OREGON UNIVERSITY SYSTEM

The Oregon University System works to accomplish four broad goals to produce the highest level of educational outcomes for Oregonians: 1) Create in Oregon an educated citizenry to support responsible roles in a democratic society and provide a globally competitive workforce to drive the state's economy, while ensuring access for all qualified Oregonians to a quality post-secondary education; 2) Ensure high-quality student learning leading to subsequent student success; 3) Create original knowledge and advance innovation; and 4) Contribute positively to the economic, civic, and cultural life of communities in all regions of Oregon.

OREGON UNIVERSITY SYSTEM	2009-11 Actuals	2011-13 Leg. Approved	2013-15 Current Service Level	2013-15 Governor's Budget	2013-15 Co-Chairs' Budget (1.0)	% Change 2011-13 LAB to 2013-15 CSL
General Fund	729,654,860	668,264,553	715,801,743	708,616,143	0	7.1%
Lottery Fund	23,096,954	22,986,753	38,976,643	28,488,687	0	69.6%
Other Funds	2,174,667,651	2,329,480,585	117,254	117,254	0	-100.0%
Other Funds Nonlimited	2,204,966,765	2,236,635,139	0	0	0	-100.0%
Federal Funds	70,823,654	0	0	0	0	N/A
Federal Funds Nonlimited	0	4,922,075	671,650	671,650	0	-86.4%
TOTAL FUNDS	**$5,203,209,884**	**$5,262,289,105**	**$755,567,290**	**$737,893,734**	**$0**	**-85.6%**
Positions	18,619	18,650	0	0	0	-100.0%
FTE	12,898.40	13,015.02	0.00	0.00	0.00	-100.0%

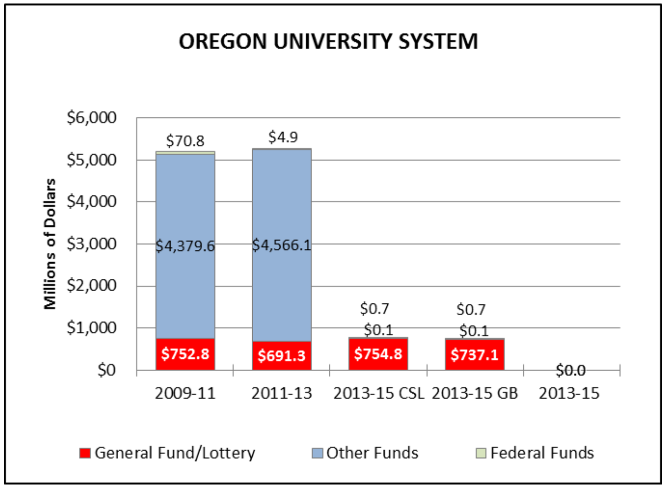
Major Revenues

- Tuition and fees are the major revenue source for OUS.
- Falling General Fund support caused by statewide budget constraints has resulted increased reliance on tuition and caused tuition to increase significantly in the last few biennia.
- Lottery Funds are primarily used to pay debt service on lottery backed bonds issued for OUS capital construction projects.
- By law, 1% of all Lottery proceeds are to be used to fund the Sports Action program, which provides state support of athletic programs at all seven campuses and some scholarship.

Budget Environment

- The rapid growth in OUS enrollment experienced over the last five years appears to be slowing, and early data shows 2012-13 Fall enrollment will grow less than anticipated.
- Change in status of OUS to a non-state agency entity resulted in removal of Other Funds from the 2013-15 CSL calculation and removal of positions from the state budget system.
- Campus investments in the infrastructure needed to accommodate influx of students has led to planned Personal Services increases of up to 10% in FY 2013.

Comparison by Fund Type



MAJOR CHALLENGES AND DECISION POINTS

1. Reductions in state General Fund support for OUS instruction costs over the last few biennia have been backfilled with increases in tuition charges, resulting in tuition increasing at a rate higher than inflation or growth in family income.
2. Proposed OUS tuition increases for 2013-15 are unknown at this time since OUS is no longer required to submit a budget for its Other Funds. Average resident undergraduate increases for 2011-12 were 7.5% and for 2012-13 are 6.0%.
3. Proposal to restructure the OUS funding distribution formula to tie state funding to student achievement, such as graduation rates, rather than enrollment. This is part of Governor's proposal to create a Department of Post-Secondary Education that would have all General Fund appropriations for Oregon's seven public four-year institutions being made to the new agency rather than the Department of Administrative Services which is current law.
4. *University local boards and disposition of OUS system-wide shared services such as audits, legal services, payroll, labor relations, treasury and banking, risk management, employee benefits, and government relations.
5. The three Statewide Public Services housed at Oregon State University, Agricultural Experiment Stations (AES), Extension Service (ES), and the Forest Research Laboratory (FRL) are funded in the Governor's budget (GB) at 2011-13 LAB levels. This resulted in the budgets for these three programs being 5.6% below CSL. The General Fund reductions from CSL are: AES ($3,093,858), ES ($2,237,831), and FRL ($340,368).
6. Debt Service payments paid for by the state on behalf of OUS using either General Fund or Lottery Funds continues to be the fastest growing segment of the OUS budget. General Fund and Lottery Fund debt service payments will increase from $101,182,310 in 2009-11 to $121,195,260 in 2011-13, nearly a 20% increase.
7. The GB proposes ending the Sports Action Lottery program, cutting $10,487,956 LF, and redirected the funding to other education priorities. The 2005 Legislative Assembly abolished the Sports Action lottery game which had previously been the revenue source for Lottery Funds, and instead dedicated 1% of net lottery receipts to the Oregon University System Sports Action Lottery program; 88% of the proceeds are used to finance intercollegiate athletics. The remaining 12% are for graduate student scholarships that are not awarded on the basis of athletics. Of the athletic funds, 70% must be used for non-revenue producing sports, and at least 50% must be used for women's athletics.

   The following estimated CSL allocations by school are based on historical distribution rates. Final distributions to institutions are decided by the Board of Higher Education.

   - EOU - $793,879
   - OIT - $793,879
   - SOU - $793,879
   - WOU - $1,013,145
   - PSU - $1,992,190
   - OSU – $2,503,780
   - UO - $2,597,205
8. The revised capital construction request for OUS released on 1/9/2013 includes a total of $315 million of General Fund paid debt to support 15 capital construction projects. These projects include an additional $150 million of campus funding, either through cash matches or school paid debt.

MAJOR CHALLENGES AND DECISION POINTS

Oregon University System

Analyst: Siebert

15. Potential creation of university local boards and how this impacts governance/administrative costs currently provided centrally by the Chancellor's Office.

HB 2118 (2012) directed the Oregon Legislature to develop legislation for consideration by the Seventy – seventh Legislative Assembly that provides the means by which the University of Oregon and Portland State University, two of the seven institutions that comprise the Oregon University System, would be able to create their own local governance boards. The majority of discussion to date have centered on local board membership, who will have oversight over the local board (for example do they still report to OUS and State Board of Higher Education), and what services currently provided centrally by the Chancellor's Office would devolve to a local board. While the first two items (local board composition and oversight authority) have some budget implications, such as the costs associated with supporting a local board, the majority of budget impacts will stem from choices surrounding the provision of shared administrative services.

The following is a list of shared services that could be affected by the creation of a local board and delegation of operating powers to that board:

- Accounting (accounting systems, audited financial statements, accounting standards)
- Audits (external such as of financial statements, internal audits, fraud hotline)
- Legal (board support, specialized advice, DOJ no longer the attorneys for OUS schools)
- Payroll (withholdings, one payroll center, deposits)
- Labor (contract negotiations, disputes)
- Treasury Operations (central bank, cash and investment management, debt portfolio)
- Risk (OUS is developing its own non-DAS risk management program)
- Employee Benefits (retirement, both PERS and alternate plans, health care)
- Governmental Relations (lobby, federal and state legislatures)
- Media Relations (state-wide perspective, answer questions)

Many of these services achieve economies of scale by consolidating common back office functions in the Chancellor's Office. For example, payroll operations not only issues payroll checks, they also comply with tax withholdings, deposits, update compensation plans, etc. In these instances there would likely be increased costs if a single institution were to want to take on their own payroll operations. Currently, there are 5 FTE, including a Director, working on payroll operations for all seven institutions. Savings from providing payroll services to six schools rather than seven would likely be minimal since all functions still need to be performed for the other six institutions, however the seventh school that took on its own payroll operations would either have to set up its own infrastructure to do so, or perhaps pay another entity to provide these services. Either way, the decision to delegate payroll services primarily involves financial issues. In some cases there is already replication of services such as government relations. Not only does the Chancellor's Office contract for lobby services, both UO and PSU already have dedicated government relations staff. Delegation of other shared services involves some policy choices. An example would be, should a school provide its own audit services or should there be separate oversight outside the institution as occurs now through the Audit Division of the Chancellor's Office?