1. Call to order ........................................................................................................... 1
2. Governance and Higher Education Outcomes....................................................... 1
3. Chancellor’s Comments and Review of Presentations ........................................... 4
4. Adjournment ............................................................................................................ 9
Minutes

Committee members present included: Chair Paul Kelly (arrived at 9:15) and Directors Matt Donegan (9:50), Allyn Ford, Rosemary Powers, Kirk Schueler, and David Yaden. Other Board members present included Director Lynda Ciuffetti, Jim Francesconi (9:25), Hannah Fisher (9:35), and Preston Pulliams (9:35).

Chancellor’s staff present included: Chancellor George Pernsteiner, Bridget Burns, Jay Kenton, Di Saunders, Patricia Snopkowski, Marcia Stuart, and Chuck Triplett.

Others present included: Presidents Bob Davies (EOU), Ed Ray (OSU), Wim Wiewel (PSU), and Mark Weiss (WOU); and Lois Davis (PSU), Susan Weeks (UO), and Mary Ann Zemke (OIT).

1. CALL TO ORDER

With the delay of Chair Paul Kelly, Director Allyn Ford called the meeting to order at 9:15 a.m.

2. GOVERNANCE AND HIGHER EDUCATION OUTCOMES

Director Ford called upon Ms. Bridget Burns to introduce Mr. Michael Owens, partner at McClendon Owens Melia McBreen, LLP.

During the presentation, Mr. Owens advised that the study was based on questioning whether a correlation can be found in the data between governance structure and either private fundraising, other sources of revenue, or measures of attainment. First of all, as concerns private fundraising, a significant correlation was not found with any governance structure studied and the success of private fundraising. On average, the system of governance that Oregon currently has did better than the other systems looked at, though only by a very slight measure. As for state appropriations, which is another higher education financial aspect studied, some correlations were found—both in terms of averages and of a statistical regression analysis. However, Oregon’s current type of governance structure has, on average, lead to higher state appropriations for its institutions. On the other hand, Institutional Board/Coordinating Board models of governance actually both, on average, and in statistical correlation models, appear to lead to lower state appropriations. In terms of attainment, System Board models (i.e., Oregon’s current structure) had a statistically significant correlation with higher full-time graduation rates.
Initially, the study used Integrated Postsecondary Education Data System (IPEDS) data (which is a project of the National Center for Education Statistics), but, then, over the course of the study, decided to, instead, use data from the Delta Project on Postsecondary Education. The Delta Project uses that same underlying data from IPEDS, but make a number of adjustments that were determined to be better in terms of this study. The time period examined was a 5-year academic period that included 2004 through 2008. This time period covered both some pre-recessionary and post-recessionary data years and could provide a broader a picture of college finance not only during somewhat better times, but also during somewhat worse times. Public four-year state institutions were surveyed and the study included 492 reporting units, narrowed down from an initially much larger data set. (Basically, eliminating stand-alone professional and medical schools that educate primarily graduate students.) And then focused on three different governance types and, after coding every school for the different governance types out there, seven different combinations of Coordinating Boards, System Boards, and Institutional Boards were found among this data set. For the purposes of Oregon, the this was further narrowed down to three: the current system (System Board-only model), a reform possibility being a Coordinating Board plus an Institutional Board model, and a Coordinating Board plus a System Board model.

The variables selected to measure a university's financial and attainment health included private income, investment income, state appropriations, and net tuition change. Private income is the amount of money a university takes in from private sources—that includes fundraising, but it also included instruction-related, private service contracts; investment income includes endowment funds; state appropriations from the state legislature (generally for its operating purposes and doesn’t include capital appropriations); or other special, one-time items. Net tuition change was also included (the amount of resources received, after institutional fee remissions and student aid is distributed). These were adjusted for full-time equivalent enrollment.

The Delta Project primarily focused on cost with the following indicators attainment indicators:

- First-time students, full-time graduation rate, those are students who graduated within 150% of normal time; and
- Completion rate (degree, certificates, program finishing) as a percent of full-time equivalent enrollment.

Other measures studied included:

- Investment income—this is money that a school invests. With this measure, differences emerge—the average for the Coordinating Board + Institutional Board model is significantly higher than the next level down, which actually is the average of all governance types on the far right at $2,590. And the System Board only-model generates the least investment income.
- State appropriations per FTE. Over a 5-year aggregate period, System Board-only institutions, on average, were appropriated $36,404; Coordinating Board + Institutional Board model averaged $30,761; Coordinating Board + System Board model and an aggregate of all governance types averaged $34,000.
In response to a question pertaining to OUS’ position, Chancellor Pernsteiner explained that the Board recognizes that Oregon’s per-capita personal income is about 9% below the national average, but is still 26th among the 50 states, placing Oregon in the middle. However, an interesting implication from the study is that states with lesser per-capita income tend to have System-only Boards.

- Percent change in net tuition over the 5-year period. The slowest rate of growth in tuition was in the System Board-only model; the top half of schools fell below the average. Of the difference governance types studied, only the System Board-only model is below all governance types in general, followed by the Coordinating Board + System Board model, and then the Coordinating Board + Institutional Board model, where, on average, saw the highest rate of increase between 2004 and 2008 in net tuition.

The two attainment indicators included:

- First-time full-time graduation rate, within 150% of normal time. This is generally a 6-year measure at a 4-year institution. Resulting in the System Board-only at 48%, followed closely by the Coordinating Board + Institutional Board model at 46.97%, and lastly by the Coordinating Board + System Board model. The all governance type average 46%.

- Completions rates as a percent of full-time equivalent improvement (number of degrees, certificates—program finishes, basically—in a given year as a percent of FTE).

Eighteen different multiple regression models were conducted to test the association of one dependent variable, per model, with several independent variables. The dependent variable in each case included state appropriations, private income, investment income, net tuition change, graduation rates, and completion rates. The aim of the models was to demonstrate whether these were associated mainly with the independent variable of governance type. Other variables though to assist in yielding changes in all of these different measures included not just governance type but the underlying median income of a state, state per-capita GDP (Gross Domestic Product), student income level (including the percentage of student financial aid recipients who were in the lowest income bracket), NCAA FBS-Division football program (the impact of a large sports program on fundraising abilities), and the racial demographics indicator. When the models were run, the only meaningful and statistically significant associations for the independent variable of governance type were with two dependent variables—those being state appropriations and graduation rate.

**State appropriations.** As far as governance type is concerned, a System Board only model was associated with a $4,353 higher, on average, state appropriations level, per FTE over the 5-year study period. A Coordinating Board + Institutional Board model was associated with a $4,000 lower than average aggregate 5-year appropriations. And a Coordinating Board + System Board model was associated with a decrease, approximately $3,500, than the average school in terms of state appropriations.
Some general associations with state appropriations for racial demographics—for every percent increase in African American or Hispanic student enrollment, state appropriations increased by $145 over that 5-year period. However, as the state per-capita GDP increased by $1, state appropriations went up $0.57; and an increase of $13,600, on average, in state appropriations were allocated to institutions that have NCAA—FBS football programs. Owens added that they hypothesized that having a large football program aided in private fundraising but this indicates that not just private fundraising increases, but also state appropriations.

A cautionary note about these—although found statistically meaningful and significant correlations were found, the variables tested for state appropriations still only account for about 17% of the variance in that category. That means that in the things that affect state appropriations, 83% are areas not test; 83% of state appropriations number is driven by something other than any of the variables looked at whether it's football program, governance type, etc.

Final regression results were on graduation rate within 150% of time and only two of the governance types showed a statistically significant correlation. The System Board-only model was 3.3% percentage points higher than the average at other schools. No statistically significant correlation was found with the Coordinating Board and Institutional Board. And then, as far as the Coordinating Board and System Board model, general association of 6.5 percentage points lower for its graduation rate than other schools was displayed. Additionally, graduation rates can be affected by the number of low income students, indicating that the poorer the student body, the lower its graduation rate was by 0.79%.

Finally, Owens noted that 33% of the variance in graduation rate is attributable to the variables tested; however, 67% of the variance in graduation rate was caused by other variables—things not tested.

3. CHANCELLOR’S COMMENTS AND REVIEW OF PRESENTATIONS

Chancellor Pernsteiner summarized the work of the Committee thus far by noting that universities enrolled 100,316 students this fall term, which is, by far, the most ever served and enrollment, graduation rates, and retention rates are all at record highs. “It is a time of great achievement for our students, for our faculty, and for our universities. I want to say that because the legislature and the Governor, in this last session, actually set us up for an even more successful and exciting time.” Senate Bill 253 set a state goal for educational attainment that, by 2025, 100% of adults, age 25-34, will have completed high school; 40% will have completed an associate’s degree or a meaningful credential; and 40% will have achieved a baccalaureate degree, a master’s degree, a doctorate, or a professional degree.

But what it means is business is conducted differently and is the promise and opportunity of the Oregon Education Investment Board and is the promise and the opportunity for which the System is well-poised. With the leadership of the Governor, with the commitment of the
Investment Board, the System will be well-positioned, going into the 2013 session, to make a case for what it will take and to achieve greater support from the legislature in the past because of this integrated plan and the strategy to achieve the plan.

One year ago, the Committee was asked to consider the issue of institutional boards and to do so with regard to 'will they help us achieve our goals even better than we're doing right now?' Over the past few months, the Committee has heard from a variety of national figures, including David Longenecker, Dennis Jones, Aims McGuinness, Pat Callan, Bill Zumeta, and Michael Owens. The net result of the advice of all those national figures and of the research study is that, for the most part, institutional boards are not clearly associated with more degrees, more affordability for students, more private fundraising, or any other measure related to the achievement of the goals set by the Board. However, he noted that the current structure doesn't either. Chancellor Pernsteiner reviewed all the questions that the Board told the legislature would be considered and concluded that, although there are some pluses and some minuses, on balance, there is not any compelling reason to establish such boards based on those matters. The principal problem, cited also by the presidents, is that the lack of adequate state funding must be addressed. That has not been shown to be a function of institutional boards and, although there is some evidence to the contrary, not really much of a function of system boards, either. Five of the OUS institutions are not seeking to change the governance structure of the system; they recognize that, for them, the problem is one of state financing and not of governance. But two presidents made arguments in favor of institutional boards and their reasoning was based in part on being better able to raise private donations and in part on their need to have local board members upon whom they could call for advice. These are among the functions of that now are served by the boards of the affiliated foundations. The success of both the University of Oregon and Oregon State in raising private donations speaks to the results that can be achieved under the current structure and, in fact, statistical evidence points to a higher than normal ability to raise money in Oregon in comparison even to other states that have system boards. But the presidents have emphasized that they believe they can attract even better talent, even more money, if in fact institutional boards have governance authority for those institutions.

There are a number of alternatives available for consideration to address the issues that were raised by the presidents of the University of Oregon and Portland State; however, can be synthesized down to: 1) continuing with the state board as the only governing body for the universities with foundation boards available to offer advice and to help with fundraising for the individual universities; 2) institutional boards for the two universities that have no connection to the state Board and provide all governance to those universities; and 3) the institutional boards for the two universities would have specific governing authority delegated by the state Board.

Chancellor Pernsteiner emphasized that, in attempting to deal with the desires and issues of specific institutions within the context of meeting statewide goals and statewide responsibilities, he is recommending that, for the five universities not seeking to change their relationship to the state Board, their relationship remain unchanged. He is unwilling to disrupt
what seems to work for five of the universities in order to create a pure model that looks across all seven. Any consideration of structural change has to begin from a point of departure that takes into account the goals and values of the Board and of the state. It is the responsibility of the Board to advance the interests of the state as a whole, and all of its citizens, not just those of a single institution.

However, it is also the responsibility of the Board to attend to the well-being of each of its seven universities but the Board must be cautious in advancing structural changes and be certain that whatever changes the Board does advance will not harm the ability of the state to reach its 40-40-20 goals in collaboration with other education partners. This means that whatever option the Board follows must ensure that the public nature of all seven universities is maintained and that whatever option is put forward must not hamper the work of those universities who remain under the present governance structure. The values that underlie the decisions the Board might make must be explicit and they must be congruent with the Board’s strategic goals to provide affordable access to quality education for Oregonians—including Oregonians from rural areas, from low income families, and from communities of color; provide equitable opportunities for success for those same Oregonians; ensure collaboration among all the universities and between them and the community colleges and the K-12 schools; and advance the missions of the various universities. It must ensure that no university will be harmed by the actions of another university. These public values must be paramount in the considerations that the Committee makes while determining a recommendation regarding institutional boards.

One of the lessons learned from the review of other states’ governance experience is that the roles of boards must be absolutely clear. Therefore, if the Committee believes that institutional boards should be established, it also must determine what responsibilities those boards should have and what relationship the institutional boards will have to the State Board, state government, and to existing foundation boards. Lack of clarity on the role of the boards will lead to misunderstandings and confusion—clarity is paramount. Two basic alternatives should be contemplated: 1) boards that are wholly independent of the State Board of Higher Education and responsible as independent entities to the state (essentially similar to OHSU’s public corporation status1); or 2) boards that hold some of the governing authority now exercised by the state Board but exercised as a delegation from the state Board. Both options pertain to boards with actual operational authority over the institutions—whether independent of the state board or through delegated authority from the state board—and not just advisory capacities. An approach can be designed with the hope to ameliorate some of the negative aspects.

Another approach would be to consider what functions ought to be retained at the level of the state Board and which might be delegated to an institutional board. Over the last 20 years,

---
1 It was noted that there is a very clear distinction between the OHSU foundation board and the governing board for the very specific purpose that the governing board is appointed by the Governor with the responsibility to serve the public interest and the foundation board is appointed to serve the institution’s interest.
significant authority for campus operations has been delegated by the Board to institutional presidents. The State Board and the state must retain certain elements, or levers, in order to make sure that public purposes remain paramount for the universities. This is especially true when public funding may no longer be sufficient to be a major financial motivator for institutions.

In Governor Kitzhaber’s letter, two pertinent items were included. The first is “...as the Investment Board begins its work, I believe it is important that the achievement compact for our universities be between the Investment Board and the Oregon State Board of Higher Education—the body with direct responsibility for all seven universities and for meeting our higher education mission statewide.” The Governor also urged the Committee to take a look at institutional boards, “I am interested in advancing consideration of proposals to establish boards for individual institutions with clearly demarcated powers.” And he further states that the “Committee has to grapple with a variety of issues regarding which functions might be exercised by institutional boards and under what conditions, what the relationship is between any institutional boards and the foundation boards...”

Those authorities that should be retained at the State Board level are those that deal with tuition-setting for resident students; the ownership of property, bonding and indebtedness; mission and program approval; data collection, data analysis, and data system requirements for student and financial data; incentives and requirements for collaboration with other universities and other public education entities—community colleges and K-12; interactions and advocacy with state government; the allocation of state appropriations; the provision of consistent legal advice, internal auditing, and negotiating the achievement compact with the state; and the hiring and the firing of the presidents. Persteinber opined that institutional board members and their board chair ought to be appointed by the Governor. He stated clearly that operating with institutional boards will make management of the System’s operations and internal/external relations much more difficult, with the burden of that complexity and difficulty falling most heavily on the Chancellor’s Office and the State Board. Shared services currently provided by the Chancellor’s Office will have to be reevaluated and relationships between institution board and existing foundation boards will have to be explored. However, if institutional boards lead to more philanthropy, the added difficulties may be worth the cost.

In the coming months, the Committee will need to consider whether institutional boards might be warranted for the two universities seeking that governance structure and then determine the possible functions and responsibilities of those boards. With that consideration, the challenging issue of incentivizing collaboration in an environment when institutions are expected to succeed on their own merits and yet compete for resources is a persistent one. A System has been created in Oregon whereby each university has its own mission, identity, market, and programs; with this highly differentiated structure, ultimately, a one-size-fits-all approach cannot be supported.

In conclusion, it was stressed that the decision, whatever that may be, must advance the System toward achieving greater outcomes and bettering the lives of students.
Chancellor’s Recommended Considerations
Pernsteiner recommended the Committee consider: Are institutional boards warranted for Portland State and the University of Oregon? What are the possible functions and responsibilities of institutional boards? Should foundation boards be merged with institutional boards, with delegated authority from the State Board? What should be proposed as a 2013 legislative concept for institutional boards and a new governance structure? Although legislative concepts are due in March 2012, a fluid concept should be developed that provides an overarching plan that may be fleshed out over a multi-biennium period. Change can only be made when the legislature grants the authority; however, that authority does not require the Board to establish boards. With ongoing work of the OEIB and the subsequent fluidity of the educational spectrum in Oregon, careful consideration must be made.

Committee Discussion
With the pending deadline for legislative concept proposals, the Committee discussed accelerating the conversation about independent boards as opposed to institutional boards with delegated authority from the State Board, with the knowledge of the Governor’s stated preference for delegated authority. Some members were cautious about making this decision before the completion of SB 242 implementation and the mission alignment work, although the alignment work was also seen as an ongoing work of the Board.

Other concerns expressed included:
- Under the portfolio strategy, the universities continue to meet the state’s objectives
- Focusing on certain institutions may be at the expense of state goals
- A lack of clarity on how institutional boards improve existing financial issues and the possible effect on other System campuses (e.g., financial appropriations, bonding issues)
- The impact of structure versus appropriations
- Operational functions have and can be delegated to campuses without creating institutional boards
- Legislative lobbying
- The need to monitor, at the System-level, goals established around access and diversity
- Ramifications on tuition and keeping tuition stable
- Increased complexity of managing by the State Board and Chancellor’s Office

Many members indicated preference for institutional boards with delegated authority as opposed to total independence, referring to this as a “hybrid” model.

Committee Next Steps
In conclusion, the following were proposed:
- Presidents and foundation presidents be invited to discuss roles and responsibilities and opportunities provided under SB 242 (to include time for the foundation presidents to “educate” the Board on the role of foundations and how philanthropic giving is used
(e.g., restricted versus non-restricted, the percentage and how monies are used to support academics)

- Exploring of divisions of assignments
- Developing a process to measure the positive benefits and negative pitfalls to implementing this change

4. **Adjournment**

With no further business proposed, Chair Kelly adjourned the meeting at 12:03 p.m.