgrounds can receive some kind of support to offset the costs of higher tuition. It is also used to enhance campus diversity and, through the WUE international components, we can further attract students into Oregon. Graduate students receive substantial support as well through fee remissions. Within the OUS, remission use differs by campus and that is an indicator that the campuses are using the program to meet their own enrollment goals in a very local context.

Dr. McDonald pointed out that total remissions have stayed between 13.8 and 14.9 percent of the tuition revenue and approximately 60 percent of the funds are used for programmatic support and approximately 40 percent go to graduate assistants.

Director Wustenberg indicated that there was a statement in the background material that indicated that fee remissions are primarily used to recruit new students. “How does this fit with the fact that we’re going to have to limit the enrollment? How does this fit together,” she asked. Mr. McDonald replied that it fit very well. “If we go to a situation with limited enrollment, we still have enrollment management strategies that seek to promote access to low income students or high achieving students or those with diverse backgrounds. We need to remember that for the total number of students who receive fee remissions, 70 percent of them are also recipients of need-based financial aid.”

Director Bassett asked if there were a similar disclosure of fee remissions by the independent college sector in Oregon. Mr. McDonald replied that the independent sector typically guards their financial aid packaging as closely as possible. Continuing, Mr. Bassett offered, “…except as we are able to get a similar disclosure (from the independent college sector) it’s going to be very difficult under these or future budget circumstances to deal with the question of state policy on financial aid.

“Is there any way to know, in reference to affordability, approximately what percentage of the total dollars is involved in that aspect and to what degree are the numbers in this report a subsidy of the state’s failure to invest in the Oregon Opportunity Grant,” Director Bassett asked. Mr. McDonald replied that approximately 10 percent of the overall budget is involved and that the numbers reflect a great subsidy. “If the Opportunity Grant were funded at the 15 percent level of all eligible students, there would still be a substantial need for the remaining 85 percent of the cost that isn’t funded.”
In conclusion, Director Bassett commented that “we’re going to reach a point where we are going to have to discuss the importance of the Oregon Opportunity Grant as if it were one of our priorities and even though it is in, technically, competition in the Appropriation Committee with our budgets, it is so wrapped up in the dynamics of how we’re trying to deal with this budget situation that I think we’re going to have to embrace it as if it were our program almost.”

6. **ADJOURNMENT**
   It was moved by Director Young and seconded by Director Richmond that the meeting be adjourned. Those voting in favor: Directors Imeson, Richmond, Young, and VanLuvanee. Those voting no: none.

   The meeting adjourned at 10:04 a.m.