From:	salem_update-bounces@lists.oregonstate.edu on behalf of Mills, Jock
To:	CAS DeanStaff; CAS Unit Leaders; Salem Update Listserv
Subject:	[Salem Update] Legislature completes its work
Date:	Monday, February 25, 2008 4:13:08 PM
Attachments:	Capital Work Group OSU.doc ATT1319573.txt

The legislature finished its supplemental session on Friday evening. Here are links to the *Oregonian's* summary of the session as well as its editorial supporting the move to annual sessions:

http://www.oregonlive.com/politics/oregonian/index.ssf?/base/news/120382352319140.xml&coll=7&thispage=4

http://www.oregonlive.com/editorials/oregonian/index.ssf?/base/editorial/120372812976940.xml&coll=7

Among the 70 some bills approved by the legislature, perhaps the most important was the bill to refer to voters a measure that would specify mandatory sentences and drug treatment for those who commit property crimes. Compared to an initiative supported by Kevin Mannix and also destined for the November ballot, the legislative referral has a much smaller price tag ($50 million vs. $128-200 million, as reported by the *Oregonian*) and mandates drug treatment rather than prison time for first time offenders. Mannix has called the referral "more foo foo than substance."

As to the major financial worries stemming from the receding revenue forecast, although it did not fund a number of initiatives, the legislature also did not pursue a number of possible reductions. For example, it chose *not* to divert some $139 million in general funds to the state's rainy day fund that it had identified in rosier times last session. By not taking that action legislators left a higher ending fund balance that could help the state during the remaining 16 months of the biennium.

The legislature also chose *not* to impose a 2.5% across-the-board reduction in "services and supplies" budgets for state agencies – a reduction that would have amounted to some $30 million. The co-chairs did not identify from whom and how these reductions would have been taken when they identified the possible cut in early February. Imposing them could have required real programmatic and other reductions. Under legislative rules, the Emergency Board may not impose these reductions. They must be approved by the entire legislature. So, since they didn't happen in February, they won't happen at all . . . unless the legislature goes back into another supplemental session.

Unresolved by the legislature is the decision to release $128 million in salary funds to state agencies. (My apologies, that my last update incorrectly tabbed this figure at $134 million. And, the expected exposure to the Oregon University System is $26 million, not $30 as I reported.) The salary funds were set aside at the conclusion of the 2007 legislative session with the anticipation that -- as it did in the last biennium -- the legislature would release the funds sometime halfway through the biennium.

While some members of the Joint Ways and Means Committee grumbled during hearings over the last several weeks about the manner in which the Governor granted salary increases to classified and senior agency staff, the decision for this

biennium will ultimately depend on what the May 2008 economic forecast shows. If revenues continue to decline, the E-board may not release the funds -- essentially because they don't have them, or due to fears that during the remaining months of the biennium, revenues may decline even further.

The true picture facing Oregon's universities will not be resolved until June when the legislative E-Board meets to consider whether to release some or all of the funds.

Capital funding

One of the items gaining the most ink during the supplemental session was the legislature's approval of the University of Oregon's $200 million basketball arena. Without weighing into the issues revolving around that project, the arena has created a considerable amount of attention on how capital projects are funded at Oregon's public universities as well as at the 17 community colleges.

(For the record, during the February session the legislature also approved funding for a building at Clatsop Community College – while denying a building for Oregon Coast Community College that would have been co-located at the Hatfield Marine Science Center in Newport. Also gaining a nod from the legislature was the Oregon Institute of Technology's health professions building that had been dangled before legislators throughout the 2007 session and during the interim.)

Given the issues raised during consideration of the arena, as well as other issues that have brewed since the 2005 session, the Ways and Means Committee held a hearing in mid-February where members raised a number of questions and concerns about capital funding in general. In essence they do not feel that they sufficiently understand the various trade-offs and implications they make when they agree to undertake bonded debt, especially when it involves funds raised by other entities. Specific questions or concerns included:

- Are legislators adequately weighing new projects against the need for modernizing existing buildings and deferred maintenance?
- Do they fully understand what the state can afford when it enters into long term debt?
- Are they providing the appropriate level of oversight over the donations and gifts from foundations?
- What criteria should they apply when making decisions? -- and
- What "performance outcomes" should they expect from their investments?

It is important to remember the constitutional compact between Oregon and its citizens regarding capital financing that was struck in the late 1950's when the state constitution was amended by voters to include Article XIG. That provision had the legislature provide half of the capital needed for university buildings up-front through general fund appropriations, while the remaining half was to bonded and repaid over time by general fund appropriations. In the early 1990s the legislature effectively abandoned the up-front half of the financing equation by eliminating general funds for all but a very few projects. Instead, they have told foundations that they are welcome to fill the void with private contributions which they will deem as the up-front general fund contribution. Now legislators worry the tail is wagging the dog.

Committee co-chairs have indicated they will form an interim work group to address these issues. In response, Darry Callahan, chair of the OSU Foundation Board of

Trustees wrote a letter to the Committee and legislative leaders seeking involvement by university foundations in the effort. I have attached a copy of the letter.

<<Capital Work Group OSU.doc>>

Next issue

With the special session out of the way, all eyes are on the next election. March 11th is the last day candidates can file in order to be on the May 20th primary ballot. Filing day never fails to include at least one or two surprises – and I will provide a round up in my next report.

Questions, comments, concern, please do not hesitate to contact me.

Jock

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