1. CALL TO ORDER/ROLL CALL

Chair Don Blair called the meeting to order at 7:30 a.m.

The following Committee members answered present:

Henry Lorenzen
John von Schlegell (arrived at 7:45)
Don Blair

The following Board members were also present:

Bridget Burns  Geri Richmond
Kirby Dyess    Gretchen Schuette
Tim Nesbitt   Howard Sohn
Rachel Pilliod

System Office staff present: Chief Operating Officer Jon Yunker, Tom Anderes, and Denise Yunker.

Others: Presidents Dan Bernstine, Philip Conn, Martha Anne Dow, Dave Frohnmayer, Ed Ray, and Elisabeth Zinser.

Meeting attendees also included other institution representatives, members of the System Office staff, interested observers, and members of the press.

2. APPROVAL OF MINUTES
   - FBAPRE Committee Meeting, April 2, 2004

Director Lorenzen moved approval of the minutes as presented. Those voting in favor: Directors Lorenzen, von Schlegell, and Blair. Those voting no: none.

3. CONSENT ITEM
   a. OSU, College Inn Lease

DOCKET ITEM:
Summary:
Oregon State University (OSU) sought Board approval to authorize the Senior Vice Chancellor for Finance and Administration, or designee, to enter into a legal agreement with College Housing Northwest – Corvallis LLC (CHNWC), in partnership with Lorig Associates, LLC, to develop, finance, construct, and operate The College Inn student housing complex which will feature 231 apartment units (242 beds). The College Inn facility will be leased to College Housing Northwest, LLC, and will be operated and managed in accordance with OSU standards.

Board approval is being sought to modify the 2003-2005 Legislative Capital Budget, eliminating OSU’s capital project for The College Inn, with its corresponding approved limitation of $1 million Article XI-F(1) bonds and $11 million Other Funds.

Staff Report to the Board:

Background
In 1967, a private company built The College Inn, designed to meet the housing needs of upper-class students at OSU. The building is a concrete slab structure, with approximately 120,000 square feet on seven floors. During its operation, it provided residence hall style dining on the first floor, and a variety of rooms arranged in semi-private suites: single, double, and triple rooms, each with a shared bathroom. The residence hall was purchased by OSU in 1975, and was managed by a private company from 1975 to August 2001. From August 2001 until its closure in September 2002, OSU University Housing and Dining Services managed and operated the housing facility within its housing operations. It was closed in September 2002 due to a deteriorating infrastructure.

Replacement of the College Inn Residence Hall had been anticipated, with The College Inn project listed in the 2003-05 Legislative Capital Budget with approval for $1 million Article XI-F(1) bonds and $11 Other Funds legislative limitation. It is included in OSU housing plans, with feasibility studies designed to determine the best course for reopening the facility. As a result, OSU issued a Request for Proposal to establish the feasibility of renovating the College Inn or demolishing and replacing with quality student accommodations.

Preliminary schematic design work is currently underway. If approved by the Board in May of 2004, the project should be completed and open for fall term 2006.

Analysis Factors
OSU has diligently worked to reopen the facility by analyzing alternate choices to renovate the existing building, tear down and replace it with a new housing structure, or enter into an agreement to allow a private entity to renovate and operate the facility.

Market – Studio apartments are not available in the OSU vicinity and will be desirable and competitive within the market. Studio apartments work well with a conferencing program, satisfying a niche not currently filled at OSU for adult conference facilities.
Projected student demand calls for studio apartments versus group bedroom unit facilities. It is also important to retain the ability to market the studios to faculty members and the general public if occupancy is low.

*Construction/Design* – It was determined that there is value in retaining the existing structure and infrastructure (such as HVAC), as it would be cost prohibitive to build a concrete building with affordable rents. OSU will be able to provide more amenities in the renovation, as the current space allows for larger public spaces, study spaces, living room/lounge spaces, and a possible coffee café. By leasing to a private entity, the renovation is more likely to have higher end finishes, with the potential for something unique, such as high window and ceiling heights and exterior window treatments throughout.

*Finance* – The conference and studio apartment revenue mix provides a more stable financing plan. Rents will be more affordable for the OSU student, also affording more privacy. There is also less risk of contaminated soils.

*Presentation of Need*
OSU is committed to retaining student housing for approximately 242 students at this site. The University believes that significant demand for student housing exists in this location given a quality renovation and competitive rates, and the studio apartment niche that its reconfiguration and operation would address.

OSU has sought and identified alternative methods of completing this project in order for the University to use its bonding authority to continue its aggressive residential renovation projects in the interior of campus. The proposed arrangement provides a financing plan with no initial capital outlay or ongoing financial subsidy by the University required, and which complies with applicable Oregon law and OUS and OSU rules, guidelines, and policies.

The absence of this residence would result in over 200 OSU students without housing forced to look outside in the Corvallis area. The majority of these students would be upper-class and graduate students, a population currently not well served with suitable housing choices on campus. In the case of graduate students, in particular, not having such housing readily available would result in losing a portion of these students to other universities. Conversations with City and County officials and residents has evidenced concern that these students might either overburden the affordable housing market within the city, and/or be forced to choose expensive (or alternatively, substandard) housing.

Surveys and feedback at OSU and nationwide (including an extensive survey of OSU students conducted in 2003) indicate a preference for housing types that vary from the traditional double room, “dormitory” style facilities prevalent at OSU. The redesign of this student residence allows greater privacy for individual students, while providing a safe, convenient, community living environment.
The existing student residence is convenient to University facilities and services. With the renovation of this residence, there would be a total of approximately 4,000 students residing in University housing.

**Facility Information**
The facility will be maintained and operated by College Housing Northwest - Corvallis LLC (CHNWC), in partnership with Lorig Associates, LLC. The facility will be primarily configured as studio style apartments with kitchenettes, located on an approximate 2.3 acre site, includes two parking lots, within the campus master plan. In this general vicinity (Kings and Monroe, in Corvallis), there currently are OSU academic buildings, commercial buildings along Monroe Street, and private residences on and around Kings Avenue. The College Inn is also within a relatively short walk of the east side OSU residential complex and McNary dining center, and the OSU administration building which contains many student services offices. A meal plan will not be required, although College Inn residents would be welcome to take their meals on a cash or debit basis in any of the OSU dining facilities, and could choose to purchase a meal plan if they wish.

As part of the OSU campus master plan, the renovated facility will include the following:

- Adequate parking to meet current code requirements
- Community center, offices, recreation, and group study areas
- On-site laundry facilities
- Outdoor recreation area and green space
- Basic apartment furnishings, such as a bed w/mattress, dresser, desk with chair, dining table with chairs, and other various seating
- Kitchenettes will include such items as cook-tops, refrigerators, microwaves, and garbage disposals
- Data, telephone, and TV cable connections in each bedroom
- Accommodations for live in staff and a faculty in residence
- OSU Housing standard program, activity, and staff training

**Terms of Proposed Transactions**
The facility will be funded with tax-exempt revenue bonds issued through the Tenant (CHNWC) in conjunction with their selected underwriter. The tax-exempt bonds will cover the costs of renovations. The tax-exempt bonds issued will have a 30-year term in order to keep tenant rents to a minimum.

The bond proceeds will be managed by CHNWC, an Oregon limited liability corporation. CHNWC, who will enter into a development agreement with Lorig Associates, LLC, a real estate development company. Lorig Associates, LLC will renovate the building according to agreed construction documents, with required performance bonds. The agreement will also require that the project be developed in compliance with the public works statutes.

CHNWC, or its designee, will enter into rental contracts with OSU students and retail lease agreements with first floor retail tenants. Student housing rents are currently
estimated to be in the $550-$590 per month range, and cost saving value engineering and other efforts are underway to reduce these rents to provide the most affordable housing possible. Rent payments will be paid to CHNWC and will be deposited as required to 1) pay debt service on the bonds and 2) establish a reserve for operating expenses for the facility.

Subject to Board approval, OSU will enter into a cooperative agreement with CHNWC. Pursuant to this agreement, they will operate the building in accordance with OSU standards and requirements, throughout the 35-year term of the agreement following completion of the project. The building will be operated by CHNWC, although, with OSU approval, management may be subcontracted out either to a private party or back to OSU.

Project revenues remaining after payment of operating expenses, debt service, and management fees will be split as follows: 85 percent OSU, 15 percent CHNWC. OSU will have no legal liability for any project debt service payments, operating expenses, or other project costs. In effect, the terms of the agreements make the facility available for OSU's benefit in an “off-balance sheet” mode. CHNWC assumes all responsibility for project expenses and debt service and with no recourse against OSU or the State of Oregon.

Assistant Attorneys General with the Department of Justice have worked with OSU and the Chancellor’s Office staff, ensuring that all terms and conditions outlined above are legally sufficient and are in compliance with applicable State and OUS regulations and procedures.

Staff Recommendation to the Board:
Staff recommended that the Board approve Oregon 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 Senior Vice Chancellor for Finance and Administration:

- Enter into a Ground Lease with College Housing Northwest - Corvallis, LLC, for a term of 35 years for the existing College Inn property, located at 155 NW Kings Blvd., Corvallis, Oregon.

- Enter into legal agreements with College Housing Northwest - Corvallis, LLC, to develop, finance, market, operate, and maintain the project during the term of the ground lease.

Staff recommended that the Board approve eliminating the OSU College Inn capital project from the 2003-2005 Legislative Capital Budget, with its corresponding approved limitation of $1 million F-bonds and $11 million Other Funds.
BOARD DISCUSSION AND ACTION:
Director Blair indicated that he had several questions related to the item that would provide him with a better understanding of the College Housing Northwest – Corvallis organization. “What I’m focused on is, having read the parameters of the College Inn proposal, is it consistent with the arrangements that it has with their other properties in terms of management fees, profit sharing, and other economic arrangements,” he asked.

Mr. Mark McCambridge, Vice President for Finance and Administration, OSU, responded that he had not had an opportunity to do any research since the question was posed the day before. However, he had a conversation with Dr. Jay Kenton from PSU which is entering into a similar arrangement. “We are actually entering into a four-to-five percent better relationship than they have at this point in time,” Mr. McCambridge reported. “Our fair management fee is set at five percent and Dr. Kenton suggested that their arrangement at the present time starts at 10 percent and is a sliding scale.”

For the benefit of the Board members, Mr. McCambridge explained that the organization is a 501 C 3 non-profit entity that has been in business for a number of years. Their sole business is managing college housing and Gary Medaugh, the principal of the firm, has been with the organization since 1988.

Continuing, Chair Blair asked what happens to any profits or excess the College Housing Northwest earns on any one property. It was explained that OSU understands that the majority of what is recognized as profit, both the management fee and in the case where there is excess revenue, is actually required to operate the central activities. “What was suggested by the OSU housing people was the belief that if, in fact, the entity were to surpass its own budget, that excess of funds are then translated into programmatic activities for their properties in the following year,” Mr. McCambridge continued.

Chair Blair asked a hypothetical question: the implication of shortening the lease term and the bond amortization would be to raise the rents for student. “Is that correct?” The response was, it would be.

Director Lorenzen asked for clarification of the language that states, “. . .the staff recommends approval eliminating OSU college and capital project. . . and my question is: with this phrase, what is the meaning of ‘eliminating its corresponding approved limitation of $1 million Article XI-F Bonds and $11 million Other Funds?’”

Senior Vice Chancellor Anderes responded that at the present time the College Inn is a capital project. “The University originally was going to go through the process of renovating, upgrading, and operating the facility itself, not leasing it. They conducted a study and made the decision that it would be better to lease and, in this particular case, because it is an approved project, we have to go back to the E-Board to indicate that we are changing the status.”
Another question related to the agreement being a non-recourse debt against OSU and what stands as security for the debt. Mr. McCambridge responded that it's a revenue bond.

Director Nesbitt said there was reference to the project “being developed in compliance with the public works statutes. Does that meet prevailing wage requirements?” The response was that it did. Continuing, Director Nesbitt asked if the employees or staff of the residence would be employees of the University and Mr. McCambridge responded that they would be employees of a non-profit entity and would be paid and receive the benefits that the non-profit entity provides. “This entity provides services to a number of facilities, including on our Bend campus,” Mr. McCambridge continued, “and supports activities at PSU. My understanding is that they support around 2,200 or 2,300 residence spaces in total for their organization.”

It was further explained that there was a competitive process and there were eight organizations or combinations of organizations that submitted proposals.

Director Lorenzen moved approval of the consent item. Those voting in favor: Directors Lorenzen, von Schlegell, and Blair. Those voting no: none.

4. Report Items


Docket Item:

The Board reviews university Capital Construction projects on a biennial basis and forwards a request to the Governor for his consideration. The Governor reviews requests statewide and submits a request to the legislature based on his priorities and an assessment of available funding. Legislative approval of capital projects provides the university the authority to initiate projects, with timing dependent on available resources.

Process:
The Chancellor’s Office has established a process to review all capital projects and provides to the Board an inventory of all projects by university, by university priority, by fund source, and Systemwide priority. Each university will present a summary of requested projects with an emphasis on tax-supported projects or those funded by General Fund, Article XI-G Bonds, and Lottery Bonds. The Chancellor’s Office will present a summary of Systemwide priorities along with funding implications in June.

The determination of Systemwide priorities will be built on a number of criteria. Universities have developed requests based on master plans that are intermittently updated to reflect evolving enrollment management planning, program expansion, facility modernization requirements, and other student instructional and community demands. Generally, the number of projects sought in support of student/auxiliary programs such as residence halls, athletic facilities, dining facilities, bookstores, etc.,
greatly outnumber tax-supported facilities, which are dedicated to instructional and academic support programs. The focus will be greatest on tax-supported projects.

**Funding: Sources and Capacity**
The 2003-2005 Legislatively Adopted Capital Budget Request consisted of $44 million in approved tax supported bonds and approximately ten times that amount ($402 million) in authority for projects through student fees, donations, and gifts. A funding strategy for 2005-2007 based on projected state capacity and potential non-state resources will be discussed following campus presentations in June. Implications of the funding requests on state and university debt will be outlined.

**System Evaluation and Establishing Priorities**
The System will present at the June Board meeting, a list of projects prioritized across the System. As stated earlier, the list will focus on tax-supported projects. A set of criteria has been developed that will “measure” the relative merits of each. The following criteria represent the lens through which projects are viewed. Universities will be increasingly successful in competing for funding if they:

1) Address access/growth demand (more, faster)  
2) Enhance program quality (better)  
3) Support state/community priorities (better)  
4) Increase energy efficiency, enhance sustainability (better)  
5) Connect with community colleges (more, better, faster)  
6) Reduce deferred maintenance backlog (better)

The Board will receive recommendations that address deferred maintenance backlogs (over $500 million) as a key priority in the overall request. It has become increasingly clear that modernizing existing facilities is imperative to maintain instructional and research quality and capacity.

**BOARD DISCUSSION**
Director Blair began the discussion by reminding the Committee that “one of the most important parts of what we do as a Board is to help set up the budget for the next biennium, and a large piece of that is the capital budget. It doesn’t surprise anybody to know that we live in a world of very scarce resources. Therefore, one of the things that’s going to be very important for us to do is prioritize the projects and make sure that we are investing resources in the things that drive the governor’s agenda and the agenda of the Board. So, we’ve asked the universities to talk about their capital projects, but with a context of focusing on the Board’s agenda and making sure that they are prioritizing those projects that are most important to get those accomplished. So, we’re actually going to do this over the course of the next two meetings, and we’re going to spend quite a bit of time on it.”

Senior Vice Chancellor Anderes introduced the presentations, indicating that the real focus was on the biennial request. “As a subset of that, the real focus is on the state supported funding, the General Fund, and what are called the XI-G bonds. This funding is supported through the state. It is important to realize that the vast majority of projects
are funded through funds other than the state. Director Blair was talking about prioritization of projects. Each of the campuses was given a set of guidelines, a way of looking and setting priorities. They are looking at access, quality, deferred maintenance issues, K-12/community college connections, and other state priorities that we can connect into, such as energy efficiency and sustainability. To give you a sense of magnitude, right now we have about $910 million in terms of projects at the campuses. And that doesn't include anything as far as our potential separate deferred maintenance request. Over the next two meetings, the focus will be on about $190 million in state supported bonding and General Fund projects. After the presentations are completed there will be a summary with all of the projects prioritized.

“At the July meeting, we’ll be at the point at which the projects are approved. You will see at that point over $1 billion, when we include deferred maintenance components. So, it’s a big request, some significant needs and, hopefully, as you have questions over the next couple of meetings we can really be able to focus on those and be able to have them all answered by the time the request will be finalized in July.”

Western Oregon University

President Conn introduced the presentation from Western Oregon University by indicating that “our most crying need for a building on campus at the moment is a building to house our business programs. Currently the business programs are in an 80-year old house.” Continuing, he pointed out that the classrooms are located in the Oregon Military Academy in leased space.

Mr. Darin Silbernagel, Vice President for Finance and Administration, further explained the project and added that, in addition to the building being old, it is not handicap accessible. There are two divisions involved in the project: business and economics and the mathematics department. The math department is likewise currently housed in a former three-story residence built in 1926 and has no handicap access; and, the computer science program is housed in the instructional technology center, which was previously an elementary school.

Mr. Silbernagel highlighted that the new building would provide total access; would have the most up-to-date technology to improve quality; and would allow for instruction and individualized training to occur without any wasted motion (to address the more, better, faster test). With the construction of the building, WOU will institute its first testing grounds for a cooperative program between Western and the community colleges of the region, including the opportunities for them to hold classes on the campus.

Cost savings will be realized through the elimination of some deferred maintenance and energy savings. Chair Blair asked what the cost of deferred maintenance would be to repair the existing buildings. Mr. Silbernagel replied that at least a half million on each of the buildings. “In terms of the Arnold Arms building (where the math department is housed), at some point, we will have to think about tearing it down.” It is estimated,
budget-to-budget, that the cost savings for energy would be approximately $10,000 per year.

In response to a question regarding the availability of space in the Oregon Military Academy building, it was explained that WOU has a 30-year lease that would end in five to seven years. President Conn reminded the Committee that WOU owns the building and that the lease refers to an understanding, an arrangement whereby WOU gave the Oregon Military Academy the land, with the understanding that WOU would have some use of the building over a 30-year period.

Southern Oregon University

President Zinser began her discussion with a brief snapshot of projects currently underway: Hannon Library and Learning Center (due to be completed in February 2005); Madrone Student Housing (due for completion in September 2005); and Stevenson Union major remodel (schedule to be completed September 2005).

For the coming biennium, SOU has three high priority projects. One is the instructional facility in Medford, which is important because it would be designed and developed in harmony with Rogue Community College, Riverside campus. “We hope that, with funding authorization by June 2005,” President Zinser explained, “the design could be completed by April 2006 and construction completed by August 2007. We anticipate the annual operating budget afterward would be about $150,000.”

Director von Schlegell asked who handles things like security, janitorial, and so forth in a cooperative venture. President Zinser responded that was part of the agreement in terms of joint responsibility for the facility. In addition to Rogue Community College, the Medford Downtown Renewal Authority and the City of Medford are working cooperatively in the design and development of the facility. The primary purpose for the building is to catch up on enrollment growth and to enable increased cooperation between the two educational entities.

“Finally,” President Zinser underscored, “OHSU’s new nursing curriculum will be a part of the use of the complex as well.”

Chair Blair asked for clarification regarding the operating costs of $150,000, wondering if “that’s the additional cost you expect from this building, netting out the lease cost saved and the energy savings, and so forth.” SOU vice president Bolstad indicated those were rather soft numbers and they would change once the building was farther along.” It was agreed that, at the least, the project would break-even on costs.

President Zinser described the science facility as needed to “catch up with SOU’s advancements in the sciences and its capacity to serve regional development. “ SOU is beginning to attract excellent faculty, are being successful in acquiring research funds from sources such as the National Science Foundation and Murdock. However, these faculty and grants are “housed in some very antiquated and crowded environments,” the
president explained. A considerable amount of undergraduate research is occurring and the need for a new building is critical.

Chair Blair asked for an explanation of the matching requirements of the projects being described. Senior Vice Chancellor Anderes explained that “there should be a dollar-for-dollar matching requirement for an Education and General building. So, if the building is $50 million, $25 million would come from General Fund or Lottery bonds and $25 million from another source.” Dr. Anderes underscored that Lottery bonds can be used as part of the match. Chair Blair asked if this funding model were embedded in statute or policy. Anderes indicated it would require a statutory change and it is unlikely that there would be such a change.

“We’ve actually talked about the match in the flexibility initiatives where we were looking for a 3-to-1 match. There could be other ways that we could look at this in terms of use of the facilities and other entities that might want to use the facility and perhaps could subcontract or lease part of it. But the one-to-one, unless you can get a substantial portion of that out of Lottery bonds, or just flat out General Fund versus the Article XI-G bonds, it is pretty tough.”

With the SOU science proposal, there was an initial $4 million specified in the first biennium. It was explained that this was for planning purposes. Vice President Bolstad explained that, “SOU’s experience has been that approximately 20 percent of the total project budget would be spent on planning the design work with architectural and engineering consultants. So this would take us, working with those consultants, from conceptual design through design development and prepare us for the full construction project in the 2007-2009 biennium.” In answer to questions about how far into the project the $4 million would get SOU, Mr. Bolstad explained that, with that level of planning money, it would get them to, if not all the way through, working drawings ready for bid on the project.

On the operating side, Mr. Bolstad indicated that, based on very gross calculations, there would be $552,000 in net traditional operating and maintenance costs savings.

In response to further questions regarding the matching funds, Senior Vice Chancellor Anderes indicated that lottery bonds and private gifts would count as part of a match. “What happens is, if you get an allocation on a $40 million building and you get $10 million in General Fund, and you’ve got that sitting there, you then have $30 million from which you are looking at a one-to-one match, or $15 million from Article XI-G bonds and $15 million from something else, which would be gifts, grants, and/or Lottery bonds. So, you take the General Fund off the top of the project and then determine the bonding after that.” President Zinser pointed out how difficult it was for small institutions to raise sufficient funds to cover the match that is required.

Finally, SOU is proposing a theatre arts building addition. “We would be focusing on a fundraising campaign to include private fundraising that we feel is possible for the $4.2 million cost of this project. The project would propel the theatre program to a level
that is consonant with the area’s strength in theatre and allow SOU to not only serve the growing enrollments, but do so with much higher quality and be able to take the appropriate position that our program should have in the state and national perspectives around theatre education.”

President Zinser explained that they are in the quiet phase of a local/regional private fundraising effort. “What we want to do is put our focus for state funds on the science project because that is so overwhelming in size and scope that we know that we could not do that at anything close to what we could do in theatre.”

Chair Blair asked if President Zinser thought there was any way they could raise the full cost of the theatre project. She responded that had been her hope and if they can, they will, but she is not certain they are in a position to be able to do it.

Portland State University

Portland State University’s capital construction plan is tied to the University District Plan that had been approved by the City approximately ten years ago. The District Plan guides the development of construction projects and seeks to increase the number of businesses in the central city, incorporates housing in the neighborhood, expands public transit, and supports open and green spaces. “All of these are strategies for downtown living, which is really central to Portland’s claim as the nation’s most livable city,” President Bernstine explained. “The projects will help the University meet the goals of expanding access, serving more students better and faster, and also improving academic excellence while contributing to the economic development of the region and of Oregon.”

It was pointed out that, with respect to access, as PSU continues to meet the enrollment demand for the region, if resources are available, they will be serving about 35,000 students by 2012. It will be necessary to have the classrooms, research laboratories, and offices, and sufficient housing for students who want an on-campus experience.

Second, a key strategy for PSU is responding to the Board’s challenge to serve more students better, faster, and to meet state/community priorities. “In order to do that, we are looking to further our partnerships with the community colleges and that also requires new facilities, possibly in locations that are linked to the community transportation and work hub outside the central city,” President Bernstine highlighted.

“With respect to building greater program excellence and supporting economic development, our plans are tied to the economy of the region and are heavily dependent upon investments in engineering, science, and technology,” he added. “Finally, our projects incorporate the principles of sustainability. As we move forward, we’ll be focusing on 1) developing strong partnerships with the community colleges and OHSU, and 2) building a neighborhood that’s inviting to the growing Portland metropolitan demographic group, which is primarily individuals in their mid-20s and 30s who are looking for a vibrant place to live.”
Vice President for Finance and Administration, Jay Kenton, explained that he had 14 projects to highlight.

The first General Fund project presented is a community college partnership scenario involving Clackamas, Mt. Hood, Portland, and Chemeketa Community Colleges. “We believe, if we can get an authorization of Article XI-G bonds, we could come up with a local match from community colleges, either through property tax levies, tax increment financing by local or county development agencies, or other funds,” Dr. Kenton pointed out. The hope is that an Education Center could be situated on light-rail lines that will serve the growing population and provide greater access. This is a conceptual project for which PSU is asking a $30 million authorization—$15 million of Article XI-G bonds to be matched by $15 million of local property tax funding.

Chair Blair asked if this were a conceptual placeholder and Dr. Kenton said they potentially have specific projects in mind, adding that this would be a substantial building project.

The second project on the PSU list is another General Fund request of $3 million authorization with $1.5 million of Article XI-G bonds to be matched by grants and donations. This would be used to move a hazardous waste treatment kiln and foundry out of Neuberger Hall, a major classroom building, to PSU’s West Heating Plant, a more remote site.

The third project described was a science laboratory renovation. With the movement of engineers out of their present location, it would free up laboratories to serve the growing needs for sciences at PSU. “Those labs were built in the 1960s and many of them were designed to be engineering labs and will require a certain amount of renovation to convert into wet-labs for science use with a few hoods and the like,” Dr. Kenton pointed out. This is a $2.5 million request in Article XI-G funds with donations and federal and local funds.

The fourth project was another Education and General request to acquire land for a future classroom building. PSU preferred not to identify the location at this time. Director Lorenzen asked why PSU doesn’t make more aggressive use of the eminent domain in acquiring land. Dr. Kenton reminded the Board that they had with the acquisition of the DoubleTree property.

President Bernstine pointed out that the Board did not have much history of eminent domain. Dr. Kenton added that one reason PSU has not used this strategy is that community relationships are important and “when you take property from people, it leaves a lot of animosity. I don’t know what the Board’s appetite is for entering into these types of relationships.”

Director Lorenzen indicated that he thought “this is something that we should examine. And it very well may be that there are considerations against using that power, but there
also may very well be certain circumstances when it is appropriate. It may be something that we need to visit on a more formal basis."

As background information, Dr. Kenton reminded the Board that blocks of ground in the PSU neighborhood sell between $4 and $6 million, with no improvement. So, it is fairly expensive property and that forces vertical development (i.e., high-rise development) just to spread it over a larger development area.

The next projects Dr. Kenton presented were for use of Auxiliary or Other Funds. No General Fund supported bonds are to be requested for these projects. One is acquiring the City Tower at 1900 4th Avenue. It is adjacent to the new engineering building and is part of a major subterranean and massive structure. “We bought out the development company. However, they held the air rights above the structure. They built the City Tower, the 1900 4th Avenue building, in those air rights above that parking garage. They then gifted the air rights back to us for the area where we’re going to build the engineering building. In our discussions with the City, they would just let us assume their outstanding indebtedness of $24.6 million on the building, take it over, and sign leases to lease back 100,000 square feet at $25 per square foot rents. That alone would pay the debt service on the building,” Dr. Kenton explained.

Another project discussed is part of creating a vibrant, very “trendy” district that attracts highly educated people – predominantly younger folks that are going to drive the economy into the future. “We’ve been talking to a restaurant that is interested in coming on campus and they want a 75,000 square foot location. This would not necessarily come through the capital budget, but we would come back to you and ask you to approve those leases at the time they are executed.”

Dr. Kenton provided information on performance contracts for the heating plant. PSU has been working with a performance contractor that has assured them, if they can arrange the financing, they can bring state-of-the-art equipment to the campus for a heating plant. PSU would have a 15-year payback period. The savings in energy costs guaranteed by the contractor would be about $450,000 per year.

PSU would like to exercise a purchase option to house the Portland Business Accelerator. In conjunction with Portland Development Commission, OHSU, and others, PSU would operate a business accelerator to assist start-up companies and create sustainable, high wage jobs. PSU would be requesting authorization for $8.5 million in Article XI-F bonds to purchase and renovate the facility. “We would like to bond it over a 30-year amortization to keep the rents low. These are start-up companies that are funded by ‘angel’ and other venture capital providers and cost obviously is a major factor.”

Director von Schlegell asked if it were possible to include OHSU in the project. Dr. Kenton indicated that they have actually combined efforts with OHSU. “I think OHSU’s incubator will focus predominantly on these wet-lab and medical/science
companies. This facility, we think, can be used long-term for both the higher tech and other needs.”

Dr. Kenton indicated that in 1994, PSU approached the City and asked them to designate a 52-block area as the University District. “We’re actually studying an extension that would more than double that and would actually go down and touch the North Macadam area. We have thoughts about creating a research park in conjunction with OHSU. If you think about it, you can create a research triangle of sorts with PSU, OHSU, and North Macadam at the apex of that triangle.”

Continuing, Dr. Kenton indicated the PCAT building. PSU is working with the Portland Development Commission to redevelop it as a mixed-use development around the area just to the south of the Urban Center. “We talked to the USGS and they have a number of water-quality Ph.D. scientists that would like to move onto the PSU campus. We’re into lease negotiations with GSA and others and there would be 60-80,000 square feet of academic space for PSU as well as parking.”

Another item is retail development – a placeholder that PSU would like to put in the capital budget. The seventh priority is for a mixed-use residential facility. “When the Board approved the DoubleTree acquisition, we were actually buying a development site and this is the first of those re-development options that would build a major high-rise tower with underground parking, first floor retail activities, academic space, and student residence halls. PSU would require $60 million of Article XI-F(1) bonds.

The eighth project presented was a new parking facility. Parking is always a challenge and PSU is simply in short supply in this area.

Ms. Christy Harper, ASPSU Student Body president, indicated that the number one priority now for the student building fee is the renovation of Smith Memorial Student Union. The second priority is for a new student recreation center. “This recreation facility is something that has been needed for some time,” she observed, “and the current facility is shared with physical education, student recreation, and the department of athletics. We are definitely in need of a new building.”

Ms. Harper explained that currently, student fees already support parts of the operations in the current facility, so the new center would be an extension of that. When asked if something would have to be taken down to provide space, Ms. Harper indicated that there would be one house that would be moved and another that has already been condemned. “But currently, that is the only thing on the site. It is $30 million in student recreation and retail and another $12 million for student housing on top of it.”

Chair Blair indicated that it would be helpful at some point to get a sense of the enrollment growth in the academic disciplines and a sense of the additional space that the projects presented would free up.
Director von Schlegell indicated that he would be interested in more information about the possible research triangle. “I think that is intriguing and something that the Board might want to do.”

Director Nesbitt said he assumed that the Article XI-F(1) bonds were revenue bonds. “Are there any other formulas that we should understand about what is required for our approval of those? Upper limits? And what kinds of sources of revenue can be bonded with those?”

Senior Vice Chancellor Anderes responded that each campus would be establishing their own threshold based on student building fees and other funds.

For PSU, Dr. Kenton indicated that, “number one is they are general obligation bonds. The state doesn’t have revenue bonds, but Article XI-F(1) bonds are general obligation bonds that function like a revenue bond in that the state looks to make sure that you have a revenue stream that would retire the debt.”

Continuing, he said he would “encourage the Board to pay attention to debt burden ratios with each campus. What percentage of operating expenses is dedicated to debt service? At PSU today, that is 2.9 percent—most investment bankers will tell you that you’re low if you’re below five percent; that you’re in the middle if you’re between five and 15 percent; and you’re high if you’re over 15 percent. Those are some things that obviously you need to look at because the institution is liable to pay the debt service and operating costs on facilities for the life of the facility.”

**b. Impacts of Measure 30 Reductions**

**DOCKET ITEM:**

House Bill (HB) 5077, Section 89, passed by the 2003 Legislature, provides that, in the event the tax surcharge as referred to the voters in Measure 30 fails at the polls, the OUS 2003-2005 Biennial General Fund appropriation will be reduced by $7,515,480.

Subsequent to the failure of Measure 30 in February, 2004, the decision was made to spread the disappropriation across the campuses and the Chancellor’s Office, and it was agreed that each campus’ share of the campus reductions would be calculated proportionately on the basis of state general fund Education and General (E&G) appropriations for the biennium.

In addition, several possibilities were considered relative to the proportion of the reduction to be applied to the campuses and the proportion to be applied to the Chancellor’s Office. For purposes of discussion, the basis used for the following assessment of reduction impacts by the campuses assumes that $6,500,000 comes from campus general fund allocations and the balance of $1,015,480 from the Chancellor’s Office.
Allocation of Measure 30 Reductions by Campus

<table>
<thead>
<tr>
<th>Campus</th>
<th>Total 2003-2005 Campus State General Fund E&amp;G Allocation</th>
<th>Percent of Total</th>
<th>Campus Share of Measure 30 Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastern Oregon University</td>
<td>$ 25,014,037</td>
<td>5%</td>
<td>$ 315,672</td>
</tr>
<tr>
<td>Oregon Institute of Technology</td>
<td>29,967,620</td>
<td>6%</td>
<td>378,186</td>
</tr>
<tr>
<td>Oregon State University</td>
<td>159,079,113</td>
<td>31%</td>
<td>2,007,548</td>
</tr>
<tr>
<td>Oregon State University - Cascades</td>
<td>6,681,853</td>
<td>1%</td>
<td>84,324</td>
</tr>
<tr>
<td>Portland State University</td>
<td>114,588,191</td>
<td>22%</td>
<td>1,446,081</td>
</tr>
<tr>
<td>Southern Oregon University</td>
<td>29,124,509</td>
<td>6%</td>
<td>367,546</td>
</tr>
<tr>
<td>University of Oregon</td>
<td>121,091,153</td>
<td>24%</td>
<td>1,528,147</td>
</tr>
<tr>
<td>Western Oregon University</td>
<td>29,516,715</td>
<td>6%</td>
<td>372,495</td>
</tr>
<tr>
<td>Campus Total</td>
<td>515,063,191</td>
<td>100%</td>
<td>6,500,000</td>
</tr>
<tr>
<td>Chancellor's Office/OCECS</td>
<td>---</td>
<td>---</td>
<td>1,015,480</td>
</tr>
<tr>
<td>Total</td>
<td>---</td>
<td>---</td>
<td>$7,515,480</td>
</tr>
</tbody>
</table>

The following information on the impacts of the reductions was prepared by the campuses and is quoted directly from the material provided to the Chancellor’s Office.

**Eastern Oregon University:**

The budget reductions being implemented at EOU effective July 1, 2004, are outlined in the table below. These reductions include the non-renewal of/reduction in service of 7.83 FTE faculty and staff personnel and reductions in other areas; for example, closing the EOU swimming pool.

<table>
<thead>
<tr>
<th></th>
<th>2004-05 Reductions</th>
<th>Percentage of budget</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>General University</td>
<td>$120,000</td>
<td>9.5%</td>
<td>Closure of swimming pool</td>
</tr>
<tr>
<td>Academic Affairs</td>
<td>541,446</td>
<td>3.5%</td>
<td>5.08 FTE faculty and staff</td>
</tr>
<tr>
<td>Student Affairs</td>
<td>197,000</td>
<td>8.5%</td>
<td>0.75 FTE faculty and staff</td>
</tr>
<tr>
<td>Business/Finance</td>
<td>100,000</td>
<td>2.2%</td>
<td>Loss of services and supplies funding</td>
</tr>
<tr>
<td>President’s Office</td>
<td>18,290</td>
<td>5.0%</td>
<td>Loss of services and supplies funding</td>
</tr>
<tr>
<td>University Advancement</td>
<td>27,638</td>
<td>5.0%</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,004,374</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The $1,004,374 budget cut itemized above exceeds EOU’s share of the $7.5 million Measure 30 reduction of $315,672. We did not separately itemize the revenue shortfall causing each budget cut. However, the loss of $315,672 in state funds was factored into our overall forecast of a $1,546,358 net deficit for 2004-05. You will also note that our
forecasted 2004-05 budget remains out-of-balance by $541,984, even after the budget cuts noted above. Furthermore, we expect additional expenses and new initiatives to arise over the course of 2004-05 in the range of $300,000 to $800,000. Therefore, we currently project a conservative net deficit of $841,984 and a potential high net deficit of $1,341,984.

**Oregon Institute of Technology:**

The impact that this will have is relative to the approval of our tuition proposal, which is a 3 percent rate increase and elimination of the plateau . . . [Our] best assessment of the impact of the latest reduction amount is as follows:

1. We will continue to operate with a reduced number of course offerings next academic year.

2. Without the resource fees we had proposed for engineering and allied health, we will be unable to enhance the quality of the laboratory equipment. The OIT students in these programs are concerned about the instructional equipment.

3. We have already committed $500,000 from the fund balances (reserves) toward this revenue shortfall.

**Oregon State University:**

In its FY 2004 budget, OSU reduced departmental budgets across-the-board by $1.65 million in anticipation of reductions ultimately called for by Measure 30. The impacts of these reductions in the current year have been a reduced number of course sections (based on institutional averages, approximately 90 fewer sections than would have otherwise been offered) and decreased research, student service, library, and institutional support budgets. Of the $1.65 million in reductions, roughly $1 million was absorbed by instructional and research units and the remainder by student service and administrative support units.

For FY 2005, OSU plans to compensate for these reductions in state appropriations, as well as for fund transfers called for in HB 2148, through tuition increases for resident undergraduate students and through continued reductions in administrative and support service costs and activities. Although we are trying to minimize further cuts in academic course offerings, reverse the trend of increasing student-faculty ratios, and invest in our Honors College and academic infrastructure, we cannot be certain that we will be able to hold the line in these dimensions as well. We expect to generate $4.3 million in additional tuition revenues through our currently proposed 5 percent increase in the resident undergraduate rate, plus an increase to $50 from $25 in tuition for credit hours 13-16 for all undergraduates. These revenues will offset the Measure 30 reductions and HB2148 transfers, and cover a portion of projected OPE increases.

The members of our university community most affected by these reductions will be students and their families, and over the past weeks we have engaged our students in
open discussion of the options available to the University. We have, in addition,
tried to evaluate impacts, if any, of charging for credit hours formerly within the flat
rate "tuition plateau" on student course selection, persistence and progress toward
graduation. Our assessment to-date is that for most students, the planned rate
increases will not alter their decision to take an average of close to 15 credit hours per
quarter although it will add to their cost burden; for those students most affected
financially, we hope to identify financial aid resources to help them. Because we find no
evidence of significant negative impacts of charges for hours 13-16 on student credit
hour loads, we do not anticipate that the proposed charges will alter their progress
toward graduation.

In summary, provided we are able to identify additional financial aid resources for our
most vulnerable students—a goal we are committed to achieving—the ultimate impacts
of the Measure 30 reductions alone will largely be mitigated by tuition increases and
cost efficiencies. Regrettably, we cannot insure that there will be no adverse effects on
the availability and quality of support services and, to the least degree possible,
academic matters. The additional costs of attending the University will largely be paid by
students and their families, and we will do our best to help them bear those costs. We
nevertheless note that our students’ capacity to absorb such increases is not without
limits, and that our most economically vulnerable students will be most affected by
these tuition increases. Such students have historically been aided by increased tuition
remission levels, which will not be an option given legislative caps in place for FY05. We
will consequently attempt to redirect private giving to this purpose.

Portland State University:

When we established our budgets for 2003-2005, we were aware of the pending vote
on Measure 30. Therefore, we did try to budget so that if the measure failed we could
forego certain expenditures and also make use of our fund balance to cover this
shortfall.

Southern Oregon University:

Southern Oregon University has been allocated a reduction of $367,546 in state
appropriations following the failure of Measure 30. This reduction follows upon nearly
$10.5 million in reductions since the cuts began during the 2001-2003 biennium. This
action brings our total reductions to roughly $11 million. Anticipating the failure of Measure
30, SOU had in place a budget scenario to further reduce its budgeted revenues and
expenditures at about $200,000. We have revised our budget scenario to reflect the
additional increment in the reduction.

Following a number of draconian cuts made during FY 2003, including non-renewal
notices and layoffs, SOU has put in motion plans for recovery and change that have
promise for positioning SOU well for the future, heavily dependent upon the hope that
state investments begin to return soon. We do not anticipate a return to the former
alignment of programs and resources, but rather to a time of greater strategic alignment
in our work. We have used this period to strengthen our capacity to seize opportunities on the horizon.

Internally, we have a creative review underway to realign the curriculum to new realities, along with a strategic initiative process to better position SOU for the contemporary opportunities of southern Oregon and the state. Externally, we have a stronger and more active Advisory Board, alongside a highly supportive and loyal SOU Foundation. These and other factors hold high promise for SOU’s future in service to students and communities as we advance in educational excellence and economic, social, and artistic entrepreneurship.

The impact of this Measure 30 reduction is retarding the pace of advancing along this path as an outstanding liberal arts and sciences university fulfilling a comprehensive university mission for the greater region of southern Oregon. While it makes even more apparent the need for strengthening partnerships and forging new ones, it also carries added challenges in making the investments to do so quickly. We are hopeful that the new State Board of Higher Education will succeed in its work to align the commitments and strategies of the Governor, Legislature, leading economic development initiatives, and the education community such that the public will reinvest in higher education as the central answer to the future or Oregon’s citizens and quality of life. SOU is actively engaged in being helpful to this process and will continue to do so. Speaking for our University, the present funding of basic operations, programs, and services is not sustainable on the goodwill and dedication of our staff and faculty. As natural attrition occurs, the foundations must be renewed and the new initiatives supported if we are to attract and retain the “workforce” needed and the students who can benefit well from the special strengths of SOU.

To be a bit more specific, the reductions will be made largely in administrative services, recognizing that the toll of major cuts already taken can only worsen and must be addressed before long. It is increasingly difficult to finance critical capital renewal needs, purchase replacement hardware and back-up equipment, and to reopen the library for student and faculty work on Saturdays. We have held to the original plan of April 2003 for tuition and fee increases, not moving them higher as a result of the failure of Measure 30. However, we have increased the assessments to auxiliary enterprises and tapped into our operating reserves to the point that SOU projects an ending reserve balance at 6 percent by the end of the current biennium (versus a healthier reserve balance of 9-10 percent in most periods).

We will do all that we can to avoid further pressure on our capability to support students and their classes. Due to the dedication of the faculty and administration, the institution has been able to minimize impacts upon the delivery of course work at the undergraduate and graduate levels. Increases in tuition have been met to some degree with larger institutional allocations in financial aid and an aggressive new private SOU fund drive.
It seems timely to quote from a recent focused accreditation visitor’s comments about the Northwest Association’s serious concern a year ago concerning SOU’s fiscal resources. The statement captures, from a seasoned accreditor’s perspective, the nature of the challenges and the spirit of collaboration, progress, hope, and determination that is sustaining SOU in these times.

“Despite the sizable cuts to its budget, the university is financially stable. By her own admission, President Zinser is micromanaging the budget to ensure three important outcomes: maintenance of program quality, no deficits, and a rational reserve. Although it’s been a painful process, SOU has remained financially solvent and academically rigorous during these troubling times. Now they are looking toward the future. … Southern Oregon University is in good hands. It is blessed with outstanding and energetic leaders, excellent and committed faculty, and student-centered staff. All of these educators have been called on to respond to difficult financial circumstances, and they have done so. One senses a true understanding at this institution of what it means to be an institution of higher education, and that understanding is communicated to students who set high standards for themselves. The institution also benefits enormously from and in turn benefits the arts culture that exists in Ashland, OR. It’s obvious that there are strong and productive partnerships here. While absolutely everyone has been called on to do more with less, they are responding admirably. Still, like all institutions of higher education, they are all too aware that there is a financial threshold below which they cannot go and still maintain quality and continue their student-centered educational programs. Their initiatives to increase foundation and private giving to the university are impressive and show great promise for the institution. As always, it was a pleasure to see colleagues doing so well. I salute them.” (April 2004)

**University of Oregon:**

The University of Oregon has made significant budget reductions for the biennium based on the failure of Measure 30 and the understanding that the majority of these cuts will be distributed to the campuses. It is our assumption that since this cut is made across the biennium, only one-half the cut will be a recurring base budget adjustment.

Over the biennium, a savings of $800,000 will be absorbed in administrative areas ($400,000 per year). These savings are being achieved through delaying searches for vacant positions, using temporary and part-time appointments to maintain some service levels and still achieve reductions in payroll costs. Service and supply budgets have been reduced and further reductions have been taken in repair and maintenance activities. These administrative cuts result in direct reductions in service including such areas as financial and support services for students.
The balance of $900,000 ($450,000 per year) comes from reductions in direct instructional support. Overall, this will result in the loss of approximately 16 instructional positions, each of which teaches seven to nine course sections. Students will be directly impacted by these cuts.

The UO recognizes the difficulty of any unit within OUS absorbing two years worth of cuts in the second year of the biennium. However, it is imperative that the permanent cuts to the campuses be as low as possible to protect the quality of the academic mission. Even if there is a need for larger campus cuts in this biennium to ease the transition in the Chancellor’s Office, a significant amount of the cuts must ultimately be absorbed on a permanent basis by the Chancellor’s Office.

**Western Oregon University:**

We did not separate out our Measure 30 reduction from the other reductions we prepared for earlier this biennium. We eliminated 30 positions to cover our overall shortfall for this year, so at this point it will reduce our current fund balance.

Please also note that the impact of the Measure 30 reduction on the Chancellor’s Office is pending the outcome of the Chancellor’s Office review currently in progress.

**BOARD DISCUSSION:**

Senior Vice Chancellor Anderes provided an overview. “What we’ve been talking about is the $7.5 million that is OUS’ share of the shortfall that resulted from failure of Measure 30. As part of the Board’s restructuring efforts with the Chancellor’s Office, there will be $1 million of that reduction coming from the reorganization. The remaining $6.5 million would be coming out of the campuses. Each campus has to identify a set of dollars and indicate what they are going to do in terms of making specific reductions. The materials we have provided attempts to do that. The impacts vary by campus. This is an accumulation of $150 million or more over two biennia that we’re looking at in terms of General fund reductions.

“Very generally, some of the campuses have reduced course offerings, some have made administrative program reductions, and so forth. There has been a reduction in the basic services and supplies, delay of filling vacant positions,” he continued. “The reason for taking this item to the Committee at this time relates to the fact that, at the June E-Board meeting, OUS is scheduled to make a presentation so that the Legislature is aware of how the System has approached the reductions.”

Chair Blair began by asking a general question, “Am I correct in assuming that for each of the institutions, we’re not making any changes to the tuition and fees that have been previously set by the Board and the presidents?”

President Zinser indicated that was the case for SOU. “In our case, the only modification is we’ve adjusted our approach to a modified plateau approach.”
President Frohnmayer responded that the cuts at UO are premised on the capacity of the University to achieve the tuition levels that have been previously proposed to the Board and would be acted on in June. At WOU, President Conn said they have not altered the tuition rates or any other aspect of tuition. Oregon State University, according to President Ray, is staying with the request made last summer for increases for FY 2005. “We’re now assessing whether or not we’re going to go the full $25 with respect to the plateau increase we had put in the note. We’ll be back in June with clarity on that.”

President Dow reported that they reduced their request from a nine to a three percent increase for the April approval. “That does include the elimination of the plateau. We had also contemplated a resource fee for the engineering and health professional curricula, but we have removed that,” she added. The biggest concern for OIT is that they have committed $500,000 from fund balances.

President Lund indicated that EOU is still looking at the continued removal of the tuition plateau and 10 percent tuition increase. Chair Blair pointed out that in the materials provided by Eastern, it suggested that there would be a projected deficit for the current year and asked for further clarification.

“Our best projections,” President Lund responded, “indicate that we would be looking at about a $1.5 million deficit at the end of 2004-05. In order to respond to that, we have just recently, in the last two weeks, announced $1 million in cuts, including some personnel that will not be renewed for 2004-05. The plan is to draw down our fund balance to make up for the balance of that $500,000 additional deficit.”

In response to Chair Blair’s question about the estimate of the fund balance as a percent of the overall budget, President Lund said that it is at approximately $3 million now and would be drawn down to around $2 to $2.5 million.

Director Lorenzen mentioned something “that may show my parochialism. The one thing I’ve been impressed by is the fact that Eastern, and maybe other small universities as well, because they enjoy a greater percentage of General Fund support, when General Funds are cut, they also then suffer a greater impact as a result of the shortfall.”

Dr. Kenton indicted that PSU had planned for the failure of Measure 30. “we do plan to amortize off some of our fund balance, which is presently at about 12 percent.”

President Frohnmayer pointed out one additional point. “To the extent that fund balances are increasing, they are not increasing across the System evenly. We’re all staring in the face the January 1, 2005, PERS Other Funds obligation. That is just huge in terms of the impact that will have on the cash flow.” Continuing, he highlighted that “a snapshot of fund balances is very misleading, unless one takes into account the huge payback obligation to the state from our Other Funds balances. I think that needs to be stated as part of the overall fiscal planning that all of us have to go through.”
Director von Schlegell requested further explanation of the dilemma being described. President Frohnmayer indicated that “the legislature, in House Bill 2148, passed a measure that imposes an obligation upon each of us, upon the System, to pay back Other Funds revenues—even those that are tuition derived—so, essentially, this is a tax on our students and their tuition, in order to make up for what is perceived to be a savings we would make in the PERS payments that otherwise would be due because of PERS reforms. This, of course, against a backdrop of not having a clue of what the Supreme Court of Oregon is going to do with the PERS reforms itself. But we prudently have to reserve against that. We have no present indication that the Governor or legislature are going to do anything to insist upon the full repayment of what House Bill 2148 indicates in the Other Funds obligation.”

Chair Blair asked for a projection of the amount of these obligations for the System. Chief Operating Officer Yunker indicated that it is a $14 million liability Systemwide for the PERS.

Referring to the fund balances, Senior Vice Chancellor Anderes indicated that there is a continuous review of where the revenues/expenditures are within the System. He indicated that the fund balances are increasing and the System “has been working with each campus to identify what the potential expenditures are, including the PERS issue.”

Director Nesbitt asked what the magnitude of the $1 million Measure 30 share in the Chancellor’s Office compares to the General Fund allocation for the Chancellor’s Office. Senior Vice Chancellor Anderes indicated that the $1 million would be against the Chancellor’s Office Education and General biennial figure of about $20 million.

Continuing, Director Nesbitt reminded the Committee that at earlier meetings the idea of achieving perhaps half of the $7.5 million in savings from Chancellor’s Office reductions. “I would hope that we’re going to continue the effort this biennium to achieve what cost reductions we can to really test ourselves against that goal of $3.5 million.”

Vice Chair Richmond indicated that the reductions to be decided by the Board were just the beginning. “As we seek the further reductions, we’re trying to do so as quickly as possible, but also as strategically as possible.”

5. **ADJOURNMENT**

It was moved by Director Lorenzen, seconded by Chair Blair that the meeting be adjourned.

The meeting adjourned at 9:30 a.m.