

**MINUTES OF REGULAR MEETING OF THE STATE BOARD OF HIGHER EDUCATION
OSU-CASCADES, BEND, OREGON
SEPTEMBER 9, 2005**

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OSU-CASCADES, BEND, OREGON**

SEPTEMBER 9, 2005

1. CALL TO ORDER/ROLL CALL/WELCOME

President Henry Lorenzen called the meeting of the State Board of Higher Education to order at 9:46 a.m.

The following Board members were present: Don Blair, Bridget Burns, Kirby Dyess, Henry Lorenzen, Adriana Mendoza, Tim Nesbitt, Geri Richmond, Howard Sohn, John von Schlegell, and Tony Van Vliet. Gretchen Schuette was absent due to a business conflict.

OUS staff present included: George Pernsteiner, Ryan Hagemann, Jay Kenton, Ben Rawlins, and Susan Weeks.

Others present included: Presidents Dan Bernstine, Martha Anne Dow, Khosrow Fatemi, John Minahan, Ed Ray, and Elisabeth Zinser. OHSU Vice Provost Sam Connell and UO Vice President Frances Dyke were also present.

Meeting attendees also included OUS staff, faculty, institution representatives, the press, and interested observers.

2. APPROVAL OF MINUTES

- Regular Board Meeting, July 15, 2005
- Special Executive Committee, August 1, 2005
- Nominating Subcommittee of the Board, August 24, 2005
- Special Board Meeting, August 24, 2005

President Lorenzen observed that there were minutes from different committees on the agenda and approval would require separate motions.

President Lorenzen called for a motion to approve the minutes of the July 15, 2005 full Board meeting and August 24, 2005 special full Board meeting as included in the appendix. Director Van Vliet moved approval and Director Mendoza seconded the motion. All in favor: Blair, Burns, Dyess, Lorenzen, Mendoza, Nesbitt, Richmond, Sohn, von Schlegell, and Van Vliet. Opposed: none. Motion passed.

President Lorenzen moved to the minutes of the August 1, 2005 Executive Committee and asked that only Executive Committee members vote. Director Dyess moved approval of the August 1, 2005 Executive Committee minutes and Director Richmond

seconded the motion. All in favor: Blair, Dyess, Lorenzen, and Richmond. Opposed: none. Motion passed.

President Lorenzen asked for a motion to approve the minutes of the August 24, 2005 nominating subcommittee and requested only members of the subcommittee vote. Director Richmond moved approval of the August 24, 2005 subcommittee minutes and Director Dyess seconded the motion. All in favor: Dyess, Lorenzen, and Richmond. Opposed: none. Motion passed.

3. CONSENT ITEMS

a. Finance and Administration Committee Charter

DOCKET ITEM:

The following proposed charter for the Finance and Administration Committee of the Oregon University System (OUS) Board was discussed by the Finance and Administration committee at its regular meetings on May 6, 2005, and again on July 15, 2005. Changes were made to the document as were suggested in these earlier meetings. It is now ready for consideration and adoption by the full Board.

Finance and Administration Committee Charter

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

- Advise the Board on the management of the ongoing financial and administrative affairs of the Oregon University System;
- Focus the business functions of the Oregon University System on supporting the OUS mission and the Board's priorities;
- Recommend policies to ensure that System resources are managed prudently, efficiently, and effectively; and
- Perform other functions as directed by the State Board of Higher Education.

Specifically, the Committee is charged with the following:

Audit

Review and recommend to the Board the internal audit mission statement, charter, and other governance documents related to both internal and external auditing activities in the Oregon University System. This committee is delegated the oversight responsibility to ensure that the Oregon University System (OUS) management is performing their duties of financial reporting, effective and

efficient internal controls, and compliance with laws, regulations and ethics as prescribed in the audit charter – see the following.

Review the annual internal audit plan and discuss the extent to which it addresses high-risk areas with the internal auditor.

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

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

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

Review the annual financial report with the independent certified public accountants and management, and highlight issues for the Board as appropriate.

Budget and Finance

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

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

Request additional financial reports and analysis from management as required ensuring a thorough review of financial activities.

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

Approve the investment policy guidelines and asset allocation as established by the Oregon Investment Council (or other designated investment manager). Review annual investment reports, make recommendations regarding investment administration, and review asset allocations once every three years, or more often as determined necessary by the Board.

Review debt issuances in accordance with the OUS debt policy guidelines – see attached excerpt from this proposed policy.

Approve transfers from the Chancellor's Office fund balance that exceed \$250,000 or that aggregate to \$1 million or more annually.

Real Estate

Consider policy matters and make recommendations to the Board relating to facilities and real estate administration, including long-range capital planning, the purchase, sale, or lease of real estate; acquiring or granting easements; capital construction and capital repair project requests; facilities maintenance and operations plans and debt financing for real estate.

Human Resources and Personnel

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

Operating Guidelines

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

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

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

These items will be presented as "Action Items" at a subsequent meeting.

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

Staff Recommendation to the Board:

Staff recommended that the Board adopt the proposed Finance and Administration Committee charter as presented.

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

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

External Audit Duties

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

Internal Audit Duties

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

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

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

General Duties and Powers.

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

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

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

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

The Oregon State Board of Higher Education has delegated these audit duties to the Finance and Administration Committee. The Finance and Administration Committee shall report the results of internal and external audit findings to the full Board at least once a year.

Board Approved: September 10, 2004.

Excerpt from proposed OUS Debt Policy—Approval Framework for Financed Projects:

Authority	Article XI-G Bonds	Article XI-F Bonds	Certificates of Participation (COPs)	State Energy Loan Program (SELP)	Long-Term Leases (>5 yrs)	Other Financing Mechanisms
OUS Finance Committee	Reviewed as part of capital budget process	Business plan for amounts in excess of \$1 million are reviewed for financial viability.	Reviewed as part of capital budget process	Business plan for amounts in excess of \$500,000 are reviewed for financial viability	Business plan reviewed for financial viability	Business plan reviewed for financial viability
OUS Full Board	Capital budget and bond sale approved by Board and Legislature	Capital budget and bond sale approved by Board and Legislature	COP limitation is part of State operating budget that is approved by the Board.		Lease approved by Board	Amounts greater than \$1 million are approved by Board and Legislature as part of the capital budget process
Institutions or other Entities		OUS staff reviews projects of less than \$1 million to ensure self-liquidation	COP sales are approved by Department of Administrative Services (DAS)	Amounts less than \$500,000 are approved by the Institution(s). Bond sales used to finance SELP projects are approved by the Department of Energy using limitation that has been approved by the Governor and Legislature.	Financing Agreements as defined in ORS 283.085-089 and OAR 122-070-000-010 must be approved by Treasury and DAS.	Amounts less than \$1 million are approved by Institution(s). Financing Agreements as defined in ORS 283.085-089 and OAR 122-070-000-010 must be approved by Treasury and DAS.

BOARD DISCUSSION AND ACTION:

See page 944.

b. OSU, Funding of Expansion of Large Animal Teaching Hospital**DOCKET ITEM:**

Oregon State University is requesting that the Board authorize the use of \$1.9 million in excess bond sinking funds designated for research related to veterinary medicine as matching funds for the expansion of the Large Animal Teaching Hospital at OSU.

Background

In 1971, the Legislature approved the OSU Animal Disease Research Isolation Facility capital construction project. The Higher Education Isolation Facility Bond Sinking Fund (Fund) was established to pay the debt service for the project, and its use was restricted to payment of principal and interest on the bonds issued to construct the Isolation Facility.

In 1987, ORS 351.545 was amended to add section (3) which states that “The sinking fund shall not be used for any purpose other than that for which the fund was created; but should a balance remain after the purpose for which the fund was created has been fulfilled, or the sinking fund and investments thereof, will, in the judgment of the board, be sufficient to meet in full the principal of, and the interest upon all Higher Education Isolation Facility bonds then such excess funds may be transferred by the board to funds to be used for research related to veterinary medicine.”

In its October 21, 1988, meeting, the Board authorized the use of \$55,000 per year in earnings from the Fund for research in the College of Veterinary Medicine. In addition, the Board also endorsed the concept of converting the balance of the Fund at the time the bonds were fully retired into an endowment to provide an indefinite funding source for research in veterinary medicine.

During Fiscal Year 2001-02, the Sinking Fund made its final debt service payment on the Series 1972C article XI-F Bonds. As of August 15, 2005, the balance in the fund is \$1,880,411.44.

Large Animal Teaching Hospital Expansion

The 2005-2007 Legislatively Adopted Budget includes authorization for up to \$12 million to expand the Large Animal Teaching Hospital to add a modern equine evaluation arena, a large animal isolation area, an enlarged surgical teaching area, and other clinical research facilities.

In December 2003, the Wayne and Gladys Valley Foundation donated \$5 million to the expansion, requiring a \$5 million match. The university has raised \$3.1 million to

support the project and plans to fulfill the match with the \$1.9 million sinking fund so that construction can begin in 2005-06. The university believes that the highest and best use of the balance in the Fund is to fulfill the match on this project.

Staff Recommendation to the Board:

Staff recommended that the Board authorize spending the balance of the Higher Education Isolation Facility Bond Sinking Fund to support the expansion of clinical research facilities at the Large Animal Teaching Hospital at Oregon State University.

BOARD DISCUSSION AND ACTION:

President Lorenzen asked if any Board member would like to consider an item on the consent agenda separately. Hearing no request, President Lorenzen called for a motion to approve the consent agenda as included in the materials. Director Dyess moved approval of the consent agenda and Director Nesbitt seconded the motion. All in favor: Blair, Burns, Dyess, Lorenzen, Mendoza, Nesbitt, Richmond, Sohn, and Van Vliet. Opposed: none. Motion passed.

4. Report Item

a. 2005-2007 Biennial Budget Report

DOCKET ITEM:

The Oregon University System 2005-2007 biennial budget is summarized in the following for Board consideration.

Budget Highlights:

The Legislature approved a General Fund operating budget allocation of \$659,342,307 for 2005-2007. In addition, another \$30,297,888 of General Funds was appropriated for debt service on Article XI-G bond debt and \$14,796,328 was approved for capital construction and capital repair projects. This represents a \$33 million or 4.9 percent increase in overall General Fund dollars over the 2003-2005 budget.

OUS also anticipates receiving approximately \$29 million in addition General Fund support from the State salary package and \$2.0 million to support the Integrated K-16 Data project both of which are pending Emergency Board approval. Combined with the amounts above, total General Fund support will increase by approximately 9.5 percent over last biennia. This budget represents the first increase in State General Fund funding in the last four years and is the product of an improving economy and the good work of the Board, institutions and staff.

Reconciliation of Requests to Approved Amounts:

OUS requested a total of \$826 million comprised of \$721.8 million for essential budget items and policy package requests of \$105 million. The Governor modified the OUS request to \$685.4 million, including \$676.5 million in essential budget level funding with

\$8.9 million for policy packages. The Legislature approved total General Fund funding of \$704.4 million, including funding for the essential budget, policy packages, debt service and capital construction. Note: all amounts reported in this paragraph exclude salary funding.

A summary of the operating, capital and debt service General Fund budgets requested by OUS and the Governor and approved by the Legislature is as follows:

2005-2007 General Fund Budget Comparison – OUS / GRB / LAB
Total General Fund Budget (includes Debt Service and Capital Construction)

(in millions of dollars)	OUS Request	Changes	GRB	Changes	LAB
State General Fund					
2003-2005 LAB (including M 30 cuts)	671.4		671.4		671.4
Plus EBL Adjustments:					
COPs	5.1		5.1	(5.1)	-
Other Adjustments	45.3		45.3		45.3
2005-2007 Essential Budget Level	721.8	-	721.8	(5.1)	716.7
Endowment match					-
Joint Schools of Prof Bus.Ed.					-
Reductions and Fund Shifts	-	(45.3)	(45.3)		(45.3)
Total Adjusted EBL	721.8	(45.3)	676.5	(5.1)	671.4
Policy Requests:					
Enrollment Growth	18.7	(18.7)	-	-	-
MBF - Data Project*	5.0	(2.8)	2.2	(2.2)	-
Retaining Top Students	2.5	(2.5)	-		-
Healthcare Workforce	3.9	(3.9)	-		-
ETIC	22.1	(22.1)	-		-
Faculty Recruitment & Retention	32.8	(31.8)	1.0		1.0
Agricultural Experiment Station				2.8	2.8
Extension Program				2.4	2.4
Forestry Research Laboratory				0.4	0.4
Natural Resource		0.3	0.3		0.3
Moderate Tuition Increase	20.0	(20.0)			-
Undergrad. Tuition Buydown				17.3	17.3
Undergrad. Ed. Restoration				13.0	13.0
SOU/RCC project		5.4	5.4	(2.4)	3.0
Subtotal Policy Requests	105.0	(96.1)	8.9	31.3	40.2
Other Legislative Adjustments:					
Dispute Resolution				1.5	1.5
Chancellor's Office restoration				0.8	0.8
PERS and AG reductions				(3.2)	(3.2)
3 percent S&S Reduction				(3.5)	(3.5)
WUE/Fee Remission Equity				(1.7)	(1.7)

2005-2007 General Fund Budget Comparison – OUS / GRB / LAB
Total General Fund Budget (includes Debt Service and Capital Construction)

(in millions of dollars)	OUS Request	Changes	GRB	Changes	LAB
Campus Public Services				(1.0)	(1.0)
Agency Assessments				(0.1)	(0.1)
Total General Fund	826.8	(141.4)	685.4	19.0	704.4

*\$2,081,250 funding available for data project pending E-Board approval

Note: Funding from the State Salary Package, including funding to cover increases in health benefits costs is not included in the above. OUS' share of this funding is estimated to be approximately \$29 million, including approximately \$5 million earmarked for the statewide public service programs at OSU. This funding will be allocated at a future Emergency Board meeting.

Summary of Legislative Budget Actions:

Enrollment Funding:

OUS projects that enrollment will increase by approximately 3.7 percent in headcount and 3 percent in FTE during the 2005-2007 biennium. While no added General Fund dollars were provided for enrollment growth funding, the Legislature did grant OUS an increase of \$22.7 million in Other Funds Limitation to spend available tuition and fee revenues anticipated from enrollment growth. In addition, the Legislature approved \$13 million in General Fund to support undergraduate education. These funds are to be distributed to campuses through the Resource Allocation Model (RAM) on the basis of their fundable undergraduate enrollments.

K-16 Data Project:

As noted above, \$2,081,250 was earmarked by the Legislature for the K-16 Data Transfer Project subject to Emergency Board release. This is \$95,000 less than was requested. The reduction is equivalent to the amount budgeted for computer hardware and software that would reside at, and be owned or leased by the colleges, plus the amount budgeted for personnel. The following budget note relates to this project funding:

“The Subcommittee approves a \$2,081,250 General Fund appropriation to the Emergency Board for the special purpose of developing an integrated K-16 student data system. The Department, with the assistance of the Department of Education and the Department of Community Colleges and Workforce Development, shall report to the Joint Legislative Audit Committee on proposed performance measures for the integrated student data system prior to requesting an allocation of appropriated funds. The Department, shall report to the Emergency Board on the design, architecture, and total cost to complete the data system, and report on the timeline to completion and implementation, and the expected outcomes of System implementation. The Subcommittee understands that any

allocation or expenditure limitation increase approved by the Emergency Board for this purpose is of a one-time nature, and that funds will be phased-out in the development of the 2007-2009 biennium budget for the Department.”

Faculty Recruitment and Retention:

The Legislature approved funding in the amount of \$1.0 million, including \$190,842 for the statewide public service programs at OSU, for the recruitment and retention of faculty. Use of these funds is subject to the following budget note:

“Institutions shall use the funds allocated to them from the \$1 million approved in this package for the purpose of recruitment and retention of highly qualified faculty.”

Statewide Public Service Programs at OSU:

Budget reductions for PERS rates reductions and 3 percent reductions in service, supply and capital outlay budgets were made in these budgets. The Legislature provided the following funding to restore program levels: \$2.8 million for the Agriculture Experiment Station, \$2.45 million for Extension Services and \$450,000 for the Forest Research Laboratory. In addition, a portion of the \$1 million faculty recruitment and retention funding was earmarked by the Legislature for these three programs.

OSU Natural Resources Institute Funding:

The Legislature approved a General Fund allocation of \$250,000 for the OSU Natural Resources Institute.

Tuition and Fee Buy-down Funding:

The Legislature provided additional General Funds to limit tuition increases for resident undergraduate students to 3 percent for each year of the biennium to limit resource fees to 9.1 percent of gross tuition revenue. This is summarized in the following budget note:

“The approved budget includes \$17.25 million of General Fund to limit tuition and resource fee (including energy surcharge fee) increases to resident undergraduate students. Total Systemwide resident undergraduate tuition revenues may not increase by more than 3 percent in the 2005-06 academic year and 3 percent in the 2006-07 academic year. Changes in tuition and resource fee revenues attributable to growth or decline in resident undergraduate enrollment are not factored into this limit. The State Board of Higher Education may allocate the General Fund monies provided to campuses in a manner that it determines to be in the best interest of the Oregon University System. The Subcommittee further expects the Department to limit resource fee (including energy surcharge fee) revenue to no more than 9.1 percent of gross tuition revenues.”

Fee Remission Cap Eliminated:

The Legislature eliminated the cap on both programmatic and graduate fee remissions, beginning in 2005-2007 subject to the following budget note:

“The Department of Higher Education shall direct additional fee remission authority available from the ending of the 8 percent fee remission cap into fee remission programs that are need based. The Department shall report to the Joint Legislative Audit Committee and Emergency Board, prior to November 2006, on the impacts of expanding programmatic fee remissions beyond the limit of 8 percent of gross tuition revenues that has been in effect during the 2003-2005 biennium. This report shall include information on fee remissions program awards for the 2005-06 and 2006-07 academic years, and shall include information on funding of need-based and merit-based fee remission programs, and on the impact of expanding fee remission programs on the enrollment of lower-income resident students.”

Dispute Resolution Program Funding:

The Legislature approved a General Fund allocation of \$1,458,369 for the Dispute Resolution programs at University of Oregon and Portland State University

Chancellor's Office Funding:

The Legislature provided \$1.5 million (a net of \$800,000 when netted against an earlier \$700,000 reduction) for the Chancellor's Office to provide funding: 1) for positions that were funded by General Fund in the 2003-2005 biennium; 2) to support the High School Alignment project; and 3) to enhance capacity in financial analysis, research and policy development. The Senate Committee also noted that the State Board of Higher Education may finance enhancements to the Chancellor's Office Internal Audit Division through assessments collected from campuses not exceeding a total of \$884,000 in the 2005-2007 biennium.

The net effect of these and other changes to the Chancellor's Office budget is that the General Fund allocation was reduced from \$20.6 million in 2003-2005 to \$13.3 million in 2005-2007, a reduction of 36 percent.

Other Budget Reductions:

The Legislature eliminated \$1.7 million General Fund funding for the Western Undergraduate Exchange and Fee Remission Equity Programs; reduced General Funds by \$3.5 million as a result of the 3 percent Services and Supplies and Capital Outlay cut in the House budget plan; reduced the General Fund budget by \$3.2 million for PERS and Attorney General rate reductions; and denied restoration of \$5.1 million General Fund shifted to COPs in the 2003-2005 budget.

Campus Public Service Funding Reduced:

Within the Resource Allocation Model is \$5.9 million of state funds (2005-2007) for campus public services. This amount was reduced by approximately \$1.0 million from

the Governor's Recommended Budget level by the Legislature in the recently concluded session. At one time during the budget deliberations, the Senate exempted certain of the 23 campus public services from reductions in state funding. However, the final budget permits the Chancellor and the Board to allocate the remaining funds to campuses to meet program needs.

There are 23 campus public services at six campuses for which state allocations were used in 2003-2005. These range in size from the OSU Veterinary Diagnostic Clinic (\$2,347,331 of state funds in 2003-2005) to three programs at Western Oregon University that collectively received \$3,817 of state support during the past biennium.

Several of these programs serve statewide missions (e.g., the Veterinary Clinic and the University of Oregon's Labor Education Research Center) and some are mandated by statute (e.g., the Center for Population Research and Census at Portland State University).

All provide linkages to important business, community, cultural, or non-profit organizations in Oregon and in the local areas of the campuses.

State funding is important to each of the campus public service programs. Most have some funding from sources other than the state or the campus General Funds.

Historically, the campuses have been allowed to use the state funding as they saw fit and to supplement state funding from a wide variety of campus resources, service charges, donations, and campus annual operating budgets. The Chancellor's Office and the Board have not directed that allocations made for campus public services be spent in any particular manner although the expectation exists that the allocation will be made to the category of campus public services.

Campuses establish the budgets for each of their campus public services using a combination of funding sources in order to meet the needs of each program and to facilitate the achievement of the goals for each program. However, the use of these funds is entirely the decision of each campus administration.

Based on that logic, the Chancellor's Office staff is recommending that the Board allocate the remaining \$6.0 million of state funds proportionately to the campuses based upon the proportions the campuses received of the 2003-2005 state support for campus public services. Campuses can decide in their internal budget processes how to adjust programs or fees or to allocate other campus resources in order to make sure the programs they choose to offer can succeed.

The amounts included in the 2005-2007 biennial budget and the 2005-06 annual operating budget provide funding to campuses based upon this pro-ration of the remaining amount of state support for campus public services.

The campus public services included in the state funded amount in 2003-2005 included:

Eastern Oregon University

Small Business Development Center
Regional Services Institute

Oregon State University

Veterinary Diagnostic Laboratory

Portland State University

Center for Academic Excellence
Math, Engineering and Science Achievement (MESA)
Tribal Government Institute
American Journal of Public Administration
China Sustainability Program
Institute for Portland Metropolitan Studies
Center for Population Research and Census

Southern Oregon University

Jefferson Public Radio
Small Business Development Center
Shakespeare Studies
Southern Oregon Regional Services Institute

University of Oregon

Labor Education Research Center
Museum of Art
Museum of Natural History
Bach Festival

Western Oregon University

Resource Center for Deafness
ASL Testing
Creative Arts Programs

Performance Measures:

The Legislature approved OUS performance measures indicated in the attached tables and directed the agency to submit targets to the Joint Legislative Audit Committee by August 2006 for each added performance measure. They further directed the Department to add a sixth data measure regarding: (i) number and percent of undergraduates who are persons of color; (ii) number of undergraduates enrolled; (iii) number of advanced degree students enrolled in credit courses; (iv) number of US patents applications per year; (v) number of patents granted per year; and (vi) number and percent of full-time, ranked instructional faculty who are persons of color.

2005-2007 Capital Budget Highlights:

The Legislature approved a capital budget for OUS of \$14.8 million in General Fund and \$395.5 million in Other Funds for 49 projects (See appendix for listing of approved projects). The Legislature approved 36 projects at the amounts requested by the Governor. Funding for the SOU/Rogue Community College Medford Center was reduced and restructured; funding for the new Education Building at UO was added

The Legislature provided OUS with \$3.0 million in General Fund support for the SOU/Rogue Community College Medford Center along with authorization for \$5.6 million in Article XI-G bonds and limitation for another \$2.6 million in Other Funds for this project. In addition, they provided Rogue Community College with \$4.1 million in Article XI-G bonds and \$4.1 million in Other Funds limitation for this project

The Legislature expressed concern regarding campuses raising matching funds for projects with the expectation of having the future Legislature approving Article XI-G bonds. The following budget note was incorporated into the budget to address this concern:

“No later than January 31, 2006, the Department of Higher Education shall report to the Emergency Board on then anticipated capital construction projects that are likely to require Article XI-G Bond proceeds, and identify those projects for which an Oregon University System campus has solicited or accepted pledges or contributions or expects to do so. Beginning with projects to be authorized in the 2009-2011 biennium budget or later, the Subcommittee expects the Department to obtain authorization for Article XI-G bond projects from the Legislature prior to seeking or accepting donations for them.”

Certificates of Participation Authorized:

The Legislature granted OUS the authority to issue \$20 million in Certificates of Participation to fund telecommunications and information technology projects on the campuses.

BOARD DISCUSSION:

President Lorenzen called on Vice Chancellor for Finance & Administration Jay Kenton to report on the 2005-2007 budget. Kenton noted that his report was to give the Board an update on the final legislatively approved budget ("LAB") and to explain some of the legislative expectations expressed in budget notes and the budget bill. He commented that the LAB contains the following budgets: general operations, debt service and capital repair and construction. The LAB is funded from General Funds, which are state appropriations. Kenton stated that the budget also includes Other Funds and Non-Limited Funds, and a small amount of Lottery funds.

Kenton walked through legislative expectations and budget notes. He observed that the legislature did not provide any General Fund for enrollment growth. Kenton added that

the Legislature did provide \$22 million in Other Fund spending and \$13 million supplemental funding for undergraduate enrollment funding and expressed the expectation that the funding would be distributed based on fundable undergraduate enrollment. President Lorenzen asked for the difference between undergraduate education restoration and enrollment growth and Kenton replied that current funding was premised on 2002-03 enrollment distributions, which was a decision made several years ago when funding began to drop. Kenton observed that the allocations would be different if the funds went to growth and that it was a policy decision made by the Legislature. Pernsteiner added that there was considerable discussion with members of the Legislature about funding for enrollment growth or funding for the cells. He explained it was a defensive move to prevent those institutions experiencing enrollment declines from experiencing a larger budget cut.

Director Nesbitt asked if the Board had a policy discussion about which course it would prefer and Pernsteiner explained that the Board proposed enrollment growth to be funded and the essential budget level be funded. Pernsteiner noted that the current action moved the System closer to the essential budget level rather than fund enrollment growth. He observed that it would be a question to revisit before 2006-07 because the further the System gets away from the 2002-03 enrollment levels, the less real the RAM appears in terms of the way it distributes resources. Director Nesbitt asked if the issue had been engaged as a tradeoff and Pernsteiner stated no.

Kenton added that the Legislature, regarding the \$13 million supplement, earmarked it to go to pre-existing enrollments. He stated that the Legislature provided \$2.1 million for the data project, but held it pending a report on design architecture, total cost, and timeline. Kenton noted that the Legislature appropriated \$1 million for faculty recruitment and retention and that OUS chose to allocate 50% of the funding in the first year of the biennium. Kenton explained that the legislature provided \$17.2 million to buy down tuition from the gubernatorially directed 7 percent in year one, 5 percent in year two to 3 percent in each year of the biennium. He observed that resource fees could be no more than 9.1 percent of gross tuition. Director Blair asked if the limitation cost the System \$17.25 million and Kenton stressed that the funding would be adequate to maintain the 3 percent and 9.1 percent expectations. Kenton added that the legislature lifted the cap on fee remissions, but expected a report to the Joint Legislative Audit Committee and the Emergency Board on the impacts of expanding the limits.

Kenton continued, commenting that the legislature approved a \$1.5 million add-back to the Chancellor's Office. He observed that when netted against the previous \$700,000 reduction, the Chancellor's Office received \$800,000. He added that the legislature stated in a budget note that OUS could assess campuses up to \$884,000 to enhance internal audit. Kenton stated that the legislature eliminated funding for the Western Undergraduate Exchange program and the fee remission equity program. Kenton stated that due to the late notice of these budget decisions, OUS would fund WUE and fee remission equity in the first year of the biennium. President Lorenzen asked where the funding for this would come from and Kenton responded enrollment funding.

Kenton reviewed other reductions, including those made to all other state agencies. He explained there were three percent reductions to service & supplies budgets and capital outlay budgets, as well as reductions made for PERS rate reductions. He observed that campus public service programs were reduced by \$1 million, but the legislature left the decision as to how the cut would be allocated to OUS and the Board. Kenton shared that staff decided to make the campus public service cuts proportionately. Director Blair asked if that was a decision that might be revisited next year and Pernsteiner replied that the Board could try to develop criteria to guide the allocations for campus public service programs, but it was probably too late for year one. Kenton observed that OUS discussed the campus public service programs with the presidents.

Kenton moved to performance measures, noting that the measures were detailed in the docket materials. He stated that the legislature directed OUS to submit targets for some of the measures that did not have targets. He offered that while the legislature provided funding for 49 new capital projects, it expressed concern regarding campuses raising matching money with the expectation of obtaining Article XI-G bonds to match the money. Kenton observed that a budget note was drafted to require OUS to report to the January Emergency Board projects that were likely to require Article XI-G funding for 2007-2009, and then beginning in 2009-2011, OUS must seek authorization from the legislature for bond funding prior to any fundraising. Pernsteiner noted that it would require the Board to consider capital projects well before the time it had in the past. He stated that it would require the Board to signal well in advance the kind of analysis being done and change the way the Board looks at capital funding. President Lorenzen observed the projects with donated funds that would require a match would be considered much earlier and self-sustaining Article XI-F projects would be considered later.

Director Blair asked if the legislature would say not to raise funds for a project because it is not on board and Pernsteiner replied possibly. He stated that the legislature was concerned that fundraising was driving a requirement that the state come up with capital monies. Pernsteiner noted that, in the past, the state paid for capital budgets entirely. After Measure 5, there was no capital construction for some time until the legislature permitted gifts and donated funds to serve as the match for Article XI-G bonds. Kenton added that there was a concern that the debt service obligations were higher than the state would like. He summarized that there was an 11.1 percent increase in overall operating budget support. He shared that the legislature was holding the \$130 million for salaries and benefit cost increases. Kenton noted while it appeared there was a reduction in the capital budget, the increase in Article XI-G funded project spelled a good capital budget for the System. He stated debt service budgets increased by \$18.2 million.

Kenton moved to discuss changes in the cost base. He noted that there were some substantial cost increases. First, Kenton shared the increased instructional support due to enrollment growth. Kenton discussed the significant health and retirement benefit cost increases. He stated that utilities and library costs were increasing at rates greater than CPI. Kenton mentioned that projected enrollment increases and related increases

in faculty would drive some of the cost increases. Kenton observed that OUS planned to bring 365,000 square feet of new facilities on-line. Director Blair returned to the discussion of the additional staff and asked what staff made up the projected 200 FTE. Kenton explained that 100 would be faculty and 100 would be other, based on current ratios of faculty to staff. Kenton explained that some of these staff are in administrative offices, noting that about 50 percent of the budget is on the academic side and 50 percent on the administrative and student support side.

Amid a discussion on staff-to-faculty ratios, Kenton offered that some institutions do not have the staff to cover all of the bases. He noted that employees had not received pay raises for the past two years. Director Dyess asked what the percentage of overall benefits was to salaries and Kenton replied that it would vary because the benefits were a fixed cost divided by differential salaries. Kenton noted that it was probably close to 50 percent. Director Nesbitt commented that the healthcare costs were at median and the question was how much the employer was going to pay and how much the employee was going to pay. Director Dyess added that the compensation for faculty was so low and the Board should be wary of thinking that the benefit packages were so high because they did not make up for the low salaries. Kenton explained that retirement costs were increasing by 26 percent. Director Dyess commented that as the Board considers salary increases, it might look at what to do to offset those increases, such as diminishing the percentage that the institution pays for healthcare. Kenton noted that the vice presidents of finance at the campus level were concerned about how these costs would be covered. He explained that the national average of cost increases was 9 percent, so Oregon was more than two-and-one-half times that average.

Kenton continued, observing that PERS was exploring different ways to attack the unfunded liability and may try to amortize it over 40 or 50 years. With a discussion of retirement percentages, Kenton noted that if benefit packages were reset to national averages, faculty salaries could be brought to national averages and still result in savings. Director Nesbitt commented that if there was a pre-funded benefit that was adequately funded, it would not matter if there were more public employees in retirement. Director Nesbitt added that the parameters about what could and could not be done legally to tier one, tier two, and tier three employees had been identified and that those differences should be broken out. Kenton replied that the rates were smooth and that PERS was taxing all programs at the same rate because there would be a huge discrepancy among employees.

Pernsteiner commented that the escalation of cost would eventually stop because the System is taxing salaries to cover one group, but as members of that group retire, the problem will moderate. He noted, however, in the planning horizon, it would continue to be a big cost hit for the System. Director Nesbitt observed that Oregon has a very complicated, hybrid pension system that was a combination of defined benefit and employee contribution. Director Van Vliet returned to the CPI and asked Kenton if the legislature would be honest about the differences in CPI. Kenton shared that there used to be a higher education price index and that the System had discussed library costs with the legislature. Kenton concluded that the budget had the first increase from the

legislature in four years. He added that OUS made significant strides in re-establishing credibility with the legislature.

5. Action Items

a. Permanent Appointment of Chancellor

President Lorenzen turned the action items, starting with the permanent appointment of the OUS Chancellor. Lorenzen offered that he was asking the Board to consider the permanent appointment of Acting Chancellor George Pernsteiner to OUS Chancellor. Lorenzen observed that OUS established a great deal of credibility with the Legislature in the last session, Pernsteiner was uniquely qualified to serve OUS, and that he had performed well in his recent time with the System. Lorenzen noted that a typical nationwide search would be impractical and unfair to other candidates because it was relatively clear that Pernsteiner would be the final candidate because of his unique qualifications. Lorenzen added that there had been some discussion to reformulate the Chancellor's position into a figurehead position, but that did not mesh with the current statutory scheme outlining the duties of the Chancellor. Lorenzen also observed that there were no administrative rules governing the selection of a Chancellor, although there were OUS Internal Management Directives and policies addressing the process. He shared that the Board may repeal or suspend its own Internal Management Directives and may do so if the Board felt it appropriate to appoint Pernsteiner without the process outlined in the IMDs.

Director Blair echoed President Lorenzen's comments, observing that he did not want to minimize the process used to bring Pernsteiner to his Acting Chancellor position. Director Blair added that Pernsteiner was uniquely qualified for the position and demonstrated his qualifications over the course of the legislative session.

Director Nesbitt shared that he believed that the recruitment process was not waived, but, in fact, it was an extensive recruitment and selection process that lasted the past eighteen months and that the candidate was successful. Director Nesbitt reiterated the comments of President Lorenzen and Director Blair.

Director Van Vliet moved suspension of the relevant Internal Management Directives and that the Board appoint George Pernsteiner as Chancellor of the Oregon University System and Director Dyess seconded the motion. Before voting on the motion, Director Sohn inquired regarding the terms of the appointment. President Lorenzen noted that the relevant statute stated that the Chancellor served at the pleasure of the Board and Director Sohn clarified that he was interested in the terms of the appointment. President Lorenzen noted that Pernsteiner would continue under the terms of his current appointment with the System, with the title of Chancellor.

Returning to the motion on the floor, President Lorenzen called for a vote. All in favor: Blair, Burns, Dyess, Lorenzen, Mendoza, Nesbitt, Richmond, Sohn, von Schlegell, and Van Vliet. Opposed: none. Motion passed.

After the vote, Pernsteiner thanked the Board for its vote of confidence. He observed that the Board, through its hard work, had set a positive tone that would result in considerable change. President Lorenzen shared that he was pleased with the opportunity to have worked with Pernsteiner.

b. Report and Recommendations of Board-Appointed Subcommittee on Sexual Harassment and Consensual Relations Board Policy

DOCKET ITEM:

Background:

The State Board of Higher Education, at its June 2005 meeting, received status reports from Oregon University System institutions on their respective policies relating to sexual harassment and consensual relationships. Board President Lorenzen charged Board members Dyess and Richmond with the task of providing recommendations on Board and institutional policy and procedure.

Subcommittee Recommendations:

The Board's Subcommittee recommends the adoption of the following policy statements on sexual harassment and consensual relationships. These recommendations are intended to provide additional guidance to the institutions of the Oregon University System regarding institutional policies and procedures, including periodic review of the effectiveness of campus policies, and periodic updates to the Board.

SEXUAL HARASSMENT

Sexual harassment is contrary to the mission, goals, and positive learning environments of the Oregon University System and its institutions. Each institution shall set forth its policy; shall establish effective means to notify the university community of the policy; shall provide mechanisms to educate the university community regarding the policy and its application; shall ensure fair investigations and review of allegations of sexual harassment; and shall periodically evaluate the effectiveness of its policies and procedures.

Institution policies shall:

1. Use common definitions of "Sexual Harassment." For students, sexual harassment is defined in the Board's Administrative Rule, OAR 580-015-010(2). For employees, sexual harassment is unwelcome sexual advances, requests for sexual favors or other verbal or physical conduct of a sexual nature when:
 - (a) Submission to such advances, requests, or conduct is made either explicitly or implicitly a term or condition of an individual's employment; or
 - (b) Submission to or rejection of such advances, requests, or conduct by an individual is used as a basis or condition for employment; or

(c) Such conduct is unwelcome and sufficiently severe or pervasive that it interferes with an individual's work performance because it has created an intimidating, hostile, or offensive working environment for the individual who is the object of such conduct, and where the conduct would have such an effect on a reasonable woman (if the object is a woman) or a reasonable man (if the object is a man).

2. Prohibit sexual harassment and retaliation for reporting sexual harassment.
3. Identify a source of assistance to those wishing to file sexual harassment complaints.
4. Identify the process by which allegations of sexual harassment will be investigated and reviewed.
5. Contain the following:
 - A description of the grievance process;
 - Timelines for resolution and/or requests for time extensions of complaints;
 - A statement of the possible consequences for violating the sexual harassment policy, consistent with Board, institution and collective bargaining agreement requirements for the imposition of sanctions; and
 - A statement of the policy's applicability to employees and students.
6. Require notice to all contractors that contractors and contractors' employees are expected to adhere to the institution's policy prohibiting sexual harassment in their interactions with members of the campus community.
7. Establish campus-wide educational programs.

The policy shall be broadly and regularly disseminated to the entire campus. Institutions shall also offer training to faculty and administrators and ensure that those responding to complaints have training and knowledge to fulfill their responsibilities. Institutions shall periodically assess the effectiveness of their notification and training processes.

8. Establish requirements for reporting and recordkeeping.

Each institution shall maintain records showing for each academic year:

- The number of formal complaints of sexual harassment;
- The number or percentage of those complaints in which sexual harassment was found to have occurred; and
- The sanction imposed (to the extent consistent with restrictions on disclosure of records).

Every four years, each institution shall report to the Board the results of a study designed to measure the effectiveness of the policy as perceived by students and employees.

CONSENSUAL RELATIONSHIPS

State Board of Higher Education administrative rule OAR 580-022-0055 requires institutions to take steps to ensure that employees do not participate in employment decisions, supervision, or grievance decision-making over family members. Consistent with that policy, the Board recognizes the potential conflict of interest that occurs when romantic or sexual relationships develop in which there is an inherent power differential between the parties to the relationship. Accordingly, whenever such potential conflict occurs, any employee involved in such a relationship has a duty to disclose the relationship and to cooperate in institutional efforts to prevent an actual conflict. Institutions shall develop policies to address problems that may result from consensual relationships.

Institution policies shall:

1. Establish procedures for eliminating conflicts of interest related to consensual relationships.

Consensual relationships to which this policy applies are those romantic, intimate or sexual relationships where one of the parties has institutional responsibility for or authority over the other or is involved in evaluation of the other party, whether the other party is an employee or a student.

2. Institutional policies must contain provisions:
 - Requiring an employee in a consensual relationship to advise a higher level administrator of the relationship and to cooperate in eliminating any actual or potential conflict of interest resulting from the relationship;
 - Notifying employees and students where they can express concerns regarding actual or potential conflicts of interest resulting from consensual relationships;
 - Identifying the risks and conflicts associated with consensual relationships, and
 - Prohibiting retaliation against persons who report concerns about consensual relationships.
3. Campus-wide educational programs.

The policy shall be broadly and regularly disseminated to the entire campus. Institutions shall also offer training to faculty and administrators and ensure that those resolving actual or potential conflicts of interest resulting from consensual relationships or responding to concerns regarding consensual relationships have the training and knowledge necessary to fulfill their responsibilities. Institutions shall periodically assess the effectiveness of their notification and training processes.

BOARD DISCUSSION AND ACTION:

President Lorenzen called on OUS General Counsel and Director Dyess to walk through the sexual harassment and consensual relationship materials. Director Dyess started by thanking various stakeholders that assisted in the development of the sexual harassment and consensual relationships framework. She reminded the Board, from previous discussions, that one of the significant changes the subcommittee made was to separate the sexual harassment and consensual relationship policy frameworks. Director Dyess noted that she believed that the Board should add a September 2006 implementation date for the campuses. She indicated that she would walk through the policy framework at a high level and comment on any questions.

Director Dyess started with the proposed sexual harassment policy framework. She noted that sexual harassment was contrary to the goals of the OUS institutions. Director Dyess walked through the policy elements, including the use of a common definition for sexual harassment. She offered that sexual harassment and retaliation for reporting sexual harassment should be prohibited. Director Dyess explained that there should be a source for assistance for those reporting sexual harassment, there should be a process identified for the allegations to be investigated and reviewed, and that contractors are included under the purview of the policy framework. Director Dyess also noted that there should be campus-wide educational programs and the regular dissemination of information and training. She stressed there should be an assessment of how programs, education, and training are working on the campuses. Director Dyess observed that the campuses should report to the Board on a periodic basis. Director Dyess offered that education and the dissemination of information should be the focus of the institutions in the development of their policies and that the periodic review should include more of a cultural assessment of the efficacy of campus policies.

Director Richmond added that she believed that the educational programs developed by the campuses should include examples of sexual harassment. President Lorenzen asked Director Dyess for more information on the reporting element of the policy framework and Director Dyess stated that the Board needed to be very clear that it expected the campuses to come back to the Board to report on progress. She reiterated that she would expect the institution presidents to report on compliance at the September 2006 Board meeting and whether or not the information dissemination and training on place has been effective.

Director Dyess moved on to the consensual relationships policy framework. She observed that the Board should treat consensual relationships like a conflict of interest,

noting there must be procedures for eliminating the conflict element of the relationship. She stressed that the Board would be focused on the conflict and not on the relationship itself. Director Dyess stated that campuses should ensure that there is not a backlash for reporting these conflicts. She observed that there should be a provision regarding how an employee reporting, and deals with, a conflict. She noted that there should be provisions for information dissemination, education, and training on the campuses. As with the sexual harassment framework, Director Dyess shared that there should be reporting requirements in place for campuses to demonstrate the efficacy of their policies. She reiterated the requirement for a report at the September 2006 Board meeting.

Director Blair asked why students were not required to make a report under the policy framework and Director Dyess noted that the policy was focused on the person at the higher level of the relationship. Director Blair asked if the policy was requiring the person at the higher level to disclose and OUS General Counsel Rawlins observed that the policy would not require the student to report the relationship. Director Dyess added that the second provision allowed for employees and students to report information regarding relationships. Director Blair noted that he would require all employees to report the relationships, whether or not they were in the higher level. He observed that if students could not be required to report the relationships, they should be encouraged to do so. Director Richmond clarified that the policy framework itself mentioned employees and did not distinguish between employees on a higher or lower level. Director Dyess noted that perhaps "encouraging" should be added to the consensual relationship policy framework. President Lorenzen reminded the Board that they were contemplating a policy framework under which the campuses would develop detailed policies. Director von Schlegell asked if institutions develop their own policies.

President Dow inquired about the level authority available to regulate these relationships and Rawlins noted that there were situations in which there were minors without the capacity to consent. Director Blair asked Rawlins for clarification on the definition of consent and Rawlins confirmed that the policy framework was premised on the fact that minors did not have the legal capacity to consent to these relationships. President Zinser added that it might be worthwhile to focus on how to deal with student/student situations. Director Richmond asked whether the policy framework would cover a senior research student in a power differential. She observed that it would be important for campuses to evolve their policies to take these situations into account. Director von Schlegell asked if student/student relationships should be added and Director Dyess reiterated the suggestion to add "encouraging" to the second bullet of the consensual relationships framework. Rawlins responded to the concern of Director Richmond, noting that the current draft covered those with institutional responsibility, and therefore, an unpaid research student that exercised power over other students. President Ray added that the presidents should compare provisions in presidents' council in order to develop some best practices for consideration.

President Lorenzen called for a motion to approve the sexual harassment and consensual relationships policy framework as included in the docket, subject to two

amendments. The amendments would be to add "encouraging" to the second bullet of subsection (2) of the consensual relationships policy and to require the campuses to report on compliance with the framework at the September 2006 Board meeting, including comments on the efficacy of education, information dissemination, and training efforts. Director von Schlegell moved approve of the policy framework, subject to the amendments and Director Burns seconded the motion. All in favor: Blair, Burns, Dyess, Lorenzen, Mendoza, Nesbitt, Richmond, Sohn, von Schlegell, and Van Vliet. Opposed: none. Motion passed.

c. Fiscal Year 2005-06 Operating Budget

DOCKET ITEM:

The Oregon University System 2005-06 Annual Operating, Debt Service, and Capital Repair and Construction Budgets are summarized in this report for Board consideration and approval. A separate 2005-06 Budget Report document will be available after the Board meeting with more detailed information on the allocation of state General Funds to the campuses through the OUS Resource Allocation Model (RAM).

2005-06 OUS Budget – All Sources

	General Fund	Other Funds Limited	Non-Limited Other Funds	2005-06 Total All Funds
Education and General Program				
EOU	13,145,346	13,965,243	14,498,457	41,609,046
OIT	15,745,528	12,876,872	16,048,530	44,670,930
OSU – Corvallis	82,450,203	151,111,485	318,966,302	552,527,990
OSU-CAS	3,356,496	1,002,610		4,359,106
PSU	60,168,680	116,532,140	233,188,549	409,889,369
SOU	14,960,385	22,883,425	57,255,888	95,099,698
UO	62,557,158	178,665,594	333,554,553	574,777,305
WOU	15,821,690	19,348,375	58,485,406	93,655,471
CO	6,628,524	2,464,000	2,994,612	12,087,136
Industry Affairs/OMI/ETIC/OCKED	2,582,733			2,582,733
Systemwide Expenses	2,270,309			2,270,309
Subtotal Education & General Program	279,687,052	518,849,744	1,034,992,297	1,833,529,093
Statewide Public Services:				
Agricultural Experiment Station	25,930,198	16,402,937	31,003,999	73,337,134
Extension Service	18,597,184	22,845,353	2,998,009	44,440,546
Forest Research Laboratory	2,629,185	9,762,959	11,760,782	24,152,926

<u>SUBTOTAL STATEWIDE PUBLIC SERVICES</u>	47,156,567	49,011,249	45,762,790	141,930,606
Sport Action Lottery Funds	-	<u>2,872,107</u>	-	<u>2,872,107</u>
2005-06 Total Operating Budget	326,843,618	570,733,100	1,080,755,087	1,978,331,806
2005-06 Debt Service Budget	12,910,781	2,836,656	52,144,956	67,892,393
2005-06 Capital Repair/Construction	<u>14,796,329</u>	<u>395,522,060</u>	-	<u>410,318,389</u>
2005-06 Total Budget	354,550,728	969,091,816	1,132,900,043	2,456,542,588

Note: Lottery funding is provided for scholarship support in the operating budget and debt service in the Debt Service budget.

Revenue Sources:

The OUS Operating Budget is comprised of four sources of revenue. Descriptions and relevant information related to these revenue sources follow below. Approximately 50 percent of the 2005-2007 appropriations will be budgeted in each fiscal year of the biennium.

State General Funds:

State General Funds are appropriated to OUS biennially by the legislature. The distribution of these funds to the campuses is developed in compliance with legislative Budget Notes and Board policy. Funds are allocated through the OUS Resource Allocation Model (described below) and are split roughly equally between the two fiscal years of the biennium unless otherwise requested by the campuses.

Other Funds Limited:

Other Funds Limited revenue for the operating budget is comprised principally of estimated campus tuition and fees (calculated on the bases of enrollment projections and the expenditure limitation authorized by the legislature) and indirect cost recovery on sponsored research, as well as lesser amounts of other miscellaneous forms of income.

Other Funds Non-Limited:

Other Funds Non-Limited revenue estimates include sponsored programs; gifts, grants, and contracts; designated operations (e.g., community workshops and other self-sustaining public service and education activities); and auxiliary activities such as student housing, service, parking, athletics, and incidental fee activities. Expenditure of these funds is not limited by the Legislature.

Lottery Funds:

Lottery Funds are comprised of 1) Sports Action Lottery Funds that are distributed to campuses according to Board policy, with 12 percent allocated for scholarships and 88 percent allocated for support of intercollegiate athletics, and 2) debt service funds that are used for Article XI-G bonds for capital construction.

2004-05 Budget Compared to 2005-06:

Compared to 2004-05, this budget represents an 11.8 percent increase in total operating funding available to OUS as is shown in the following table:

Funding Changes 2004-05 VS. 2005-06

Fund Source	2004-05	2005-06	% Difference
Operating Budget			
General Fund	\$312,294,197	\$326,843,618	4.7%
Other Funds Limited	\$550,180,694	\$567,860,993	3.2%
Other Funds Non-limited	\$904,204,499	\$1,080,755,088	19.5%
Lottery Fund	\$2,451,162	\$2,872,107	17.2%
Total Operating Funds	\$1,769,130,552	\$1,978,331,806	11.8%
Debt Service Budget			
General Fund	\$13,203,135	\$12,910,781	-2.2%
Lottery	\$1,610,569	\$2,836,656	76.1%
Other Funds Nonlimited	\$45,065,488	\$52,144,956	15.7%
Total Debt Service	\$59,879,192	\$67,892,393	13.4%
Capital Budget			
General Fund	\$11,519,853	\$14,796,329	28.4%
Other Funds Limited	\$436,238,120	\$395,522,060	-9.3%
Total Capital Budget	\$447,757,973	\$410,318,389	-8.4%
Total	\$2,276,767,717	\$2,456,542,588	7.9%

Note: Amounts above do not include OUS' share of Statewide Salary Funding estimated at \$29 million for the biennium and \$2 million for K-16 Data Project as these amounts are subject to Emergency Board approval.

2005-06 Distribution of State General Fund:

The recommended annual distributions of state General Fund through the OUS Resource Allocation Model (RAM) are developed to comply with House Bill 5153-B, the primary operating budget bill for OUS passed by the 2005 Legislative Assembly. See the appendix for tables listing the RAM allocations by institution/entity. The allocation of the General Fund budget to the seven campuses and the Chancellor's Office have been made in accordance with Legislative directives, Board policies and agreed upon procedures as expressed in the following guidelines.

2005-07 RAM Funding Allocation Guidelines:General Principles:

- The budget as proposed allocates \$326.8 million in General Fund support for operations in 2005-06, leaving a balance of \$332.5 million for 2006-07, plus the pending salary allocations and funding for the K-16 data project pending Emergency Board release. Funding is generally allocated approximately 50 percent for each year of the biennium with the exception of transition funding

provided for fee remission equity and WUE which are funded in the first year only and the tuition buy-down funding which is roughly $\frac{1}{3}$ in year one and $\frac{2}{3}$ in year two.

- The initial 2005-06 General Fund budget does not include any General Fund support from the statewide salary package as these allocations are subject to Emergency Board approval. Once approved, this funding will also be allocated $\frac{1}{3}$ in year one and $\frac{2}{3}$ in year two.
- The initial 2005-06 General Fund budget does not include the \$2.0 million General Fund funding for the K-16 Data Project as these funds are subject to Emergency Board approval.
- Funding for debt service is budgeted based on scheduled debt service payments in each year of the biennium.
- Funding for Capital Repair/Construction is allocated 100 percent in the first year of the biennium. Capital repair funding is allocated on the basis of each institution's proportion of total Education and General facilities square feet with a modest reserve for contingencies.

Enrollment Driven Funding:

- Distribution of per-student funding through the cells will be based on 2002-03 fundable enrollment with cell values indexed to available revenues. This is a decision made in 2002-03 when the state economy and budget declined. The premise was that funding enrollment growth in a declining budget period would dilute the funding available per student FTE and that could lead to declines in quality. Also, some institutions were growing faster than the average, thereby changing each institution's relative proportion of the budget. Faced with the option of reduced funding per student FTE and altering relative shares of the budget per institution, the choice was made to freeze the enrollment funding at its then current distributions. Under this policy, additional students may be accepted at individual campuses (with only tuition funding), so long as the campuses provide assurances that quality will be maintained. Even though there would be no addition General Fund for these incremental students, adding certain types of students, e.g. nonresident students, students from diverse backgrounds and high achieving students, could enhance funding and overall quality while maintaining access for growing student demand.
- The \$13 million earmarked by the Legislature for undergraduate students was allocated on the basis of each institution's fundable undergraduate enrollment in accordance with Legislative expectations.
- Total enrollment driven funding has been proportionately reduced (along with most targeted programs) by the funding reductions due to PERS rate reductions and cuts to service/supply and capital outlay line items.

Enrollment Projections:

OUS expects FTE enrollment to increase by an average approximately 1.5 percent in 2005-06 for a total FTE enrolment of 72,627. System-wide and campus enrollment projections are summarized in the following table. More detail regarding enrollment will be reported in the annual enrollment report at the November 2005 OUS Board meeting.

**Projected FTE Enrollment for 2005-06
by Student Type, Level and Funding**

Level	State	Tuition	Total
Resident:			
Undergraduate	47,379	2,609	49,988
Master	7,708	466	8,174
Doctoral	3,237	487	3,724
Pharmacy	268	106	374
Vet Med	94	162	256
Law	277	19	296
Total Resident	58,963	3,849	62,812
Nonresidents		9,815	9,815
Total FTE	58,963	13,664	72,627

**Projected FTE Enrollment for 2005-06
By Institution**

Institution	2004-05	2005-06 Projected	% Change
EOU	2,555	2,686	5.13%
OIT	2,517	2,516	-0.04%
OSU	18,387	18,589	1.10%
OSU - Cascades	275	294	6.91%
PSU	18,231	18,752	2.86%
SOU	4,291	4,416	2.91%
UO	21,075	21,084	0.04%
WOU	4,244	4,290	1.08%
Total	71,575	72,627	1.47%

Targeted Program Funding:

- WUE/Fee Remission Equity – due to the reductions in these line items coming at such a late date, for 2005-06 transition funding in an amount equal to that provided in 2004-05 will be provided to each of the campuses that have received this funding in the past. There will be no funding provided for these items after 2005-06.
- Collaborative OUS Nursing funding (\$56,412) previously budgeted under OUS has been allocated proportionately to the participating campuses.
- Campus Public Service Programs funding has been reduced by the \$1 million Legislative reduction and a pro-rata share (\$80,000) of the PERS and S&S/capital outlay cuts outlined below.
- A new line item for \$125,000 per year has been added for the Natural Resource funding at OSU in accordance with the Legislative budget.

- Cascades campus will be given cell funding based on 2002-03 fundable FTE with the remainder of the targeted funding moved to small school funding (with no change in total funding).
- ETIC funding is based on proposed ETIC allocations. These allocations will be approved by the ETIC Board at their September 23, 2005, meeting. Any changes made to these amounts will be adjusted in year 2.
- A new line item has been added for the Dispute Resolution programs at UO and PSU. These funds have been allocated based on mutual agreement of the respective institutions.
- PERS Reductions (\$2.6 million per biennium) are prorated between cell and targeted program funding.
- 3 percent Services and Supplies reduction (\$3.4 million per biennium). Reduction is prorated between cell and targeted programs.
- Systemwide expenses/programs funding will be allocated as in the past with the following exceptions:
 - Funding for Department of Justice (DOJ) charges has been allocated to the campuses in accordance with the Chancellor's June 16, 2005, memorandum on this topic. Institutions will now be responsible for payment of DOJ charges incurred on their behalf.
 - Faculty diversity funding is now allocated in the base budget, however, campuses will continue to report plans and activities as in the past.
 - Funding for "Services to Students with Disabilities" has been allocated based on expense distributions from 2004-05. Future allocations will be based on the preceding year's expense distribution to serve these students as is reported each spring.
 - OWEN funding has been reduced by approximately \$250,000 to comport with the Board decision made at the May 2005 Board meeting.
 - Southwestern Oregon University Center funding is based on the transition agreement between OUS, EOU, and SWOCC.

Other Changes:

- Allocation of funding for faculty recruitment and retention is based on proportionate RAM funding at each institution and as specified in the Legislative budget for statewide public service programs.
- Buy-down of Tuition and Fees:
 - Tuition buy-down funds have been distributed to backfill the loss of undergraduate resident tuition revenues and other tuition that is tied to undergraduate resident rates being limited to a 3 percent increase.
 - Resource fee buy-down funds have been distributed to backfill reductions in resource fees as approved by the OUS Board in August 2005 and as is necessary to keep resource fee revenues to the Legislative limit of 9.1 percent of tuition revenues
 - Buy-down amounts will be reviewed at the end of the 2005-06 and may be adjusted based on actual enrollments and revenues to ensure compliance with Legislative expectations.
 - Tuition and fee buy-down funds will be moved to cell funding in 2007-09.

Staff Recommendation to the Board:

The staff recommended that the Board approve the proposed 2005-06 Annual Operating Budget and allocations for 2005-06 as described in this docket and delegate authority to the Acting Chancellor to make adjustments to the OUS Annual Operating Budget for 2005-06 as is necessary. Salary allocations and allocations for the K-16 Data Project, once approved by the Legislative Emergency Board, will be brought to the Board for allocation review and approval.

BOARD DISCUSSION AND ACTION:

President Lorenzen asked Vice Chancellor Jay Kenton to walk through the 2005-06 operating budget. Kenton directed Board members to materials in the docket to see the proposed 2005-06 OUS budget from all sources. Kenton noted that the spreadsheet of RAM allocations and Systemwide expenditure funding allocations were added to the folders of Board members. Kenton explained that OUS was proposing to allocate the 2005-05 budget to result in an 11 percent increase in total operating budgets across the System, 13 percent increase in debt service, 8 percent decrease in capital, and 8 percent overall increase in all budgets. He noted that the budget principles and allocations were discussed with institution presidents and vice presidents for finance. Kenton stated that once the budget was adopted, the principles would be codified and be made available to Board members in the Budget Report Summary.

Kenton moved to the General Fund distribution criteria. He explained that \$326.8 million was distributed through the RAM model and that the General Fund was typically distributed on a 50 percent per year basis. Kenton noted that the fee remission equity and WUE funding would be distributed in the first year as a transition and that the tuition buy down be distributed one-third in the first year of the biennium and two-thirds in the second year. Kenton noted that debt service would be budgeted in accordance with payment schedules as directed by the analysts. He offered that capital would be budgeted 100% in year one because the projects need to get started. Kenton added that OUS was awaiting release of certain funds from the Legislature's Emergency Board.

President Lorenzen asked if the allocations reflected the fact that Oregon State University took responsibility for the information and data processing work and Kenton replied that the allocations reflected that transition. Kenton turned to enrollment and tuition buy down funding next. He shared that the allocations were premised on 2002-03 cell values. He explained that this was a decision from a prior Board when budgets started to decline in the 2001-03 biennium and was continued because there was no funding provided for enrollment growth. Kenton added that \$13 million in supplemental undergraduate funding was allocated based on the undergraduate cell distributions and the buy down funding was allocated on a one-third, two-thirds basis based on revenues lost in the buy down process.

Director Blair asked how the buy down was spread across the institutions and Kenton explained that the buy down was derived by looking at each campus and gauging how much revenue would be lost to buy down the tuition to a 3-percent increase. Kenton observed that campuses with a smaller initial tuition increase received less than other institutions. Kenton noted that staff tried to compensate campuses for the loss of tuition income from the buy down. Director Nesbitt commented that the tuition buy down numbers and cell funding amounts were disproportionate. Director Blair asked if the tuition increases were 3-percent across the Board and Kenton replied, on average, they were. Director Nesbitt pointed out that more money was given to the institutions that proposed a greater tuition increase when the Board did the one-time tuition mitigation earlier in the year. Director Sohn asked how it should impact future projections and Director Nesbitt noted that the Board should call attention to it. Kenton replied that Director Nesbitt's question was good and that, in budget negotiations, staff assumed that everyone would go to 5 percent in the second year of the biennium.

President Lorenzen commented that basing the cell funding on 2001-02 enrollments may be playing into the current allocations and issues with the tuition buy down and Kenton noted that many of the budget premises would need to be revisited. President Ray shared that it was important to make everything as transparent and clear to students as possible. Director Blair noted that there was previous work from Nancy Heiligman on the cost structure. Kenton shared that with the targeted programs, OUS reclassified the Cascades campus to be funded like a regional university. He commented that targeted programs were reduced proportionately by the S&S, capital, and PERS rate reductions. He noted that ETIC funding was based on proposed allocations from the ETIC Board. Kenton stated that the ETIC allocations had not receive final approval, so if there were any differences, OUS would need to make adjustments in the second year of the biennium. Director Blair asked about conversations with ETIC regarding its allocations and Kenton replied that the allocations were based on ETIC recommendations.

Director Nesbitt noted that there were previous discussions regarding the funding for the campus public service programs and that, instead of completely cutting particular programs, the Legislature allowed the State Board of Higher Education to determine how to allocate the reductions to the campus public service programs. Director Nesbitt suggested that before the 2006-07 budget is devised that the Chancellor's Office determine the budget impacts to the 26 targeted programs. Director Dyess asked what the total budget for the programs was and Chancellor Pernsteiner replied it was \$6.993 million. Pernsteiner noted that with the \$1 million cut and other required reductions, \$5.7 to \$5.8 million remained. Kenton explained that OUS proposed 50 percent of the funding, or \$2.9 million, be provided for the campus public service programs. President Ray observed that the legislature gave funding with the left-hand and took it with its right-hand during the past session. He noted that the Legislature wanted to take \$1 million and realized that it would not work if it protected too many of the campus public service programs. Neil Bryant shared that when the House and the Senate came out with their budget, they tried to find some savings and decided to take some money out of higher education by cutting the public service programs by

\$1 million. Bryant explained that the OUS position was first, not to take the cut, and if the Legislature needed to take the cut, to permit the Board the discretion of how it will be made. Pernsteiner added that the campuses had been provided a certain amount of money, a bottom line created by the RAM. He explained that his recommendation was to return the decision as to how to allocate the cuts to the campus. Pernsteiner stated that there were several reasons that staff recommended to allocate the \$1 million cut on a pro rata basis and leave it to the individual campuses to determine what they were going to do with the actual programs.

Director Van Vliet asked if there was any discussion about the possible loss of federal funds or grants with the reductions in some of the campus public service programs and Bryant replied that staff shared that with the Legislature. Kenton turned to Systemwide expenses. He highlighted several pieces, including the distribution of DOJ charges to campuses, the reduction of OWEN funding, and the allocation of faculty diversity and student disability funding at the beginning of the year. Director Blair noted that many of the suggestions were good and that it was important to eliminate the "free good" from the budget. Kenton moved on to the capital budget, noting that \$14.8 million in General Funds and \$11.8 million in capital repair funds would be allocated to campuses based on the square footage of their Education & General buildings. Kenton highlighted the \$3 million for the SOU-Rogue Community College building, \$48 million in Article XI-G bonds, \$19.4 million in Lottery bonds, \$32.7 million in an energy loan, and \$160 million in Article XI-F(1) bonds. Kenton observed that while it appeared that there was a reduction in capital funds, there was actually an increase in funds provided by the state.

Director Blair turned to the capital budget and observed that the System was committed in state's cash flow through General Funds and, in other instances, through other sources. Director Blair noted that some of the line items were co-mingled. Kenton explained the scope of the SELP program. Director Blair asked whether there was a finding that there would be energy savings sufficient to cover the SELP loans and Kenton explained that a justification of savings was part of the loan package. Director Blair confirmed that nothing came from general revenues because Article XI-F(1) bonds are supported by user fees and income generated by the facility and Article XI-G bonds were supported by the state and Kenton replied yes, highlighting the Legislature's concern with the debt burden of the state. Kenton added that the state has a five-percent self-imposed debt limit and well below the standard. President Ray observed that communications would be important because the public may think the System is awash with cash for capital projects, not understanding the huge deferred maintenance issues facing the System.

President Lorenzen called for a motion to approve the budget as presented. Director Dyess moved approval and Director Mendoza seconded the motion. All in favor: Blair, Burns, Dyess, Mendoza, Nesbitt, Richmond, Sohn, von Schlegell, Van Vliet, and Lorenzen. Opposed: none. Motion passed.

After the vote, Director Nesbitt asked how to deal with the proposed report on the impact on campus public service programs before the development of the 2006-07

budget. President Lorenzen replied that it could be done through a direction to the Chancellor.

6. REPORTS

a. Chancellor's Report

President Lorenzen recognized Chancellor Pernsteiner for a Chancellor's Report. Pernsteiner thanked the Board once again for its vote of confidence. He noted that President Zinser would be leading an Oregon delegation to a conference sponsored by the American Council on Education entitled "Improving Lives and Sharing the Academic Success of Low-Income Adults." Pernsteiner observed that the Interinstitutional Faculty Senate and Provosts' Council were continuing their work with PK-20 alignment, advising, and other important issues. He added that he was pleased with the IFS work on a definition of quality. Pernsteiner discussed Director Nesbitt's work, through the Access and Affordability Working Group, on developing a shared responsibility model. Pernsteiner added that OUS was pleased with the legislative support of the Oregon Opportunity Grant, but it was not the end of the effort because eligibility for the grant is ended at a very low-income threshold.

Pernsteiner commented another affordability issue and thanked IFS and the Provosts' Council for looking into the high cost of textbooks. He thanked the presidents and campuses for their generosity regarding Hurricane Katrina. Pernsteiner noted that the flexibility permitted due to the removal of the fee remission cap allowed campuses to assist displaced students. Pernsteiner turned to Neil Bryant for a legislative update.

Bryant observed that the Legislature would be delighted with Pernsteiner's appointment as Chancellor. He noted the Legislature was starting to experience "sticker shock" with the capital construction budget it had approved. Bryant added that the Legislature was starting to think the "tail was wagging the dog" in that campuses would raise money for a building and subsequently turn to the Legislature for the match. He also offered that community colleges were starting to ask for capital funding, which had not occurred over the last thirty years.

b. Presidents' Reports

President Lorenzen turned to the institution presidents for reports.

President Fatemi congratulated Pernsteiner on his appointment.

Vice President Dyke congratulated Pernsteiner on his appointment and noted UO's success with its \$600 million capital campaign, observing that it had raised \$92 million in one fiscal year.

Vice Provost Connell congratulated Pernsteiner on his appointment.

President Bernstine offered Pernsteiner his congratulations and introduced Dr. Roy Koch, PSU's new Provost.

President Dow added her congratulations to Pernsteiner, noted OIT's focus on strategic planning, observed that OIT's sexual harassment workshop had been slated, added that she had participated in the opening of the ODS/OIT/EOU dental hygiene program, and that OIT was grateful to be a partner with PSU in the transportation grant it recently received.

President Ray expressed pleasure that the Kelley Engineering building was open, noted the Raising Reser project had come to fruition, and recognized OSU students for their success at a NASA internship program.

President Minahan congratulated Pernsteiner, thanked the Board for the opportunity to serve Western as its interim president, and observed that he would be starting to make decisions regarding admission and financial aid staffing to focus attention on WOU's enrollment issues. President Lorenzen welcomed President Minahan.

President Zinser congratulated both President Minahan and Chancellor Pernsteiner on their respective appointments. She noted SOU was making new investments in financial aid and admission staffing based on its enrollment plan, shared SOU faculty were published in the Handbook for Information Security, and observed SOU Dean of Education was an integral part of the new edition of an educational research text.

c. Provosts' Council

President Lorenzen turned to Dr. Dave Woodall for a Provosts' Council report.

Woodall noted approvals, including a PSU request to conduct an external review of its proposed Ph.D. in Technology Management, a name change of the Appropriate Dispute Resolution Center at UO, and the termination of UO's M.S. in software engineering. Woodall added that the Provosts' Council had a brief operational planning meeting.

d. Interinstitutional Faculty Senate (IFS) President

President Lorenzen recognized Dr. Robert Turner for an IFS report.

Turner congratulated Pernsteiner, shared that many of the recent IFS-Board conversations had been focused on academic quality, noted the interest of IFS in the PK-20 efforts of the Joint Boards, added that he would communicate the necessity of faculty involvement in the institutional adoption of sexual harassment and consensual relationship policies, and stated that the real value of PERS and benefits could be measured by retention and the campus-wide ability to recruit new faculty.

e. Oregon Student Association (OSA) Chair

President Lorenzen turned to ASOIT President Catalina Clarke for the OSA report.

Clarke congratulated Minahan and Pernsteiner on their respective appointments. She noted that she would like to speak briefly on three topics: resource fees, long-range planning, and quality. Clarke noted that if students could not access high quality institutions, there would not be substantial economic benefit to the state. She asked the Board to balance access and quality. Clarke observed the discussion regarding resource fees and the lack of accountability that surrounded them. She noted resource fees resulted in several issues for students, including the inability to plan financially, the fact that the Oregon Opportunity Grant did not cover resource fees, and that resource fees could begin to price low-income students out of some majors. She urged the Board to appoint a committee to discuss the long-term effects of the decentralized policy governing resource fees. Clarke asked the Board to consider the student perspective in its upcoming long-range planning efforts.

7. COMMITTEE REPORTS

a. Standing Committee

President Lorenzen asked Board members if there were any reports from committees or working groups.

Director Blair offered a brief report from the Finance and Administration Committee. Director Blair noted that the Committee had received a report from OUS Director of Internal Audit Patricia Snopkowski. He observed that of the two scheduled audits, one returned with a satisfactory rating and the other had a needs improvement rating. Director Blair noted of the four audits requested by management, all returned with needs improvement ratings and all four of the financial irregularity audits were substantiated. Director Blair reviewed the follow-up work and observed of the fourteen follow-up audits, eight were complete and six still had recommendations requiring implementation. Director Blair commented on the institutional transparency and cooperation with Internal Audit. He observed, however, the need for an improved internal control environment and robust policy framework. He noted that there needed to be a sense of urgency to resolve issues once they are identified and that Internal Audit was moving forward with efforts to bolster staff.

Director Blair added that the Committee also reviewed the managerial reports for the end of the fiscal year. He noted the \$110 million fund balance, which was 13% of operating revenue. Director Blair observed that it was essentially unchanged as compared to the prior year, although there was a \$4.4 million benefit due to a change in accounting regarding compensated absences. He added that the Committee believed the reporting structure was a big step forward and that the System seemed to be in pretty good shape.

He noted that the Committee considered a report on the investment portfolio and that the staff had done a good job with the streamlining of portfolio management. Director

Blair shared that the return on the \$66 million in pooled endowment funds was 10.3%, ahead of the 8.1% benchmark. He observed that all of the fund managers outperformed their benchmarks with the exception of T. Rowe Price and that T. Rowe Price would be replaced when management was shifted to the Oregon State Treasury.

Director Blair noted that the full Board had already considered the OSU large animal proposal and that the Committee did some preliminary work on an accountability framework that would probably be expanded in the Board's discussions on long-range planning. President Lorenzen recognized Director Blair's work in the finance and administration efforts of the Board.

b. Working Groups

President Lorenzen turned to Director Nesbitt for a report from the College Savings Plan Board. Director Nesbitt stated the Board adopted a marketing plan for the upcoming year and that recent legislation permitted the College Savings Plan Board to use some earnings to provide incentives to save. He observed that Oregonians would start to see some new and innovative ways to encourage families to save for college.

Director Van Vliet offered a brief update of the Joint Boards Working Group. He noted several Board members attended the State Board of Education's retreat and shared the critical enthusiasm surrounding the PK-20 efforts. He specifically mentioned President Ray's participation on a panel that addressed alignment and sector cooperation in the Linn-Benton area. Director Sohn added that the alignment efforts provided the higher education sector with a specific opportunity to focus on the preparation of students through the implementation of performance admission standards. Director Burns added that it was important for State Board of Higher Education members to attend the State Board of Education's retreat.

c. Other Board Committees

See above.

8. PUBLIC INPUT

President Lorenzen turned to Bill Linden for public comment. Linden thanked the Board for the opportunity to speak and identified himself as a representative of the Association of Oregon Faculties. He observed that while the Governor did not approve the Board's proposal to increase faculty salaries in the past legislative session, AOF membership felt it was a positive step. Linden wanted to raise two issues with the Board. He noted the short-term issue was for the Board, in the 2005-2007 biennium, to do everything that it could to ensure that faculties receive the same compensation adjustment that others in the executive branch had received. Linden observed that this would include adjustment to mirror the additional "step" offered to other employees, even though faculty members typically did not have steps in their compensation plan. He noted that faculty members should come as close to the 8.75% increase as possible. Linden

shared that, in the long-term, it would be important to deal with the "step" issue because faculty members were falling behind.

President Lorenzen reiterated the Board's concern regarding faculty compensation.

9. BOARD COMMENTS

There were no Board comments.

10. DELEGATION OF AUTHORITY TO BOARD'S EXECUTIVE COMMITTEE

"Pursuant to Article II, Section 5 of the Bylaws of the Board of Higher Education, the Board delegates to the Executive Committee authority to take final action as here designated or deemed by the committee to be necessary, subsequent to the adjournment of this meeting and prior to the Board's next meeting. The Executive Committee shall act for the Board in minor matters and in any matter where a timely response is required prior to the next Board meeting."

President Lorenzen called for a motion to approve the delegation of authority to the Board's Executive Committee as presented in the docket. Director Van Vliet moved approval and Director Mendoza seconded the motion. All in favor: Blair, Burns, Dyess, Lorenzen, Mendoza, Nesbitt, Richmond, Sohn, von Schlegell, and Van Vliet. Opposed: none. Motion passed.

11. ADJOURNMENT

President Lorenzen adjourned the meeting at 12:58 p.m.



Henry C. Lorenzen
President of the Board



Ryan J. Hagemann
Secretary of the Board