From: salem_update-bounces@lists.oregonstate.edu on behalf of Mills, Jock
To: CAS DeanStaff; CAS Unit Leaders; Salem Update Listserv
Subject: [Salem Update] Revenues are up resulting in some welcome progress-- but we aren"t there yet
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Revenues are looking better and some funding has moved to higher education, but we're not out of the woods yet.

Tuesday's revenue forecast was a "modest April surprise" providing legislators with an unexpected increase in general funds in addition to more lottery funds. The December 2006 forecast was used to set the Governor's budget. Since then tax revenues available for general fund spending have increased by $131 million. ($34 million of that happened between December and March, and $97 million of that happened between March and May.)

What *hasn't* happened since the issuance of the Governor's budget in May is agreement in the legislature to any of the new taxes that were needed to balance the Governor's budget – no increase in the corporate minimum ($85 million) to pay in part for the expanded Shared Responsibility Model, no increase in cigarette taxes ($182 million) to pay for healthy kids, and no increase car insurance premiums ($25 million) to pay for state troopers.

Lottery funds have also increased by some $57 million since the issuance of the Governor's budget. Total the new resources up, and the legislature has approximately $188 million more to spend today than what it had in March when the co-chairs issued their first budget. Unlike the Governor's budget, theirs did not rely on any new taxes. In order to adopt no new taxes, remain balanced and increase funding for K-12, somebody had to be cut, and higher education was one of a number of losers. Yesterday, the co-chairs indicated they would start to reverse a number of the cuts to higher education taken in March.

The Operating Budget

The welcome news is that the difference between the legislative operating budget and the Governor's budget has shrunk from some $35 million to about $14 million. Remaining significant issues – especially for OSU -- include:

- $7 million reduced from the Governor's ETIC budget
- $2.5 million reduced from the Governor's budget for the OSU statewide public services. A bi-partisan majority of legislators has called for $15 million in new funds for the statewides, not the $5.5 million the Governor recommended.
- The remaining differences are sprinkled among a number of additional programs and policy option packages and are not readily identifiable in the information provided so far by the co-chairs.

The co-chairs continue to deny universities access to the interest generated by tuition

paid by students. As a result, universities are out $19 million and students across the state continue to see the interest their money earns pay for items that bear no relation whatsoever to higher education. Taking the interest is a tax on tuition.

There are also uncertainties on other budget items that affect universities. For example, no word yesterday on how the co-chairs will deal with the $19 million they eliminated in March from the Oregon Innovation Council recommendations for ONAMI, wave energy, drug discovery and development, and sustainability.

In sum, on the operating side of the budget, we are extremely appreciative that the car is no longer driving in reverse. Now, given that there is gas in the tank, the legislature needs to put the car into gear and move us out of 46th place nationally in terms of funding for higher education.

The Capital Budget

On the capital side of the budget, the co-chairs' new proposal invests more funds in ailing university buildings. For example, the picture looks good for the Linus Pauling Institute/Chemistry building on the OSU campus. But the overall budget remains about $113 million below the Governor's capital budget for higher education. One problem is that the co-chairs appear to have devoted nearly $20 million of general funds for capital, rather than using the bond market. It's like using cash to accelerate your house payments and then wondering why you have no money to pay for the groceries.

Some legislators have expressed a desire not to extend their exposure to long term capital costs and that is why they have used cash rather than borrowing to pay for construction and deferred maintenance. That would be fine if the universities hadn't been starving and weren't competing for last place in per student funding. The State Board of Higher Education and the Governor have indicated that fixing this problem will take multiple biennia. In order to maximize the effectiveness of state investments in higher education, legislators need to use the right mix of debt and operating expenses. The co-chairs' budget is a welcome step in the right direction, but it hasn't made the progress that is possible given the resources at hand and the dividends that will result.

The End Game

The new revenue forecast has created a sea change in the Capitol. The possibility of actually adjourning by June 29th seems more realistic. (Nevertheless, I am not making any travel plans for July.) Legislative leaders are meeting later this week to frame out what needs to be accomplished before they can go home.

The increase in lottery and general fund revenues has also made it more difficult to change the corporate minimum tax. The issue is still in play but not with the same level of desperation.

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Jock Mills
Director, Government Relations
Oregon State University
524 Kerr Administration Building
Corvallis, OR 97330
(541) 737-0725
http://oregonstate.edu/
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