HECC - State Support for Public Universities

	2015-17 Actual	2017-19 Legislatively Adopted	2017-19 Legislatively Approved *	2019-21 Current Service Level	2019-21 Governor's Budget
General Fund	942,156,082	1,057,495,463	1,058,505,322	1,154,905,146	1,079,734,551
Lottery Funds	40,418,608	64,121,610	64,121,610	95,424,861	58,519,205
Other Funds	322,798,793	331,725,000	408,615,132	--	173,000,000
Other Funds (NL)	682,127,120	212,840,781	243,816,758	203,917,130	203,917,130
Federal Funds (NL)	625,641	4,587,374	4,587,374	4,597,230	4,597,230
Total Funds	**1,988,126,244**	**1,670,770,228**	**1,779,646,196**	**1,458,844,367**	**1,519,768,116**

* Includes Emergency Board and administrative actions through December 2018.

Program Description

Oregon's seven public universities include the University of Oregon (UO), Oregon State University (OSU), Portland State University (PSU), Eastern Oregon University (EOU), Western Oregon University (WOU), Southern Oregon University (SOU), and the Oregon Institute of Technology (OIT). OSU has also established a branch campus in Bend: OSU Cascades. Prior 2013, the public universities were part of the Oregon University System (OUS). Passage of SB 242 (2011) and SB 270 (2013) changed the organizational structure and governance of the state's public universities. OUS, which had previously been the state agency for the state's public universities, was redefined as seven separate public universities each with a governing board. While the Higher Education Coordinating Commission (HECC) provides statewide coordination of the public universities, the separate governing boards have the authority to manage their respective institutions, including setting tuition and hiring the university president. The Legislature no longer approves university budgets or limits their expenditures from tuition and other sources.

CSL Summary and Issues

Public University Support Fund – $777,428,006 General Fund

The Public University Support Fund (PUSF) includes the state funding for instruction, research, and operations of the seven public universities and represents the largest share of state support for public universities. HECC allocates the PUSF to the public universities using the Student Success and Completion Model (SSCM). The SSCM distribution formula considers multiple factors, including enrollment and academic outcomes, such as resident degree and certificate completions. Prior to 2015-16 academic year, the PUSF had been allocated using the Resource Allocation Model (RAM), which was primarily based on enrollment.

The 2019-21 current service level (CSL) budget of $777.4 million for the PUSF is $40.5 million (or 5.5%) more than the 2017-19 legislatively approved budget (LAB) of $736.9 million. Historically, funding for public university education and program support was part of the OUS budget and CSL was calculated much like other state agencies. However, the change in status to separate non-state agency entities also changed the budgeting for public university support. Beginning in the 2015-17 biennium, state support for public universities was (and continues to be) budgeted in HECC as special payments, which receive the standard inflation factor for non-state employee personnel costs (contract providers) in the CSL budget calculation (4.2% in 2019-21). In addition to the standard inflation rate provided for contract providers, the PUSF also received an additional 1.3% increase, for total 2019-21 inflation of 5.5%, based on a CSL calculation methodology approved by the Legislature in 2017 that better reflects actual increases in health and retirement benefits for university employees.

During the 2016 legislative session, a budget note was adopted directing the Legislative Fiscal Office and the Department of Administrative Services to estimate what the 2017-19 CSL cost for the PUSF, Agricultural Experiment Station, Extension Service, Forest Research Laboratory, and public university state programs would be if the state used the same model that has been used for calculating CSL for the Community College Support Fund (CCSF). This was done to ensure consistency in post-secondary state support CSL calculations. The CCSF model applies more accurate growth rates to actual educational and general expenditures, including retirement costs, health benefits, pension obligation bonds, other personal services, and services and supplies costs. CSL for public university support was calculated using the CCSF model and included as a request in HECC's 2017-19 budget. In 2017, the increased CSL inflation rate calculated using the CCSF model was approved and the methodology adopted for public university CSL calculations in subsequent biennia.

Public University State Programs - $42,638,996 General Fund

Public University State Programs includes General Fund support for a variety of institutions, centers, and programs operated by public universities that address economic development, natural resource, and other public policy issues, rather than primarily providing instructional support for institutions and students. Many of these programs have an industry-specific focus, and match state support with funds from the private sector and other sources.

The 2019-21 CSL budget of $42.6 million for state programs is $3.6 million (or 7.7%) less than the 2017-19 LAB of $46.2 million. The decrease in CSL is attributable to the removal of one-time funding included in the 2017-19 LAB for capital projects at EOU ($1.2 million) and OSU Cascades ($490,000); OSU's Molluscan Broodstock Program ($570,000) and Ocean Acidification Research ($280,000) projects; a grant for the PSU/OHSU Center for Violence Prevention Research ($250,000); and match for OSU's NW National Marine Renewable Energy Center wave energy test site ($3 million). Funding approved in 2017 for two new programs, the Renewable Energy Center at OIT and Willamette Falls Locks Commission, is included in the 2019-21 CSL. Continuing public university state program funding was increased by an inflation rate of 5.5%, based on the CSL calculation methodology described in the PUSF section above.

Statewide Public Services - $130,851,972 General Fund / $46,805,847 Lottery Funds

OSU, as the state's land grant college, operates three Statewide Public Service Programs, which each receive separate General Fund appropriations:

- The **Agricultural Experiment Station** ($69.7 million) conducts research in the agricultural, biological, social, and environmental sciences at a central station in Corvallis and at branch stations across the state.

- The **Extension Service** ($50.3 million) is the educational outreach arm of OSU as Oregon's Land, Sea, Sun, and Space Grant-university connecting communities with research-based knowledge.
- The **Forest Research Laboratory** ($10.8 million) conducts research into forest management, ecosystems, and renewable materials.

The Extension Service 2019-21 CSL budget also includes $46.8 million Lottery Funds for the Outdoor School Program available through the passage of Measure 99 in 2016.

The 2019-21 CSL budget of $130.9 million General Fund for statewide public services is $6.4 million (or 5.2%) more than the 2017-19 LAB of $124.4 million. General Fund support for the Statewide Public Services Programs was increased by an inflation rate of 5.5%, based on the CSL calculation methodology described in the PUSF section above, after the removal of one-time funding for Agricultural Experiment Station positions at the Hermiston and North Willamette Research Centers ($380,000). The 2019-21 CSL budget of $46.8 million Lottery Funds for Outdoor School is $22.8 million (or 95%) more than the 2017-19 LAB of $24 million. The substantial increase in CSL is attributable to phasing in the full biennial cost of the Outdoor School Program. Measure 99 dedicated 4% of net lottery proceeds, up to a maximum of $22 million annually (adjusted for inflation), to the Outdoor School Education Fund beginning July 1, 2017. The 2017-19 LAB included approximately 54% of the funding authorized by the ballot measure, which allowed the program to be phased in over its first two years.

Sports Lottery - $14,099,809 Lottery Funds

The 2019-21 CSL budget for Sports Lottery is $14.1 million, which reflects the 1% of net lottery proceeds statutorily dedicated for public university sports programs and scholarships, based on the June 2018 revenue forecast. This is a $5.9 million (or 71.1%) increase over the 2017-19 LAB of $8.2 million. In 2017, the Legislature approved a fixed amount of Sports Lottery funding equal to the level of funding approved in the 2015-17 LAB. Additionally, the 2017-19 allocation of funding to the universities mirrored 2015-17, which reduced historical distribution percentages for UO and OSU, while keeping the remaining five schools shares intact.

Capital Construction and Debt Service – $203,986,172 General Fund / $34,519,205 Lottery Funds

The 2019-21 CSL budget includes $238.5 million General Fund and Lottery Funds debt service on outstanding bonds issued for public university capital construction projects. General Fund supports debt service on Article XI-G and Article XI-Q general obligation bonds, as well as a portion of the repayment of Small Scale Local Energy Loans financed through the issuance of Article XI-J general obligation bonds. Lottery Funds support debt service on Lottery Revenue Bonds. State-supported debt service is a $55.6 million (or 30.4%) increase from $182.9 million in 2017-19 and represents a 59.6% increase from actual debt service of $149.5 million in 2015-17. In the 2017 and 2018 sessions, the Legislature approved a combined $331.4 million of university capital projects that will be financed through the issuance of General Fund and Lottery Funds supported bonds in spring 2019. Repayment of those bonds will begin in the 2019-21 biennium. The 2019-21 CSL budget also includes $208.5 million Other Funds and Federal Funds nonlimited expenditure limitation for debt service on Article XI-F (1) general obligation bonds that is repaid with university revenues.

Policy Issues

The Public Universities often reference the difference between "true current service level" and the current service level budget generated through the state's budget development process. Current service level is defined as the estimated cost of continuing legislatively approved programs in the upcoming biennium and is calculated statewide by applying standard inflation factors to categories of expenditures. CSL budget for public university support is generated by applying the standard inflation rate for special payments, as well as additional exceptional inflation utilizing the CCSF CSL methodology that better reflects actual personnel costs, to direct General Fund appropriations. The alternate CSL calculated by the public universities includes expected inflation above the rate used in budget development, cost increases for the entire university budget, not just the state share, and provides a level of funding that maintains or increases the state percentage of total higher education costs. Since the universities have become separate non-state agency entities, the state doesn't have the same level of visibility into total costs or the ability to limit costs in the same manner as a state agency budget. However, nearly 80% of university education and general expenditures are for personnel (salaries and benefits); therefore, retirement costs, including PERS, and health benefits are both significant cost drivers for university expenditures. The universities report that the state share of total education and general costs is approximately 23% for the 2017-19 biennium.

In each of the prior two biennia, the Legislature has approved Article XI-Q bonds to support capital improvement and renewal of university facilities. During the 2015 session, $65 million was approved and distributed to the universities based on education and general services facilities square footage. The Legislature included language in the HB 5005 (2015) budget report directing HECC to utilize this method to distribute funding, which was consistent with prior OUS practice. However, this distribution formula did not take into account the relative facility needs of each campus or the average age of the buildings being used in the total square footage distributions. During the 2017 session, $50 million was approved for capital improvement and renewal, but no allocation methodology was prescribed, with the expectation that HECC would evaluate and propose a more comprehensive distribution formula in rule. HECC approved a Capital Improvement and Renewal Technical (CIR) Workgroup comprised of university representatives and HECC staff. The CIR Workgroup recommended that the 2017-19 allocation be based on two factors: education and general services facilities gross square feet and density of use. In addition, the CIR Workgroup recommended that in subsequent allocations, the age of facilities, taking into consideration major renovations, be included as a factor in the formula.

Capital improvement and renewal funding has historically been earmarked for capital repairs and deferred maintenance, which continue to be a considerable need across all campuses. In prior biennia, universities have requested to broaden the uses to include classroom modernization and remodeling. While this has been approved on a limited basis in the past, this expansion in use has the potential to siphon funds away facilities with needed repairs if the classroom refreshing is seen by the university as a better tool to use in student recruitment. The Legislature addressed this issue in 2017 by limiting the approved scope in the SB 5505 (2017) budget report to projects that address deferred maintenance, code compliance, safety issues, and Americans with Disabilities Act (ADA) accessibility improvements and not acquisition of buildings, structures, or land; classroom or lab modernization; or improvements to auxiliary facilities, which are typically self-supporting.

Other Significant Issues and Background

State support for public universities has continued to grow since significant decreases in the 2011-13 biennium. While funding has returned to pre-recession levels, tuition and fees still support the majority of total higher education costs. Universities also continue to rely on non-resident tuition as an important source of revenue. Out-of-state student enrollment grew modestly in 2017 but has increased nearly 90% since 2007. In comparison, the number of resident students has decreased since 2011, and only increased 5% during the last decade.

Universities originally proposed to increase total funding for the Public University Support Fund to $1 billion in 2019, an increase of $222.6 million over 2019-21 CSL budget. At $1 billion in PUSF state support, annual tuition increases would be at or below 3% for most universities. HECC included a policy option package (POP) in their agency request budget (ARB) to increase PUSF support by $145.6 million, which would bring total 2019-21 funding to $923 million. This level of funding was anticipated to cover the difference between CSL inflation of 5.5% and expected university inflation, as well as provide additional investment into the universities. The 2019-21 Governor's Budget decreased CSL PUSF support by $40.5 million, eliminating inflation and reducing funding to the 2017-19 level. The universities have stated that an investment of $120 million over the Governor's Budget ($79.5 million above CSL) would cover actual inflation, the students' share of PERS increases, and keep tuition increases at or below 5%.

In addition to requesting an increase for the PUSF, HECC's 2019-21 ARB included a POP to increase General Fund support for public university state programs by an additional $2.8 million, bringing total inflation to 8.4% (the university estimate of actual 2019-21 education and general cost increases at ARB) and providing $1.6 million for OSU's NW National Marine Renewable Energy Center Pacific Marine Energy Center South Energy Test Site. HECC requested an additional $7.6 million in General Fund support for the Statewide Public Services Programs to increase inflation to 8.4%, as well as provide additional inflation of 3.2% to restore program capacity that was diminished due to prior biennium inflation that didn't cover actual costs increases reported by the universities. The OSU Board of Trustees also submitted a letter to the Governor requesting a total 2019-21 investment of $30 million in the Agricultural Experiment Station, Extension Service, and Forest Research Laboratory. The 2019-21 Governor's Budget eliminated inflation from CSL General Fund support for the public university state programs and Statewide Public Services Programs, reducing funding to 2017-19 levels. Additionally, $25.6 million General Fund support for the Engineering Technology Sustaining Fund (ETSF) was eliminated. Lottery Funds support for the Outdoor School Program was reduced to $24 million, which provides one year of funding for Outdoor School. Sports Lottery funding of $14.1 million was also eliminated.

The Public Universities submitted 15 capital construction project requests totaling $353.1 million financed through the issuance of Article XI-G and Article XI-Q general obligation bonds. HECC evaluated and prioritized the projects using a capital rubric that assigns points to projects based on multiple factors, including investments that support state higher education goals, leverage non-state resources, and provide adequate funding for deferred maintenance. Capital improvement and renewal funding ($65 million) continues to be the universities' collective priority. HECC recommended all 15 projects; however, SOU's Cascade Hall Demolition project ($2.5 million) was not included in the ARB as there was a question as to whether the project would qualify for bond financing. In addition to the university requests for General

Fund/Lottery Funds supported bonds, they have also requested $93 million in Article XI-F (1) bond authority for four projects. University revenues will be used for Article XI-F (1) debt service payments.

HECC has utilized the scoring methodology noted above to prioritize public university capital requests since the 2015-17 biennium. However, HECC recently engaged a contractor to complete a Strategic Capital Development Plan that will provide a summary of the state's public university needs over the next decade. This plan is anticipated to inform future capital recommendations and may change the current process. The Governor's Budget included Article XI-Q bond authority for three projects: Capital Improvement and Renewal ($65 million), EOU's Inlow Hall Grand Staircase Replacement ($3 million), and UO's ShakeAlert and AlertWildfire Seismic Station Installation ($12 million). However, the Governor's Budget reserved $225 million of General Fund-supported general obligation bond capacity and deferred approval of the remaining university capital projects until the 2020 session, after HECC has completed the 10-year Strategic Capital Development Plan.