From:	salem_update-bounces@lists.oregonstate.edu on behalf of Mills, Jock
To:	CAS DeanStaff; CAS Unit Leaders; Salem Update Listserv
Subject:	[Salem Update] Co-chairs propose higher education operating budgetreductions, vast reductions in capital spending
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On Thursday, Ways and Means Co-Chairs State Sen. Kurt Schrader (D-Canby) and State Rep. Mary Nolan (D-Portland) summarized their proposed budget during a joint session of the House and Senate. A number of details are missing from the information presented on Thursday. If you are interested, here is a link:

http://www.leg.state.or.us/comm/lfo/2007_2009_cochair_budget.pdf

From what has been made available on Thursday and other documents, it is possible to determine that the legislature provided nearly $200 million more for K-12 education, for a total budget of $6.245 billion. Nevertheless, education leaders are calling this a "good start" and continue to push for the full $6.3 billion they claim is necessary to fully support K-12 education.

The increases in K-12 came at the expense of Oregon's public universities and community colleges. The legislative proposal reduces the Governor's higher education operating funds by some $35 to 54 million. Forthcoming details will indicate where in this range the number will actually fall. More dramatic are the reductions proposed for capital spending. The legislature seeks to provide about a third of what the Governor proposed.

Most observers view the K-12 figure as a ratchet – in the remaining months of the session it could go up more, but it will not be reduced in order to address concerns in other budget arenas.

The Capital Budget

In discussing the capital reductions, the co-chairs said the level of debt needed to finance university construction is "unsustainable" in future years because it will require general fund allocations to meet debt payments. If the legislative budget for capital spending is enacted, legislators will face the challenge of choosing winners and losers among the several universities that have – or soon will – successfully raise private donations for campus buildings. OIT, UO and OSU are all well on the way to raising private funds needed to finance campus buildings included in the Governor's budget, but under the legislative proposal, there may be only sufficient debt financing for one of these projects. The legislative proposal would be a dramatic change in the history of debt financing for universities: up to now the legislature has never turned down privately raised funds. (Historically, the legislature used to provide a general fund match for capital construction, but abandoned that practice once funding for K-12 education shifted from local to state funding with the adoption of Ballot Measure 5 in the early 1990's.) Furthermore, the capital budget is inconsistent with the priorities established in the legislature's operating budget proposal. For example the co-chairs have stressed the need to finance health related education initiatives, yet the capital

budget would not be sufficient to pay for the capital projects needed to provide that education.

Concerns over the future debt load for campus construction ignores testimony provided to both the Ways and Means and Senate Revenue Committees that demonstrates how capital investments at Oregon universities generate research and innovation income that more than pay for the debt burden. The capital reductions will also severely limit funding for deferred maintenance at all seven public institutions.

The Operating Budget

Although precise information about specific reductions is still missing, it appears a number of significant "policy option packages" in the Governor's budget have been dropped from the legislative proposal:

The Governor had proposed some $40 million in additions to address faculty salaries ($ 8 million), faculty student ratios ($7 million), enrollment growth (15 million), utility cost increases ($2 million) and challenges facing the regional institutions ($9 million). Of these initiatives, the legislative proposal has identified $2 million for the regional campuses. How the remaining elements will be affected is yet to be determined. A significant question in the legislative proposal is how it deals with the $19 million in tuition interest that the Governor provided with one hand (giving universities access to the interest) and took away with the other (reducing their General Fund allocation by the amount of anticipated interest.)

Specific programmatic increases proposed for OSU-related programs that appear to be casualties in the legislative budget include:

ETIC: The Legislature reduced the Governor's proposed $17 million by $10 million.

Statewide Public Service Programs (AES, Extension, FRL): The Legislature eliminated the $5 million increase proposed by the Governor. (The state board of higher education had recommended a $15 million increase for these programs.)

Institute for Natural Resources: The Legislature eliminated a $250K roll-up cost increase for INR.

Oregon Innovation Council: The legislature halved the Governor's $38 million proposal – cutting it to $19 million. Budget documents do not indicate how the reduction would affect individual initiatives proposed by Oregon INC.

What happens next?

The Legislative proposal did not include one important source revenues that was a factor in the Governor's budget: an increase in the corporate minimum tax. During negotiations over devoting the corporate kicker to a "rainy day fund," legislative leaders had agreed on a $100 million package that would have increased the corporate minimum. Under scrutiny legislators discovered the corporate minimum tax plan was fatally flawed because it created an exceptional burden on high volume/low margin businesses.

The only significant source for new revenues to address the reductions proposed by the legislature is resurrecting the corporate minimum in a way that addresses concerns about how it impacts particular high volume/low profit margin businesses. By providing K-12 advocates with nearly all they have asked for, the legislature has not provided them with any incentive to enter into the corporate tax fray and has left the burden on others.

> "Given that 68 percent of Oregonians believe state government has the money it needs, House Republicans will vigorously oppose a massive tax increase to grow the size of government."

On the capital budget Scott, also praised the plan:

> "It is also a good sign this budget does not include the runaway, debt-financed capital construction spending that was initially proposed in the Governor's budget."

The Joint Ways and Means Committee has scheduled a series of field hearings enabling citizens to provide testimony on both the Governor's budget and the legislative proposal. It is important to remember that the legislative proposal is merely a beginning and it anticipates a significant amount of work over the next three to four months. Here is a tentative schedule for the field hearings. More information will be forthcoming:

April 4 (Wed) – Eugene 6 or 7 pm
April 6 (Fri) – Astoria – 7 pm
April 11 (Wed) – Portland
April 12 (Thurs) Video Connect Bend/Ontario/The Dalles/Pendleton 6-9 pm
April 13 (Fri) – Medford – 7 pm
April 14 (Sat) – Coos Bay – noon

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