State Board of Higher Education Meeting

An Investment in Oregonians for Our Future
OUS Operating Budget Request
2007-2009

July 14, 2006
Oregon’s most important assets

Oregonians, our state’s most important assets:

- need assistance, education, and development opportunities to achieve their full potential
- should be coveted as one of Oregon’s strategic advantages (along with its location, sustainable methods, and natural resources) and as the key for Oregon to remain competitive and nimble in the quickly changing global economy
- must be globally aware, highly educated, and trained to ensure that Oregon can compete and prosper in this new environment facing us
Oregon’s most important assets

Public higher education and its faculty and facilities represent the state’s knowledge assets that are critically important in today’s knowledge economy.

OUS faculty are discovering new knowledge and developing new technologies that will fuel the economy of the future.

Higher education owns 50% of the state’s facilities.

These assets represent both Oregon’s cultural heritage and its competitive advantage that should be maintained for the benefit of future generations of Oregonians.
Higher education is a public good

Higher education:
- positively transforms Oregonians’ lives
- creates opportunities for Oregon
- is vital to the future of our state, and the well-being of our citizens and economy

An educated society benefits all Oregonians
Higher education: an investment, not a cost

Higher education:
- improves and stabilizes the state’s available revenue through higher earning taxpayers – college graduates pay 78% more in taxes than those with only a high school diploma
- will be required for 80% of high wage Oregon job openings in the future
- prepares Oregonians for top level jobs, attracting and retaining companies and industries, lessening need to import talent
- reduces the amount of state funds required for social services (e.g., public assistance, healthcare, incarceration)
- creates healthier citizens who volunteer and vote more, and make sure their children go to college
Investing strategically in Oregonians

OUS = an investment with a very direct economic impact and return:

✓ Attracting business investment and jobs to the state
✓ Developing Oregon’s current and future workforce
✓ Employing Oregonians
✓ Purchasing goods and services with an emphasis on Buying Oregon First and engaging minority, small, and emerging businesses
✓ Developing real estate around Oregon and maintaining many of the state’s real properties
✓ Developing new technologies for Oregon’s future
✓ Building networks that create synergies for societal benefit
✓ Maintaining the state’s intellectual assets: its high quality and productive faculty and staff
✓ Providing cultural amenities and public services for all Oregonians
Facing and addressing today’s higher education realities...

Board planning work highlighted a current situation in Oregon that is unsustainable:

- Inadequate funding for operations, capital, and student aid
- Marginal costs growing faster than marginal revenues, and enrollments projected to grow by over 4,000 FTE in 2007-2009
- Significantly drawn down university reserves in 2005-2007 meaning that campuses are much more vulnerable to economic fluctuations
- Deferred maintenance, facilities obsolescence, and use of self-liquidating debt for capital are increasing
- Faculty salaries lag peers and increasing student:faculty ratios impact quality, external grant support, students’ choosing OUS for graduate study, and companies locating in-state
Strengthening and sustaining Oregon’s most important assets

OUS is requesting three items in its 2007-2009 operating budget request:

1. **Adequate funding:** to rebuild quality levels, maintain affordable tuition, serve growing enrollments, and provide sustainable funding

2. **Policy package funding:** to address critical statewide needs, engage partners, and create synergies for the state

3. **Statutory changes:** to manage revenues and expenses in a more responsible manner; and nurture and sustain the environment needed for knowledge creation, leading to innovations, companies, and jobs
Adequate and stable funding

An additional $188 million in state funds are needed to:

- Fund the essential budget level of OUS and debt service on previously approved projects ($55 million*)
- Support regional campuses ($13 million)
- Fund projected enrollment growth ($16 million)
- Enhance faculty salaries ($29 million)
- Reduce student:faculty ratios ($17 million)
- Maintain facilities at a level to stop the growth of deferred maintenance ($58 million)

* Based on current estimates that are subject to change
Adequate and stable funding - ROI for Oregon

✓ Better prepared teachers to meet K-12 needs
✓ Improved college readiness in literacy, writing, mathematics, and science
✓ Maintenance of affordability while extending access to higher education
✓ Improved student retention
✓ Increased number of graduates and degrees
✓ Increased numbers and diversity of students served
✓ Increased faculty retention and improved recruitment of high-quality faculty
✓ Increased and improved research and public services
✓ Better maintenance of facilities
✓ Leadership in an integrated and synergistic system of educational entities
Policy packages address urgent needs statewide

Policy packages respond to emerging opportunities and engage partners in creation of synergies

$68 million of additional state funds are requested for the following initiatives:

- Healthcare workforce development – $7.4 million
- Engineering Technology Investment Council (ETIC) – $34.3 million (plus $18 million in COP’s)
- Statewide Public Services at OSU – $15 million
- P-20 Integrated Information Systems – $1.3 million
- Services to Rural Oregonians – $4.6 million
- Manufacturing and Oregon Metals Initiative (OMI) – $3.4 million
- Transportation Center at PSU – $2.0 million
Policy package ROI

Investing in these policy packages will create returns for all Oregonians:

- Providing increased research capabilities to meet industry needs and retain and create jobs
- Providing more access to high need/high wage professions for Oregonians (healthcare, engineering)
- Providing specialized education and economic development opportunities for rural Oregonians
- Capitalizing on Oregon’s competitive advantages (e.g., nanoscience/technology, transportation) which lead to new companies and jobs for Oregonians
Statutory changes: opportunities, entrepreneurial environment

OUS is seeking changes in the following areas:

- Faculty healthcare
- Retention of investment earnings on all OUS funds
- Changes in DOJ oversight
- Changes in capital budgeting and debt issuance structures
- Exemption from certain State assessments
- Clarification of optional retirement rates
- Greater degrees of freedom in working with community college and other educational partners
Statutory changes support “smart government”

The return from these statutory changes will allow the OUS Board to manage the higher education System in a more sustainable and accountable manner through:

- Enhanced revenue opportunities
- Better expense management
- Creation of an entrepreneurial environment needed for maximum creativity and productivity

These changes will allow OUS to create and capitalize on opportunities for Oregon to succeed in a global economy
Budget request summary

- Providing adequate and stable funding to underpin quality
- Shifting the balance of state/student investment in funding public higher education
- Requesting three budget components:
  - Adequate base budget – $188 million
  - Strategic investments in policy packages – $68 million
  - Statutory changes for more prudent management of OUS
- $988 million state General Fund request (operating, debt service, and capital repair) up from $732 million
  - Funds EBL, strategic investments, and policy packages
## 2005-2007 Budget as Last Adjusted

<table>
<thead>
<tr>
<th>General Fund</th>
<th>LAB 2005-2007</th>
<th>Compensation Increase</th>
<th>Total</th>
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<tbody>
<tr>
<td>E&amp;G</td>
<td>$565,051,859</td>
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<td>$590,713,715</td>
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<td>AES</td>
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<td>Extension</td>
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<td>FRL</td>
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<td>OUS Operating</td>
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<td>Debt Service</td>
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<td>Capital Repair</td>
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<td>Total General Fund</td>
<td>$701,459,208</td>
<td>$30,966,704</td>
<td>$732,425,912</td>
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Board of Higher Education Meeting – July 2006
## Summary: Proposed 2007-2009 OUS Budget Request

<table>
<thead>
<tr>
<th>Item</th>
<th>General Fund Dollars in millions</th>
<th>Other Funds Ltd. Dollars in millions</th>
<th>Total Dollars in millions</th>
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<tr>
<td>2005-2007 LAB</td>
<td>$732</td>
<td>$1,132</td>
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<td>Base Request</td>
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<td>Policy Packages</td>
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<td>Total Request</td>
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<td>$332</td>
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<td>2007-2009 Budget as Proposed</td>
<td>$988</td>
<td>$1,208*</td>
<td>$2,196*</td>
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<td>% Change from 2005-2007 LAB</td>
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<td>7%</td>
<td>18%</td>
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<td>2005-2007 Fund Split</td>
<td>39%</td>
<td>61%</td>
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<tr>
<td>2007-2009 Fund Split</td>
<td>45%</td>
<td>55%</td>
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*plus $36.9M in COP's
Endorsing other related requests

OUS is recommending endorsement of the following requests by partner agencies and the Governor’s Office:

- The Shared Responsibility Model developed by the Board’s Access and Affordability Working Group, requested by OSAC
- Those program/project portions for student retention and success, healthcare workforce initiative, and data systems being sought by CCWD, OHSU, and the Department of Education
- Items being sought by the Oregon Innovation Council
OUS: at a crossroads

Without a significant reinvestment of state funds, OUS will have to choose among a set of less than desirable alternatives:

- Tuition growth above the projected change in Median Family Income levels at some or all campuses
- Restricting enrollment through:
  - Changes in admission standards
  - Reduced course or program availability
- Structural changes to the system
  - Campus structural changes
  - Would require resource redeployment
  - No specific proposals at this time
An investment in and for Oregon

- Avoid these negative choices and consequences
- Engage OUS in a new partnership - a partnership for Oregon
- Help us protect and develop Oregon’s most valuable assets: its people and its higher education faculties and facilities
- The level of state investment in higher education will have a direct impact on the standard of living of the citizens of this state
Questions and discussion