From: salem_update-bounces@lists.oregonstate.edu on behalf of Mills, Jock
To: CAS DeanStaff; CAS Unit Leaders; Salem Update Listserv
Subject: [Salem Update] Week Three: Sustainability problems and more
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"Sustainability" creates concerns for Governor's budget

Last week wafting through the Capitol it was rumors about a possible flattening – or, worse, a decline – in Oregon's revenue projections. (The rumors are still wafting, despite non-confirmations from some of the state economic crystal ballers.)

This week, it's a drumbeat from both Democrats and Republicans that the trajectory of spending called for in the Governor's budget for 2007-09 is "unsustainable" into the next biennium. Legislators fear the revenues needed to meet the costs of the 2007-09 biennium as they "roll up" into the 2009-11 biennium will create a multi-billion dollar problem two years from now.

Concerns about the sustainability of the investments in the out years are causing legislators to caution that the Governor's budget for the current biennium may need to pared back – even if the current revenue projections hold and the legislature approves the taxes needed to balance it. In essence legislators don't want to contribute to a feast and famine world. Increases one session should not lead to cut backs the next. One highly placed Democrat in the Ways and Means process has gone so far as to say that the Governor's budget is "DOA."

In addition, many mainstream Democrats are suggesting that some money -- more than would be available through holding onto the corporate kicker -- needs to be devoted in the current biennium for a "rainy day fund" to meet possible shortfalls in the next biennium. Tapping into potential revenue increases that may show up in the March and May forecasts to fill holes in the current biennium just got a whole lot harder.

Although legislators talk about problems with the Governor's budget, there are not any indications from those on the Ways and Means Education Subcommittee that the basic priorities established in the budget – significant increases for higher education, for example – need to be revisited. Nevertheless, the magnitude of the increases is potentially in question, especially in context of what may be needed for K-12 education.

Three weeks into the session Ways and Means leadership appears to agree on an overall game plan for developing the budget. Among the items that emerged this week is a mandate from the legislative co-chairs – Senator Kurt Schrader (D-Canby) and Representative Mary Nolan (R-SW Portland) that all state agencies must pare their budgets by 2% to achieve efficiency savings. The savings – essentially budget reductions -- could then be used to invest funds in other legislative priorities as determined by legislators applying agency "performance indicators."

Given the "efficiencies" that have already been achieved in higher education over the last four years as general fund investments have fallen and enrollments have increased, it is not clear exactly how the Oregon University System will meet the mandate. We already have, over and over. Plain and simple, there are no more efficiencies. While legislators may acknowledge with a sheepish shrug that they know the exercise may be fruitless, they indicate that leadership has called for a sincere effort. For Oregon's universities, the 2% reductions could cause great havoc if they were applied to "all funds," including grant and tuition funds. But it appears the cuts will only be applied to general fund allocations. Havoc either way.

A sketch of the schedule for adopting the budget has the co-chairs releasing their budget in early March. The Ways and Means Committee will then hold field hearings around the state. These hearings last session were instrumental in providing OSU stakeholders an opportunity to voice concerns regarding funding for the statewide public service programs. As soon as we know the schedule, you will. Meanwhile, the Ways and Means Education Subcommittee has tentatively scheduled a field hearing at Portland State University for the evening of Wednesday, February 21st. Details regarding the hearing will be forthcoming.

First Ways and Means Education Subcommittee overview points to emerging budget issue

On Thursday of last week, Don Blair, a Nike Executive on the State Board of Higher Education; OUS Chancellor George Pernsteiner; and Presidents Ed Ray (OSU) and Martha Ann Dow (OIT) presented a hurried overview of the Governor's proposed budget for higher education. The most significant issue raised in the subcommittee's hearing surfaced, not with OUS, but during in the presentation by the Oregon Student Assistance Commission (OSAC). OSAC implements the Oregon Opportunity Grant (OOG) program.

Over the last year, the Board of Higher Ed and OSAC have developed a proposal to transform the OOG program into the Shared Responsibility Model (SRM). The major sound bite with the SRM is that it balances the amount of student grants to student and family income and effort. Under the existing program, once the family income for a student exceeds the stated limit, no grant is available.

If you are a Seinfeld soup fan: "One dollar over the income limit? No grant for you!" Under the SRM, the wall becomes a hill – the amount of your grant gradually declines as your family income increases. This change will be welcomed by many legislators

who last session complained about the impact of the cut-off on middle income Oregonians.

Nevertheless, on Thursday key legislators noted that OSAC had failed to spend a significant portion of the increased appropriations for OOG approved by the legislature last session. OUS and OSAC have cited a number of reasons for why OSAC was not able to extend about half of the $30 million increase approved last session. They cite factors beyond their control, including a fall off in community college enrollments and budget note language that accompanied the increase.

Over the next several months, as the Education Subcommittee delves into the issue, legislators will expect a tighter explanation. In addition, Ways and Means Co-Chair Senator Kurt Schrader will be seeking to understand why tuition remissions will be needed once the legislature shifts to the SRM. Tuition remissions are campus-based financial aid provided to undergraduate students both on the basis of need and merit. Over the last two sessions, universities have been whip-sawed by budget note language governing remissions.

In 2003 the legislature placed a cap on the degree to which universities could provide targeted relief to students through remissions. The cap resulted in dropping assistance to a significant number of low-income students across the system. (OSU sought to mitigate the impacts through increased scholarship aid from the Foundation.) Startled by the impacts, in 2005 the legislature eliminated the cap, indicating that if universities increased their usage of remissions, they should apply the increases for low income students. In both cases, the legislature adopted the changes so late in the session that universities had one year to meet a two-year target.

While some (including OSU) met the targets. Others didn't. Schrader in particular is questioning why remissions are needed in conjunction with the revisions contemplated in the SRM. In fact, remissions are not only a key component of the SRM, they are crucial in bringing out-of-state resources to Oregon. As a ball bark example, by providing a $2,500 tuition remission on a $15,000 non-resident tuition bill, OSU doesn't lose $2,500, it actually gains $12,500 in non-resident tuition. Assuming the average cost of educating a student at OSU is around $9,000 – the remission creates $3,500 of new revenues for Oregon to educate Oregon students. Capping or eliminating tuition remissions – especially as the OOG transforms to the SRM – is a bad idea.

Shorts

Testimony on OSU Joint Degree Partnership Agreements slated for Higher Ed Committee. On Wednesday, February 7, OSU President Ed Ray will testify before the House Subcommittee on Higher Education regarding our efforts to link OSU with community colleges across the state through Joint Degree Partnership Agreements that enable Oregon (and now Hawaii) students to simultaneously enroll in both local community colleges and OSU.

Forest harvest tax due for first consideration on Tuesday. On Tuesday, January 30th, Hal Salwasser will be testifying before the House Agriculture and Natural Resources Committee on HB 2115, which extends the forest harvest tax that supports OSU's Forest Research Laboratory. The bill will follow a circuitous route through the natural resource committees, revenue committees, and appropriation committee, emerging late in the session.

SCR-3 passes Senate Education and heads to the floor. On Thursday the Senate Education Committee unanimously approved Senate Concurrent Resolution 3 (SCR-3) which commends the OSU baseball team for its NCAA national championship last season. Highlights of the committee meeting include:

- State Senator Vicki Walker (D-Eugene), chair of the committee, and an unabashed DUCK, donning an orange jacket during the resolution's consideration.
- State Representative Gene Whisnant (R-Sunriver), a graduate of UNC, testifying in favor of a housekeeping amendment to rectify a drafting error in the resolution. The original language indicated that OSU "swept" UNC 2-0 in the final series. In fact, OSU lost the first game of the final series to UNC, and then fought back to win the final two games. Appearing to help correct the record, Whisnant was admonished by committee members that they could opt for language that characterized UNC's defeat as a "whooping".

Meanwhile, back in Hilo, Hawaii, in its season opener OSU pitched its first no-hitter since 1967. This, after a front page article that day in the Oregonian sports section about the loss of OSU pitching talent from last season. GO BEAVS!!!

Dates to remember:

Wednesday, February 21, Ways & Means PSU field hearing, (Tentative): Field hearing expected on the PSU campus sometime in the evening. Details will be forthcoming.

Wednesday, February 21, Oregon Innovation Day: Innovation day will include broad based lobbying for the budget and legislation included in the Governor's Oregon Inc funding package, including $5.3 million for wave energy, $4.6 million for food processing and community seafood, $10 million for two ONAMI like signature research centers -- $3 million for one focusing on clean energy, bio-based products, and green building, and $7 million for one dealing with infectious disease and drug discovery, among other initiatives. For more information about Oregon INC's budget, follow this link: http://www.oregoninc.org/news/PRplanRelease1206.pdf

Thursday, February 22 Oregon Student Association Lobby Day: Working with ASOSU, we are seeking to provide transportation to enable OSU students to attend a rally in Salem and work with legislators on key legislative priorities. For more information on OSA's priority issues, follow this link:

http://www.orstudents.org/action_center/info/C30

Monday, March 5, ETIC Day. The Governor's budget includes a $28 million increase for the Engineering and Technology Industry Council (ETIC), a significant amount of which will flow to OSU. For a thorough review of the ETIC budget, follow this link: http://www.oregonetic.org/meetings/ETIC-Update-Jan2007.pdf

Tuesday, April 17, OSU Day. The Grand-daddy of them all. We will be scheduling a planning meeting in the next couple of weeks.

Questions, concerns, criticisms, and compliments gladly accepted.

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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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