Funding Sources

Any effort to seek additional public funding for the universities in Oregon must address the adequacy of the funds, their stability, their predictability, the legal changes needed to effect them, the opportunities the proposals offer for partnerships and additional non-tax revenue, and their likelihood. Proposals for new taxes or for constitutional changes seem less likely, cet. par., than do other proposals.

Any such effort also must contribute to the achievement of the Board’s four goals of increasing the education attainment levels of Oregon adults, providing high quality instruction, providing innovative research that assists Oregon’s economy, and contributing to the vitality of Oregon’s communities.

Although it may not be essential that a funding stream be identified as part of a new compact with state government, such a proposal may fit well within such a construct. However, if some of these proposals are adopted by the state and, if necessary, by the voters, arguments for a new compact with greater operating flexibility for OUS may be blunted somewhat.

Various proposals and suggestions have been made. These include:

1. Using current state appropriation to pay for a state bond which, when matched by a like amount of private donations, would support operations of the University of Oregon. This proposal meets the tests of adequacy (for one university only), stability, and predictability. It also offers opportunities for partnerships and for non-tax revenue (in this case, gifts). It would require both statutory and constitutional changes. It would not address statewide needs in the way that a proposal for all institutions might. Extending this proposal to other universities does not seem possible due to state debt limits and the likelihood that most other universities could not raise enough gifts to match the bond. It is not, therefore, a Systemwide approach.

2. Seeking voter approval for a property tax for either operations or capital. This proposal could be done at a local level (as envisioned by Portland State University) or statewide. It, too, would require both constitutional and statutory changes. Its adequacy is not known but could be sufficient. Its predictability and stability would depend on whether it became a permanent part of the tax or relied on periodic voter approval of new requests. It is unclear if there would be greater opportunities for partnerships and non-tax revenue.

3. A payroll tax also could be either local or statewide. It does not seem to require a constitutional amendment but would require statutory change. Further, it may require a willing partner at the local level to levy the tax if it is not done statewide. Unlike a property tax, a payroll tax could add new administrative costs if not done as part of an existing tax. The question of adequacy would depend on what its uses might be. The issue of predictability and stability would be related to economic activity in the taxing...
area (local or statewide) in the same manner as is the state income tax. Voter approval may be needed. There may be opportunities for partnerships with some businesses but the chances for non-tax revenue may not be enhanced.

4. Dedication of a portion of the corporate minimum tax has been suggested in years past. The recent increase in this tax by the state may make this a less likely possibility going forward. It would require a statutory change. Support might be sought from various members of the business community for this alternative, especially if it involved increasing the current tax. Partnerships with some businesses could be enhanced. The amounts are not likely to be large, so the issue of sufficiency would be related to the purposes for which the tax might be dedicated. Predictability and stability might be related to overall business activity.

5. Dedication of part or the entire corporate kicker to a higher education endowment. Because of the episodic nature of this possible source, it cannot be relied upon to support ongoing operations unless it is used to establish an endowment. This approach could be coupled with the kind of gift matching idea advanced by the University of Oregon in its bonding proposal. This suggestion can help stabilize funding but cannot be expected to provide sufficient or predictable support to the universities. This proposal would require a constitutional change which might be possible only with the strong support of much or all of the business community. Partnerships and non-tax revenue opportunities would be enhanced.

6. Establishing in statute a formula for higher education funding that is tied either to a set percentage of the state’s general fund and lottery budget or to a set percentage of the state’s support for the K-12 schools. Either proposal would require a statutory change. Both would commit the state most directly to the support of the universities and community colleges. It would reduce state budgeting flexibility. The adequacy of the proposal would depend on what percentage was established. However, once it was established, it would provide much greater stability and predictability than is currently enjoyed. It would be Systemwide and not for the benefit of only one or a few institutions. Partnerships might be enhanced with community colleges (assuming they would be affected) but initial opposition from K-12 advocates might be expected (with support from them possible in future biennia if the proposal is adopted by the state). (Another proposal, which could be implemented in conjunction with this approach, would provide the same amount of state funding for each Oregon student from kindergarten through Ph.D. with some variation due to the special needs of some individual students.)

7. Use of a limited duration sales tax dedicated to education whose higher education portion would be used to establish an endowment that would be matched by private gifts. The long-standing reluctance of Oregonians to accept a sales tax would seem to doom this proposal regardless of any theoretical merits it might possess.

8. Automatic appropriation to universities for research support of income tax tied to the research enterprise. This idea involves a subvention of just that portion of the state’s income tax associated with the externally funded research conducted by the
universities. It would require a statutory change. It is likely to provide noticeable new support for research but would not be available to help support the Board’s other goals. It does offer opportunities for partnership and non-tax funds if tied with matching efforts from industry in Oregon. If the research enterprise continues to grow in Oregon, this source could prove more predictable and stable than the income tax (and state appropriations) generally. That, at least, would have been the case in the past decade.

9. Use of income tax credits for either student financial aid or for institutional support. This may be accomplished by statute but suffers from the obvious downside that it reduces state general fund revenue. It may have some value in building partnerships with students and potential students and their families and with targeted high income donors. Its adequacy would depend on what it could be used to do and how large the credit might be. Experience with a tax credit for research (SB 853) suggests that gifts for which tax credits are granted may not generate as much income as might be expected.

**Staff Recommendation**: The Committee might explore further the following three possibilities: use of corporate kicker for an endowment; use of income tax associated with university research to support that research; tying the higher education appropriations to those of K-12.

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