

how to best link this back to the Board's agenda around economic development and connect it to the results the Board is trying to achieve. He stated that the present 10 percent set-aside in the proposal did not achieve the goals he was after.

Director Nesbitt moved approval of the proposal for the ASET Initiative. Those voting in favor: Directors Blair, Burns, Dyess, Lorenzen, Nesbitt, Pilliod, Richmond, von Schlegell, and Sohn. Those voting no: none.

g. Legislative Concept—Optional Retirement Plan

BOARD DOCKET:

The Oregon State Board of Higher Education on April 2, 2004, approved submission of a placeholder legislative concept to amend ORS 243.800 that governs the Oregon University System (OUS) defined contribution Optional Retirement Plan (ORP). The intent of an amendment is to decouple the ORP from the Oregon Public Employees Retirement System (PERS) for employer contribution rate setting and membership rules for adjunct faculty. Historical fluctuations in PERS employer contribution rates, along with uncertainty about future PERS plan and rate changes, pose fiduciary concerns about contribution rate volatility for ORP participants if the plans are not separated for purposes of contribution rate setting.

Discussions with a faculty stakeholder coalition began in December 2003, to outline criteria that stakeholders indicated are needed to guide action by the Board in setting employer contribution rates. These criteria are that an alternate rate statute would provide metrics describing a rate-setting method that makes ORP rates 1) competitive, 2) stable, and 3) sustainable. Campus Vice Presidents for Finance and Administration began discussing the concept of decoupling ORP and PERS contribution rates in March 2004.

Legislative Concept Options:

Recent PERS events, including the 2003 establishment of a PERS hybrid plan and the state's \$2 billion bond sale for rate reductions, indicate that the ORP statute should be amended either to (A) retain the linked contribution rates and align statutory language with funding and eligibility provisions suitable for the defined contribution plan participants, or (B) decouple the contributions rates of the two plans.

IF	THEN
A. Continue contributions linked to PERS Total Employer Contribution Rate	A1. Revise ORS 243.800(8) and (9) to permit "indirect" contributions, e.g., debt service paid to DAS rather than to PERS A2. Revise eligibility criteria for adjunct faculty and part-time employees to eliminate retroactive contributions and lost earnings requirements.

B. Establish a fixed rate at current PERS employer contribution rate with an option for the Board to adjust for competitive market rates	B1. Requires budgetary support for divergent ORP and PERS rates B2. Requires periodic adjustment to total compensation benchmarks in relevant labor markets
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Discussion

Continued linkage to the PERS Total Employer Contribution Rate (ORS 243.800(9)) creates contribution rate uncertainty for ORP participants in the near and long-term. The combination of regular biennial rate adjustments, based on PERS' plan valuations, uncertainty in future PERS benefits design, pending amortization policies for three separate PERS plans, and the outcome of legal challenges to 2003 PERS reform, create a contribution rate volatility unusual in money purchase pension plans. Decoupling the employer contribution rates eliminates these problems. Staff evaluation of the two contribution rate options is shown in Tables 1 and 2.

Table 1. ORP Linked to PERS Total Employer Cost Rate

Criterion	Analysis
Stable	Poor historical rate stability
Competitive	Provides highly competitive contribution rates
Sustainable	Questionable. Employer rates are projected to return to rate levels near those that stimulated PERS reform in 2003
Pro	<ul style="list-style-type: none"> ▪ Employer total cost rate was in effect when current participants made their irrevocable elections for the ORP; avoids "contract rights" litigation ▪ Cost neutrality between ORP and PERS ▪ Favored by faculty stakeholders until PERS reform litigation is completed
Con	<ul style="list-style-type: none"> ▪ PERS plan management, normal cost factors, and investment performance create a volatile employer total contribution rate ▪ Effects of PERS' amortization policies among three plans remains to be determined, but could cause PERS employer rates to decline to near zero over time due to the state agency surplus from Measure 29 bond proceeds ▪ Affected by alternative funding decisions related solely to PERS benefits, e.g., the Measure 29 rate reduction ▪ Inapplicability of past service cost payments for defined contribution plan participants, i.e., PERS and ORP benefits and contributions are not comparable

Table 2. Fixed Contribution Rate, Set at Current PERS Rates and Adjusted for Market

Criterion	Analysis
Stable	Best option for stability in predicting participant accruals and employer costs

Criterion	Analysis
Competitive	<ul style="list-style-type: none"> ▪ May be established with reference to labor market comparator rates ▪ Rate comparison to PERS contribution is immaterial in that member benefits are not directly impacted by employer funding levels
Sustainable	Presumes a fixed rate would be established at a rate determined to be sustainable by OUS institutions over extended periods of time
Pro	<ul style="list-style-type: none"> ▪ Provides participants a definite determinable retirement contribution for recruitment communications and retirement planning ▪ Provides predictable funding requirements for budgeting ▪ Eliminates the effect of PERS fiduciary decisions on ORP participants. ▪ Insulates ORP participants from the effects of legislative changes to PERS ▪ Permits rate-setting to be tailored to ORP demographics and experience ▪ Allows adjustments as wage benchmarks are attained ▪ Favored by six of seven OUS campuses; one campus response pending
Con	<ul style="list-style-type: none"> ▪ Requires OSBHE and OUS Institutions' commitment to sustained funding levels ▪ Requires rate setting structure and process be transparent with quantifiable and measurable metrics used in rate setting to address faculty concerns ▪ May be precluded by contract rights question similar to PERS challenge

Staff Recommendation to the Board:

At a minimum, housekeeping items related to indirect contributions (A1) and eligibility requirements for adjunct faculty and part-time employees (A2) should be proposed as a legislative concept to amend ORS 243.800 if the PERS Total Employer Cost Rate is retained.

In the best interests of the Oregon University System and Optional Retirement Plan participants, the ORP employer contribution rates should be decoupled from PERS employer contribution rates. The fixed rate option allows the OUS to adapt eligibility rules to the ORP to eliminate retroactivity of contributions and protects ORP participants from PERS funding arrangements unanticipated by the current statutory language.

BOARD DISCUSSION AND ACTION:

Ms. Denise Yunker, Plan Administrator for the Optional Retirement Plan, reviewed the aspects of the Legislative Concept and stated that there would need to be continuing discussion around the issue as the Legislative session approaches.

“The options are outlined in the Board docket item,” Ms. Yunker explained. “There are two choices: one is the status quo with minor statutory amendments that will strengthen the plan against difficulties that we’ve encountered with the linked plan rates; the other option is the staff recommendation and that is to direct staff to prepare language for submission to DAS that would decouple the contribution rates from PERS and the ORP so that those would be set independently for the defined benefit and defined

contribution plan. I do want to note that we had active engagement with the faculty coalition. The Interinstitutional Faculty Senate has been active in these discussions and does support staying with the PERS rate rather than the decoupled rate. The question before you today is: should we take the option of minor amendments and maintain the status quo or should we go forward and decouple the linked rates in statute and set a fixed rate for the Optional Retirement Plan separate from the PERS rates?"

When asked by Director Blair what the position of the faculty members was, Ms. Yunker replied that their position has been consistent and they concur that, at a minimum, some statutory changes need to be made to prevent the type of problem that occurred with the Measure 29 correction. Their concerns are:

1. The affiliation with PERS offers some protection from having plan provisions change either by the legislature, by the Board, or by OUS. It is a "strength in numbers" type of protection that faculty believe would exist by staying linked with PERS.
2. Faculty are uncertain how the Board, which would have discretion to set rates, would deal with the retirement plan contribution issues if there are more budget restrictions and whether or not there would be adverse impact on the ORP participants.
3. The IFS position, and the other faculty coalition members as well, is that they want to see an explicit methodology about how rates would be set if the Board established a fixed rate.

Dr. Peter Gilkey, president of IFS, stated that Ms. Yunker had correctly stated the position of both the IFS and other faculty who had participated in discussions.

It was pointed out that the position of the faculty and that of the staff were diametrically opposite and that was the reason staff had come to the Board to get a sense of what its position was.

Director Lorenzen mused that this was a very technical issue and that the Board should support the staff decision. However, Director Blair's response is that it is not a good indicator if there is no agreement. "I wonder if there is a way to find some middle ground here, putting some more parameters around how the ORP contributions are made so that we can get the faculty to feel a bit more comfortable that this is not going to be a total black hole that they have no visibility to, and at the same time, we don't get ourselves stuck with a PERS program that is in constant motion."

Director Burns opined that the item should be tabled until the next Board meeting, if Board members didn't feel they could make an informed decision.

There was discussion around the time frame for getting the Legislative concept to DAS. Mr. McGee, Budget Analyst, Oregon Department of Administrative Services, stated that, "from a timing standpoint, Legislative Council has to have information to draft this for July 15 – which, I believe is before your next Board meeting or about the same time as

the Board meeting. If you had an option to move forward with at least part of this for the drafting portion, you would have an opportunity to see it once again before it is drafted in final form and again for the Governor to make a decision to move forward toward the legislative session. So, if you can move something forward, at least to make the initial Legislative Council's July 15th deadline, that would be helpful and you would have some opportunity to have some additional conversations then."

Providing further guidance, Director Blair stated that option A-1 would be very easy – it could be done immediately. "I guess the thing I'd like the staff to do is sit down with the faculty and see if you can come up with something that is, at least to some degree, addressing the mutual concerns. Now we have a deadline—we've got to sit down and listen a little bit to each other and try to find something in the middle. I don't relish the idea of going to war over this, because I don't think that makes any sense."

There was consensus that the item would be set over until the next meeting. If necessary, a special meeting could be called to resolve the language of the proposal.

4. CONSENT ITEMS

a. SOU, Master's of Music (Conducting)

BOARD DOCKET:

Southern Oregon University proposed to offer its existing American Band College program as a "stand-alone" degree program, effective summer 2004. Since its initiation in 1989, the American Band College has been housed within the framework of options that constitute the interdisciplinary Master of Arts/Science in the School of Arts and Letters. As part of the academic program of SOU's Department of Music, the American Band College is accredited by the National Association of Schools of Music (NASM). In its most recent accreditation review, NASM recommended renaming the degree awarded for completion of the American Band College program to become a master's in music since its curriculum closely resembles that of a music degree versus an interdisciplinary degree.

The American Band College is unique; its curricular design does not replicate master's programs elsewhere in the region or country. SOU's mission encompasses excellence in the fine and performing arts and education. Preparation and continuing education for music teachers and band directors relate directly to these mission strengths.

The Master of Music (Conducting) offers 18 credits of band director pedagogy, 9 credits of practical applications, 9 credits of research, and an additional 9 credits of non-music electives, for a total of 45 required credits. This highly structured yet customized program spans a three-year (three-summer) period. All students are tested upon entry in 40 areas of required knowledge. Based on assessment outcomes, students focus on improving their knowledge and skills in unmastered areas via the practical applications courses. They play instruments each day in large ensembles where they sight-read new music and present several public performances conducted by six internationally known