From: salem_update-bounces@lists.oregonstate.edu on behalf of Mills, Jock
To: CAS DeanStaff; CAS Unit Leaders; Salem Update Listserv
Subject: [Salem Update] Big education funding bills start moving --signaling an end to the session
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In this issue . . .
On the pathway to adjourn by the end of June, the Ways & Means Education Subcommittee passes big education budgets. Higher ed and community colleges are waiting in the wings – but need additional attention before they can move forward.

Breaking the budget log jam
On Thursday the Joint Ways and Means Education Subcommittee approved funding for K-12 schools and the school improvement fund, two bills that are key to adjourning by the end of June. With passage of the K-12 bill, the subcommittee made it more difficult to add another $45 million to the K-12 budget, as has been advocated by K-12 advocates. On the other hand, since the school improvement fund had been a rumored target for those seeking to shift funding to other priorities such as public safety, human services, and higher education, by passing the school improvement fund, the subcommittee took the program off the hit list.

In passing the K-12 budget, members of the Education Subcommittee also may have diminished their bargaining power in their efforts to increase funding for community college and Oregon University System (OUS). Earlier in the week, there had been speculation that members might seek to hold onto the K-12 budget until the Ways and Means Co-chairs provided them with more money to invest in community colleges and OUS. But that didn't happen.

This week the Subcommittee also approved the budget for the Oregon Student Assistance Commission (OSAC), including a significant increase in funds for the Shared Responsibility Model (SRM). Several legislators took the opportunity to observe that increased funding for student aid was an empty promise if it weren't accompanied by concurrent increases for OUS and community colleges. Rep. Phil Barnhart commented that without efforts to provide more classrooms, more classes, and more faculty, they were misleading students and causing them to take on more debt with no assurance that they would be provided with an education.

Significant problems remain for Community Colleges and OUS
Although the Co-chairs added more funding to both OUS and community college budgets following the favorable May 15 revenue forecast, it appears that every member of the Ways and Means Education Subcommittee has indicated that more needs to be done before they would be willing to pass either the OUS or community college budgets.

The range of add-backs needed to satisfy the members on the OUS budget is significant. Some are calling for an across-the-board $25 million increase in general operating funds for OUS to be plowed into providing educational services with the understanding that universities would both increase their graduation rates while also

reducing the number of years needed to graduate.

There are a number of significant gaps yet remaining in the Co-chairs' budget that directly affect OSU, including:

- $2.5 million for the OSU Statewide Public Service Programs (Extension, Agricultural Experiment Station, and Forest Research Lab) to bring it back to the level recommended by the Governor. Using the budget recommended by the State Board of Higher Education, the legislative budget is down $12 million. Despite support from 64 legislators for the amount recommended by the board, it will be extremely difficult to get much more than the amount sought by the Governor.
- $7 million for ETIC (Engineering Technology Industry Council), a significant portion that would flow to OSU Engineering programs;

The Co-chairs budget restored many of the targeted programs called for in the Governor's budget, such as $9 million in funding for the regional campuses, a portion of which would flow to the Cascades campus. Available documentation appears to indicate that the Ways and Means Education Subcommittee may have some flexibility in shifting funds among the targeted programs. These programs total some $40.7 million and as provided for in the Governor's budget include: regional university support ($9 million), faculty salaries ($8 million), student-faculty ratio reduction (6.9 million), enrollment growth support ($14.6 million), and utility costs ($2.2 million).

Whether the legislature seeks to shift these funds among the categories, specifies how the funding should be spent among the universities, or provides OUS with flexibility to use the funds, will be determined during the Committee's work session scheduled for Tuesday, May 29th. Other items still in play include $250,000 in roll-up funding agreed to last session for the Institute for Natural Resources, headquartered at OSU.

Between now and next Wednesday, budget writers will need to agree on how much additional funding will be provided. And they will have to balance this against a number of other pressing needs, including human services and public safety budgets that are locked up in other subcommittees.

It is always possible that some education funding issues may be left unresolved, with the promise from the co-chairs that an end-of-session funding bill (the so-called "Christmas tree" bill) will address the remaining concerns. Over the last three sessions, Santa Claus has been more likely to leave a lump of coal than a wrapped present for higher education. Subcommittee members must balance how hard they bargain for more money in the bill against losing control of the bill to the full committee. Co-chairs have the ability to withdraw bills from subcommittees, or to stack the membership to ensure that bills get passed.

Also remaining in play are other budgets that include funding for universities. The most notable item is funding sought by the Governor and recommended by the Oregon Innovation Council for the Oregon Nanoscience and Microtechnologies Institute (ONAMI) and to establish a number of similar signature research centers

across the state. Legislators are seeking to recover some $19 million cut by the co-chairs from the $38 million recommended by the Governor for these programs.

Where will the add-back money come from?
There are three potential sources of funding.

1. The Corporate minimum. Although with each passing day it is more and more remote, House Democrats in particular remain interested in increasing the $10 minimum on the corporate income tax. While they continue to work on proposals that could increase revenues, support for the proposals is waning as a result of the forecasted improvements in the May revenue forecast – as shaky as they may be.

2. Tuition Interest. HB 2198, a bill proposed by the Governor, would provide universities access to some $19 million in interest generated by tuition receipts held by the state. The bill has passed the House Revenue Committee and is currently residing in the Ways and Means Committee. The Legislative Fiscal Office staff and the co-chairs oppose the idea, but a number of key legislators continue to advocate for the bill. On Thursday, the Oregonian issued a strong endorsement for the plan: http://www.oregonlive.com/oregonian/stories/index.ssf?/base/editorial/1179964551258640.xml&coll=7

If legislature acquiesces and provides the interest they could reduce the OUS budget by $19 million as the Governor proposed in his budget. While this looks like a zero sum game, by using more effective financial management tools, universities could grow the interest receipts significantly over the biennium and into the future. It is also possible that the legislature might not reduce the general fund.

3. Ending fund balances and reserves. By various accounts there is at least $123 million in general funds that have not been spent, including $34 million not accounted for in the Co-chairs' budget from the March forecast, $50 million they socked away into a reserve fund (not to be confused with the rainy day fund) following the May forecast, and $39 million in ending fund balances.

With a significant increase in the Rainy Day Fund – following the May forecast, legislators may feel that for this biennium they have an insurance policy in the event that revenues do not materialize over the course of the next two years.

The Capital Budget
With all the attention on the operating budget, little has been done with the capital budget. Next week we anticipate the formation of a new special subcommittee to consider all of the state's capital budgets, including projects for OUS.

The primary issue with the capital budgets is the degree to which legislative leaders are willing to go into debt to finance much needed construction projects, ranging from hundreds of millions for light rail to deferred maintenance and new buildings on college campuses. Also in play is the degree to which the legislature will apply lottery funding and bonds to fund construction.

More information will likely be forthcoming next week. On balance for OUS are four

issues:

1. How much funding will the legislature provide to keep OUS from falling even further behind in its back log of deferred maintenance? They less they provide now, means the more they will need to spend in the future.

2. How much will be provided to address the most significant problems on campuses? These projects involve buildings that are so far gone that they need total rehabilitation. OUS has divided the projects into "tiers" of need with buildings at UO, PSU, and EOU placed in the first tier. OSU's Nash Hall is in the second tier.

3. How much will be provided for new construction – to match money raised by the universities for individual projects? With OSU having successfully raised over $31 million for the Linus Pauling Institute/Chemistry building, legislators must now approve Article XI-G bond funding for the construction to move ahead.

4. How much will be provided for new construction that involves little or no match? Some projects have been suggested as a result of the Governor's emphasis on sustainability. Whether these projects pass legislative muster remains to be determined.

The legislature will take Monday off and be back at it at a full spring on Tuesday.

Questions, comments, or concerns? You know where to find me.

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