

## Department of Higher Education (DHED) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	671,431,645	704,436,524	737,484,478	827,064,220
Lottery Funds	7,507,597	11,417,524	11,417,524	31,490,061
Other Funds	1,329,545,579	1,476,109,901	1,675,500,188	1,819,710,761
Other Funds (NL)	1,806,622,837	2,416,936,637	2,138,542,161	2,228,003,414
<b>Total Funds</b>	<b>\$3,815,107,658</b>	<b>\$4,608,900,586</b>	<b>\$4,562,944,351</b>	<b>\$4,906,268,456</b>
Positions	16,098	14,457	15,601	18,019
FTE	12,121.42	11,876.52	12,140.62	12,753.11

*Federal Funds are included in the Other Funds category in the Higher Education budget. Except for Federal Funds that are included in the Other Funds expenditure limitations of the OSU public service programs (Agricultural Experiment Station, Extension Service, and Forest Research Lab), Federal Funds are included in Nonlimited in their associated program areas.*

### Agency Overview

The Department of Higher Education is the state agency name for the educational institutions, governing board, central administration, support services, and public services that make up the Oregon University System (OUS). The institutions consist of the University of Oregon (UO), Oregon State University (OSU), Portland State University (PSU), the three regional universities [Eastern (EOU), Western (WOU), and Southern Oregon Universities (SOU)], and the Oregon Institute of Technology (OIT). OSU has also established a branch campus in Bend, OSU-Cascades.

### Governor's Budget

The Governor's recommended budget provides \$858.6 million in state support (General Fund plus Lottery Funds) to the Department of Higher Education, a 14.6% increase over the 2005-07 biennium level. Additionally, the Governor's budget includes a special purpose General Fund appropriation to the Emergency Board for 2007-09 state employee compensation changes. The Department is eligible to receive a portion of these funds. How much of these funds the Department would receive is uncertain. However, if the Department received the same proportion of the funds designated for compensation cost increases in the 2007-09 biennium as it did from the 2005-07 biennium statewide distribution of compensation cost increase funds, it would receive an additional \$34 million General Fund. If this estimate proves accurate, the Governor's budget actually supports a \$143.7 million (or 19.2%) increase in state support over the 2005-07 biennium level. The impacts of the budget on the Department's program areas that receive General Fund are summarized below:

- **Education and General Services Program** – General Fund support is increased 13.3% above the 2005-07 biennium level. In the Education and General Services program, the universities and centralized operations combine General Fund with their limited Other Funds to finance program costs. This combination of limited expenditures from both the General Fund and limited Other Funds sources is the best measure of the resources that the Department has in this budget to maintain its education and general programs. Tuition and resource fee revenues are the primary sources of the limited Other Funds. The budget accommodates tuition and resource fee rate increases averaging 3.4% in each year of the biennium. Combined limited funds support for the Education and General Services program is increased \$176 million (or 10.5%) over the amount in the 2005-07 biennium. This funding level is also \$109.4 million (or 6.3%) above the essential budget level.
- **Agricultural Experiment Station** – General Fund support of \$59.9 million is a \$5.2 million (or 9.5%) increase over the 2005-07 biennium level. Combined limited funding of \$74.1 million is a \$5.5 million (or 8%) increase over the 2005-07 biennium level.
- **Extension Service** – General Fund support of \$43.1 million is a \$3.7 million (or 9.5%) increase over the 2005-07 biennium level. Combined limited funding of \$67.8 million is a \$4.6 million (or 7.3%) increase over the 2005-07 biennium level.
- **Forest Research Laboratory** – General Fund support of \$6.6 million is a \$1.1 million (or 19.4%) increase over the 2005-07 biennium level. Combined limited funding of \$14.6 million is a \$570,000 (or 4.1%) increase over the 2005-07 biennium level.

- **Debt Service** – State-paid (General Fund plus Lottery Funds) debt service costs are budgeted for a total \$64 million, a \$28 million (or 78%) increase over the 2005-07 biennium level. This includes \$8.5 million for the new capital construction projects in the budget. Although the proposed 2007-09 biennium capital construction projects would generate \$8.5 million in debt service costs in 2007-09, this represents only a small portion of the debt service costs associated with the Governor’s budget for higher education capital construction projects. The proposed projects would, if they are all approved, generate \$57.1 million of biennial debt service costs, beginning in the 2009-11 biennium, that would need to be paid by General Fund or Lottery Funds. This would be a \$48.6 million (or 76%) increase over the 2007-09 biennium level.
- **Capital Construction** – The Governor’s capital construction budget includes a large increase in state-support for construction costs, compared to prior biennia. The budget includes \$313.8 million of state-supported debt (Article XI-G bonds, Lottery bonds, and SELP bonds) for OUS capital construction projects. State-supported debt is repaid with state discretionary funds – General Fund and Lottery Funds. The amount of state-supported debt in the Governor’s budget is almost triple (2.8 times) the level authorized in the 2005-07 biennium, and approximately 10 times the amount authorized the biennium before that.

## DHED – Education and General Services

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor’s Recommended
General Fund	543,205,078	565,051,859	592,794,966	671,463,424
Other Funds	855,376,020	1,031,588,659	1,081,056,301	1,178,376,168
Other Funds (NL)	917,733,427	1,275,061,427	1,057,715,051	1,090,528,794
<b>Total Funds</b>	<b>\$2,316,314,525</b>	<b>\$2,871,701,945</b>	<b>\$2,731,566,318</b>	<b>\$2,940,368,386</b>
Positions	12,958	11,141	12,025	14,420
FTE	9,408.96	9,144.29	9,237.11	9,826.60

### Program Description

The Education and General Services program includes the instruction, research, public service, and operating costs of the seven institutions that make up OUS, plus the Oregon Center for Advanced Technology Education, and the centralized administration and support services of the system. (The operations of self-supported campus auxiliaries such as housing and health services, however, are shown in the Other Services (Nonlimited) program.) The Education and General Services Program accounts for 80% of the Department’s state-supported (General Fund plus Lottery Funds) expenditures. The Legislature appropriates funds and provides expenditure limitations for the Department as a whole rather than to the individual institutions. The State Board of Higher Education then allocates these funds to the various institutions and programs in annual budgets through the Resource Allocation Model (RAM). The RAM allocates state support dollars primarily on an enrollment basis. Institutions retain their tuition and fee revenues, and combine these revenues with the allocation of General Fund that they receive through the RAM distribution to support their education and general services operating costs.

### Revenue Sources and Relationships

The primary source of Other Funds for the Education and General Services Program is tuition. Other sources include other student fees such as Resource Fees and Energy Surcharge fees, sales and charges for services, indirect cost recovery on grants, and other miscellaneous revenue. Other Funds subject to expenditure limitation are retained by the campuses generating those revenues, with the exception of a small portion of indirect cost recovery monies that are transferred to the Chancellor’s Office. The state’s General Fund appropriation for the Education and General Services program is distributed to the campuses and to centralized services by the Resource Allocation Model (RAM). The RAM distributes most of the General Fund that campuses receive for their Education and General Services programs on a direct enrollment basis. The campuses receive funding for total student enrollment on a full-time equivalent (FTE) basis. The funding amount varies by program type. These varying enrollment-funding amounts are commonly called “cell values.” The Department has, however, generally funded the campuses based on their 2002-03 year enrollment levels. That is, any changes in enrollment since then have not affected how General Fund is allocated to the campuses.

The remainder of General Fund support to campuses, and all General Fund support for centralized services, is distributed in the RAM through targeted programs. Targeted programs include all funding that is not on a direct enrollment basis. Targeted programs are designed to address the costs of the system that are not directly related to enrollment levels. The largest of the targeted programs are the funding for smaller campuses that is additional to the amount they receive for their enrollments (\$31.1 million General Fund in the 2005-07 biennium); Engineering program enhanced funding for projects identified by the Engineering Technology Industry Council (\$20.7 million General Fund in 2005-07); and the Chancellor's Office operations (\$13.3 million General Fund in 2005-07).

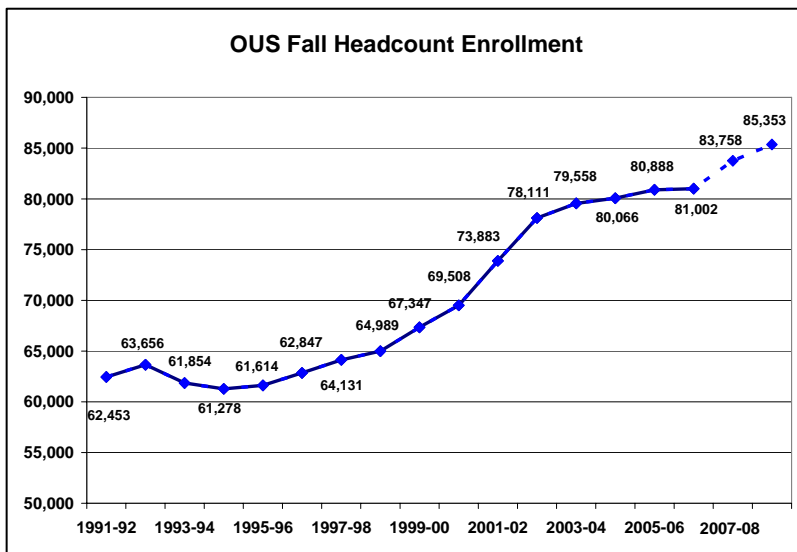
Nonlimited funds include gifts and sponsored research financed by the federal government, private industry, and other private groups. These Nonlimited funds, the major source of support for research, also directly benefit and enhance the instruction and research programs supported by the General Fund and tuition revenue.

**Budget Environment**

State support for the Department of Higher Education was reduced greatly after the passage of Measure 5 in 1990. The state met the requirements to support K-12 education by limiting funding for many programs, but OUS was particularly affected. State support for the Education and General Services program not only failed to grow enough to cover inflation, but it actually declined in nominal dollars. The Legislature reversed this trend with the 1997-99 budget, financing new programs in engineering, new partnerships with community colleges, efforts to recruit and retain high quality faculty, and a tuition freeze for Oregon undergraduates.

In 1999, the Legislature increased General Fund support of the Education and General Services Program by 22%. This included \$106.8 million of General Fund enhancements. Of this total, \$15.3 million resulted in no additional revenue for the budget, since it was used to freeze tuition rates for resident undergraduates. General Fund support of Education and General Services has decreased since the 1999-2001 biennium as the state has faced ongoing General Fund revenue shortfalls. Support in the 2001-03 biennium was reduced several times in special sessions as the revenue shortfall became known. When these reductions were complete, General Fund had been reduced to a level that was 1.4% below the 1999-2001 level. In the 2003-05 biennium, support declined a further 12% (after voter disapproval of Measure 30 reduced General Fund revenues and appropriations). During these two biennia, the legislatively approved budgets allowed for large tuition rate increases to offset declines in General Fund support and to allow OUS to address cost increases. The combined limited fund budget actually increased 7.9% in 2001-03, and a further 15.8% in 2003-05.

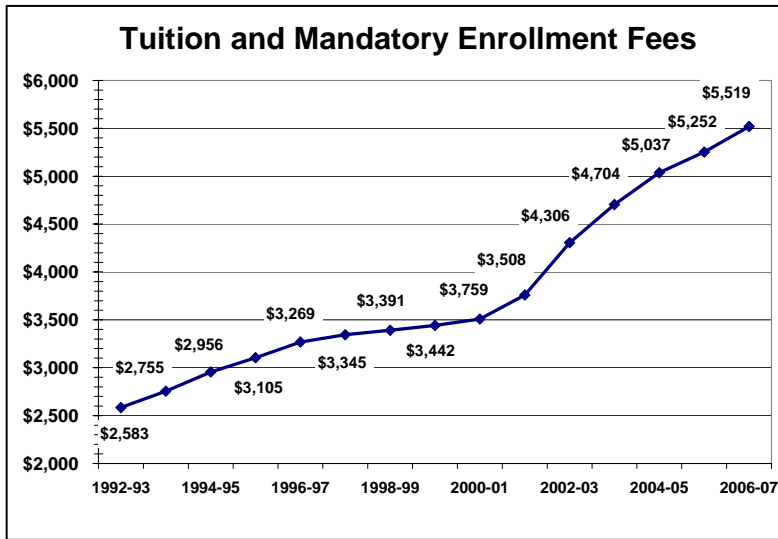
In the 2005-07 biennium, the Legislature increased General Fund support by \$49.6 million (or 9.1%) over the 2003-05 biennium level. This increase, however, was insufficient to reverse the prior biennium decline, and support remained below the 2001-03 level. The combined limited fund budget, however, increased by a more robust 19.7% over the prior biennium level.



The RAM was designed to promote institutional effectiveness and entrepreneurship by tying financial resources more directly to the number of students served. Under the prior system, where most tuition revenues were pooled, an institution that successfully attracted additional students retained little additional revenue. In the RAM, the school retains all of this tuition, thereby increasing the financial reward of attracting students. The RAM was also to have made each campus' General Fund support level more sensitive to enrollment than had previously been the case, thereby amplifying the financial rewards associated with attracting students even

more. However, enrollment funding has been frozen at 2002-03 levels, so that enrollment changes since then have not affected the amount of General Fund that campuses receive.

Enrollment in the Oregon University System has been increasing since the 1995-96 academic year. This reverses an earlier decline during the 1990s that occurred when tuition rates were increased rapidly as a response to Measure 5. Although enrollment remains at record levels, enrollment growth has become minimal in the last few years. This growth has occurred as a result of the increasing numbers of high school graduates each year in Oregon, and because a greater proportion of those graduates are choosing to attend an OUS school. The freshman participation rate, which measures resident first-time freshmen as a percentage of the state's number of high school graduates the previous June, two years ago returned to its all time peak rate of 24%. This freshman participation rate had been close to that level in the late 1980s, but the rate had fallen to a low of 17.5% in the early 1990s. By 2006, however, the freshman participation rate had declined again to 22%. The trend of larger high school graduating cohorts is expected to continue until the 2013-14 academic year. At that point there will be a short three-year pause, and then graduating cohorts are projected to resume growing. OUS projects enrollment growth to continue in each of the two years of the 2007-09 biennium, and well beyond.



The rate of enrollment growth has fluctuated greatly, though, and displays an inverse correlation to the rate of tuition increases, with a short lag. Enrollment growth rates accelerated during the 1990s, peaking at approximately 6% per year in the 2001-03 biennium. This coincided with and followed a period of moderate tuition rate increases that were below the rate of inflation. Tuition rate increases then accelerated in the 2001-03 and 2003-05 biennia. Rate increases during these two biennia have averaged 9.5% per year. Enrollment growth has recently slowed down, to an average of 1.2% per year in 2003-05 and 0.5% per year in 2005-07.

Average mandatory enrollment fees for full-time resident undergraduate students is shown in the chart above. Mandatory enrollment fees include tuition and other required fees such as building fees, incidental fees, health service fees, and technology fees. These fees increased from \$1,864 in 1990-91 to \$3,269 in 1996-97, an increase of 75.4%. In 1997, the Legislature addressed this issue by financing a tuition freeze for resident undergraduates. This freeze was extended in 1999 for an additional two years. Through the 2000-01 academic year, mandatory fees then rose an average 7.3%, but this increase was due entirely to increases in the non-tuition mandatory fees.

The 2001-03 legislatively adopted budget allowed for a 4% tuition increase in the 2001-02 academic year, and a 3% tuition increase in the 2002-03 academic year. Although all campuses limited their tuition increase for resident undergraduate students to 4% in the 2001-02 academic year, they increased their non-tuition mandatory fees at a much greater rate, and most campuses imposed a new Energy Surcharge Fee. As a result, total mandatory enrollment fees increased by an average of 7.2% (for resident undergraduate students) in the 2001-02 academic year, almost equal in percentage terms to the increase over the prior four years combined. In the 2002-03 academic year, fees were increased twice: once at the beginning of the year as traditionally occurs, and a second time in the Spring Term when campuses imposed tuition surcharges to partially offset the impact of General Fund reductions required because of the defeat of a proposed temporary income tax increase (Measure 28), and General Fund cuts imposed by allotment reductions to prevent a deficit. By the time the Spring Term surcharges were imposed, the mandatory enrollment fees for resident undergraduate students were, on average, 14.5% above the 2001-02 levels. Mandatory enrollment fees for resident undergraduates, shown in the above chart, increased a further 9.3% in 2003-04 and 7.1% in 2004-05. Many students, however, experienced even larger rate increases than shown here, as campuses reduced or eliminated their tuition credit plateaus.

Tuition and resource fee increases were capped to an average increase of 3% each year in the 2005-07 biennium. Increases in other mandatory fees, however, pushed the average increase for full-time resident undergraduates to 4.3% in 2005-06 and to 5.1% in 2006-07. These figures somewhat overstate the average rate increases for resident undergraduates, however, because in some cases part-time students had lower rates of increase, and

the increases reported here do not weight campus rate hikes by enrollment levels when calculating the systemwide increase.

During the 2005-07 biennium, most campus Education and General Services budgets operated in deficit (for purposes of this discussion, the OSU Statewide Public Service Programs are combined with the Education and General budget for OSU). Education and General limited budget expenditures are projected to exceed revenues by \$23.5 million in 2005-07, thereby reducing systemwide Education and General fund balances from \$109.8 million to \$86.3 million. The systemwide fund balance, which was 13% of operating revenues at the start of the biennium, is projected to fall to only 9.3% of operating revenues by biennium end. This is well within the 5-15% acceptable range established by the Oregon State Board of Higher Education, but slightly below the 10% target. The operating deficit is expected to fall slightly from \$13.1 million in the 2005-06 fiscal year to \$10.4 million in 2006-07, however even this rate of deficit would deplete fund balances in ten years.

The budget situation varies by campus. By the end of the 2005-07 biennium, institutions are projected to have fund balances equal to the following percentages of operating revenues: OIT – 11.5%, UO – 9.4%, PSU – 8.8%, OSU – 8.5%, WOU – 8.3%, EOU – 5.5%, and SOU – 3.2%. The Chancellor’s Office ending fund balance is projected to be 49.2% of operating revenues.

### Governor’s Budget

General Fund support of \$671.5 million is a \$78.7 million (or 13.3%) increase over the 2005-07 biennium level. This level of General Fund is approximately \$48.3 million (or 7.8%) above the essential budget level. In the Education and General Services program, the universities and centralized operations combine General Fund with their limited Other Funds to finance program costs. These combined limited funds expenditures from both the General Fund and Other Funds sources is the best measure of the resources available to the Department to maintain its education and general programs. Combined limited funds for the Education and General program total \$1.85 billion in the Governor’s budget, a \$176 million (or 10.5%) increase over the 2005-07 biennium level. This level of combined limited funds is approximately \$109.4 million (or 6.3%) above the essential budget level.

The table to the right shows how the \$109.4 million above the essential budget level is distributed into several major categories. The combined limited funds column, which represents the total amount of funds available for program enhancements or reductions, is the sum of the General Fund and limited Other Funds numbers.

<b>Governor's Recommended Budget: Education and General Combined Limited Budget</b>			
	<b>General Fund</b>	<b>Limited Other Funds</b>	<b>Combined Limited Funds</b>
<b>EDUCATION &amp; GENERAL</b>			
General Support Enhancements	\$40.7 million	\$26.0 million	\$66.7 million
Specific Program Enhancements	\$28.6 million	\$19.1 million	\$47.7 million
<b>Total Program Enhancements</b>	<b>\$69.2 million</b>	<b>\$45.1 million</b>	<b>\$114.3 million</b>
<b>Program Reductions</b>	<b>-\$4.9 million</b>	<b>\$0.0 million</b>	<b>-\$4.9 million</b>
<b>Net Funding Changes</b>	<b>\$64.3 million</b>	<b>\$45.1 million</b>	<b>\$109.4 million</b>

The Governor’s budget finances \$69.2 million of General Fund program enhancements. On top of this, the budget adds \$45.1 million of Other Funds expenditures for program enhancements, for a total of \$114.3 million. All of these enhancements may be classified into two broad categories: General Support or Specific Program. General support enhancements have the characteristic that they become part of the campus or central unrestricted budget. Although they may be designated as being made available to address a particular cost, they are not designed to affect the operations of any particular academic program. Typically, OUS would not be required to account for the use of these funds to any particular expenditures. Specific program enhancements, on the other hand, must be used for their identified purposes, and must be applied to specified portions of the campus or central budget. These categories are used in the description of the particular enhancements and reductions in the Education and General Services budget:

### **General Support Enhancements (\$40.7 million General Fund/\$26 million Other Funds)**

- **Enrollment Growth (\$14.6 million General Fund/\$26 million Other Funds)** – Enrollment calculated on a full-time equivalent (FTE) basis is projected to grow 3.7% in the budget. Tuition revenue tracks FTE enrollment, and this growth is expecting to generate \$26 million in tuition and fee revenue. The Governor’s budget adds \$26 million to the Other Funds expenditure limitation to allow all of these additional revenues

to be spent. In addition, the budget provides \$14.6 million in General Fund to provide state support for the additional students at the same per FTE rate as the support for the number of students served in the 2006-07 academic year. The additional tuition dollars would remain with the campuses where the enrollment growth occurred. The General Fund would be distributed to the campuses where the enrollment growth occurred. The package also adds 393 positions (393.00 FTE) to serve the additional students.

The package allows \$42.4 million of additional expenditures as a result of the enrollment growth. Note that the state does not include funding for enrollment growth as part of the essential budget level. This is because higher education is not a mandated service, and funding levels and the enrollments that these funding levels would support remain at the discretion of the Legislature. Additionally, there is no data to indicate what the additional costs to the Department of a 3.7% enrollment growth would actually be. Costs can vary significantly. If the additional students are entering programs that are operating at capacity, there could be significant costs associated with enrolling them. The additional costs may be minimal, however, if students are entering programs that are operating below capacity.

- **Regional Support (\$9 million General Fund)** – The Department distributes additional General Fund to its smaller institutions through targeted programs in the Resource Allocation Model to compensate for higher costs per student at smaller institutions. Smaller institutions are unable to realize the degrees of scale that large enrollments create. Larger institutions have lower costs per student because they can allocate fixed costs across a larger student base, and because they typically enroll graduate students who can aid in undergraduate teaching at a lower cost than is needed to hire a faculty member. In the 2005-07 biennium, targeted programs for Small School Funding provided an additional \$31.1 million General Fund to EOU, OIT, the OSU Cascades Campus, SOU, and WOU. The Governor’s budget would increase Small School Funding by an additional \$9 million (or 28%) to help secure the financial stability of these institutions. The package also adds 36 positions (36.00 FTE) at the five institutions.
- **Faculty Salary Catch-up (\$8 million General Fund)** – Average faculty salaries in the Oregon University System remain below the average faculty salaries at peer institutions. The budget provides \$8 million to support salary increases to help OUS remain competitive in compensation with peer institutions. The funds will be in addition to funds that the Department will be eligible for out of any money set aside for statewide 2007-09 biennium compensation cost increases. The Governor’s budget appropriates \$130 million to the Emergency Board to finance compensation cost increases. How much of these funds the Department would receive is uncertain. However, if the Department received the same proportion of the funds designated for compensation cost increases in the 2007-09 biennium as it did from the 2005-07 biennium statewide distribution of compensation cost increase funds, it would receive \$34 million General Fund. The funds that the Emergency Board would distribute would be calculated to support both faculty and non-faculty positions in the OUS that are supported by General Fund. The additional \$8 million for Faculty Salary Catch-up would bring total funding for salary increases up to \$42 million General Fund, but the Faculty Salary Catch-up portion is designated for faculty personnel only. The agency had requested \$29 million General Fund as part of a plan to achieve faculty salary parity with peer institutions in ten years.
- **Reduce Student-Faculty Ratio (\$6.86 million General Fund)** – The current student-faculty ratio in the Oregon University System is approximately 27:1. The Oregon State Board of Higher Education has approved reducing this to 24:1 (the national average is 22:1). These funds support filling an additional 90 faculty positions (90.00 FTE) in those OUS institutions with student-faculty ratios that exceed the national average. This would include all of the OUS institutions with the exceptions of the Oregon Institute of Technology and Southern Oregon University.
- **Utility Costs (\$2.2 million General Fund)** – The Governor’s budget adds these funds to help campuses address recent utility cost increases that have exceeded the rate of inflation.

**Specific Program Enhancements (\$28.6 million General Fund/\$19.1 million Other Funds)**

- **Engineering and Technology Industry Council [ETIC] (\$17 million General Fund/\$11.8 million Other Funds)** – Support is provided to expand and improve engineering and technology education and research programs. In the 2005-07 biennium, the state provided \$20.7 million of General Fund in support of ETIC-identified initiatives. This funding increases General Fund support by 82%, and additionally funds \$11.8

million of equipment purchases with certificates of participation (COPs). The funds support hiring an additional 40 engineering faculty and support staff (40.00 FTE) primarily at OSU, but also at PSU. ETIC has established a goal to increase the number of engineering degrees awarded annually in the OUS by 77% by the 2008-09 academic year. This increase would represent the amount of increase over the 1998-99 academic year level. ETIC requested \$34.4 million General Fund plus the COPs to achieve this goal. General Fund is not authorized for COP debt service. Debt service on the COPs will be paid by campus Other Funds that are Nonlimited in the state budget.

- **Healthcare Initiative (\$7.4 million General Fund)** – These funds represent the Department’s portion of a \$15.2 million General Fund program in the Governor’s budget to expand healthcare workforce programs that is allocated to the Oregon University System. The Governor’s budget also allocates \$2.2 million to the Department of Community Colleges and Workforce Development and \$5.6 million to the Oregon Health and Science University School of Nursing. The OUS portion of this initiative includes two components. There is \$4.6 million to expand the sonography, clinical lab technician and technology, and dental hygiene programs at OIT. The remaining \$2.8 million is to expand the offering of nursing pre-requisite courses throughout the OUS as part of the Oregon Consortium for Nursing Education’s initiative to increase the number of nursing degrees in the state. The package adds 26 positions (25.00 FTE).
- **Rural Access Initiative (\$1.6 million General Fund)** – These funds support an Eastern Oregon University initiative to increase college attendance in Eastern Oregon, where attendance rates lag the rest of the state. EOU would use the funds to expand outreach efforts to high school students and their parents in the region, and to offer courses on regional high school campuses. Funds may also be used to support scholarship support. The package adds 18 positions (18.00 FTE).
- **Oregon Solutions (\$1.5 million General Fund)** – These funds support the Oregon Solutions program at Portland State University. Oregon Solutions is a program in the PSU School of Government Policy Consensus Center, which focuses on developing collaborative processes involving public issues. These funds were not requested by the Department, but were added to the budget by the Governor.
- **Information Systems (\$837,000 General Fund)** – This finances expanding the Integrated Data Transfer System (IDTS), which was funded in 2005-07 and is designed to support data integration allowing student information to be shared electronically between high schools, community colleges, and OUS institutions. The funds also support expansion of the Articulated Transfer Linked Audit System (ATLAS), an online program that assists transfer students in determining which courses are required to complete their degree requirements. The package adds three positions (2.70 FTE). The Department received \$2.1 million of General Fund in the 2005-07 biennium for the IDTS.
- **Institute for Natural Resources (\$250,000 General Fund)** – This would double General Fund support for the Institute for Natural Resources at OSU from \$250,000 in 2005-07 to \$500,000 in 2007-09. The Legislative Fiscal Office believes that the Legislature intended the 2005-07 biennium appropriation to be one-time funding. This funding for the 2007-09 biennium was not requested by the Department, but was added to the budget by the Governor.
- **Certificates of Participation (\$7.2 million Other Funds)** – The budget authorizes \$7.2 million of COPs for information technology purchases. General Fund is not authorized for debt service. Debt service on the COPs will be paid by campus Other Funds that are Nonlimited in the state budget. (Note above that the budget supports an additional \$11.8 million of COPs for ETIC-related equipment purchases.
- **Debt Structure Changes (\$0.2 million Other Funds )** – Supports one position (1.00 FTE) to administer the Article XI-F(1) bond program. This item supports a proposal to allow the Department to use variable rate and synthetic fixed rate finance on Article XI-F(1) bonds. The Department forecasts debt service savings of \$2 million per biennium of Nonlimited Other Funds if this proposal is approved, however, the increased complexity of the bond financing would generate the added administrative costs included here.

### **Program Reductions (\$4.9 million General Fund)**

- **Intercollegiate Athletics (-\$4.9 million General Fund)** – The Governor’s budget cuts General Fund support for intercollegiate athletic programs by \$4.9 million. Intercollegiate athletic programs are operated as an auxiliary enterprise in the Department’s budget. Auxiliary enterprise expenditures are not limited in the budget, but typically they also receive no General Fund or tuition revenue support, instead self-generating the revenues required to fund their operations. Nonetheless, some intercollegiate athletic programs receive subsidies from campus Education and General budgets to support their activities. The \$4.9 million reduction was calculated as the General Fund component of the \$14 million of limited Education and General funds that are being used to subsidize the intercollegiate athletic departments at Oregon State University and Portland State University per biennium. The Governor indicates that this reduction is associated with the expansion of revenue in the Sports Action Lottery program. The effect of this reduction is to offset most of the \$7.7 million of increased funding coming from revenue increases to the Sports Action Lottery program.

In addition to these enhancements and reductions, the budget supports a law change to allow the Department to retain interest earnings on funds in its accounts. Under current law, with few exceptions, the earnings on system fund balances accrue to the General Fund. The Department has long requested that it be allowed to retain these interest earnings for its own purposes. The Governor’s budget accedes to this request, and reduces 2007-09 biennium General Fund revenue by \$19.1 million to reflect passage of this budget change. The Department would retain this \$19.1 of interest earnings (Other Funds). The Governor’s budget includes a \$19.1 million fund shift from General Funds to Other Funds to reflect the law change. (The Education and General program contains \$16 million of the fund shift, with the remaining \$3.1 million in the Capital Construction program area.) The effect of this fund shift is to eliminate any fiscal impact to either the Department or to the rest of state government from the law change. The entire \$19.1 million in General Fund revenues is allocated to the DHED budget, so other General Fund programs are not affected. However the General Fund reduction to DHED is offset by its ability to retain and spend the interest earnings on its accounts.

Tuition and resource fee revenues are the primary sources of the limited Other Funds. The Governor indicates that he supports, and that his budget accommodates, tuition and fee rate increases averaging 3.4% in each year of the biennium. This level of tuition rate increases would match projections of the rate of increase in median family income in the state. It is also roughly equal to the rate of tuition and fee increases during the 2005-07 biennium. The Legislative Fiscal Office has not yet been able to confirm whether or not the Other Funds revenues and expenditures in the Governor’s budget are indeed consistent with tuition and fee rate increases of 3.4% per year. The Legislature will need to further review Other Funds expenditures in its work on the DHED budget.

### **DHED – Agricultural Experiment Station**

	<b>2003-05 Actual</b>	<b>2005-07 Legislatively Adopted</b>	<b>2005-07 Legislatively Approved</b>	<b>2007-09 Governor’s Recommended</b>
General Fund	50,238,500	51,860,395	54,668,604	59,858,931
Other Funds	10,306,047	16,399,999	13,900,000	14,200,040
Other Funds (NL)	53,636,052	63,127,844	59,173,893	60,993,391
<b>Total Funds</b>	<b>\$114,180,599</b>	<b>\$131,388,238</b>	<b>\$127,742,497</b>	<b>\$135,052,362</b>
Positions	683	807	807	819
FTE	530.54	631.90	631.90	643.90

#### **Program Description**

The Agricultural Experiment Station was organized in 1888 and conducts research and demonstrations in the agricultural, biological, social, and environmental sciences. Research is conducted at a central station at Corvallis and at ten branch stations in major crop and climate areas of the state.

#### **Revenue Sources and Relationships**

Historically, Other Funds subject to expenditure limitation have come primarily from sales and service fees, with some indirect cost recovery on federal grants, interest earnings, and miscellaneous income. The Agricultural Experiment Station receives federal funds (reported as Other Funds) through the Hatch Act.

Nonlimited gifts, grants, and contracts will provide over \$57.7 million for Agricultural Experiment Station research in the 2003-05 biennium.

### Budget Environment

In 1999, the Legislature approved an \$8.2 million expansion of the Agricultural Experiment Station's research activities, increasing state support over 18%. Since then, General Fund support has been reduced: first by \$2.1 million in the 2001-03 biennium, and then by an additional \$0.9 million in 2003-05. In 2005, the Legislature rejected the Governor's recommendation for further reductions in General Fund support for the Agricultural Experiment Station. Although the Governor had recommended an additional \$900,000 General Fund reduction from the 2003-05 biennium level, the Legislature increased General Fund by \$1.6 million (or 3.2%) over the 2003-05 biennium level. The Agricultural Experiment Station also received \$2.8 million in General Fund from the Emergency Board for compensation cost increases, thereby resulting in a 8.8% General Fund increase in the 2005-07 biennium over the prior biennium level.

### Governor's Budget

The Governor's recommended budget's \$59.9 million General Fund is a \$5.2 million (or 9.5%) increase over the 2005-07 biennium level. Combined limited funding of \$74.1 million is a \$5.5 million (or 8%) increase over the 2005-07 biennium level. These totals are arrived at primarily as a result of two major items in the Governor's budget:

- Limited Other Funds are reduced by \$3.2 million from the level approved last session. This adjustment corrects the budget to reflect the fact that Other Funds revenues have not been sufficient to fund the Other Funds expenditure limitation for several years. The Emergency Board recognized this in June 2006 when it adjusted the Agricultural Experiment Station's budget to finance 2005-07 biennium compensation cost increases. The Emergency Board reduced the 2005-07 biennium Other Funds expenditure limitation by \$2.5 million to reflect actual 2005-07 biennium revenues. The Governor's action to reduce the Other Funds expenditure limit by \$3.2 million represents a comparable adjustment for the 2007-09 biennium. The two adjustments are not cumulative. They both represent reductions from the Other Funds expenditure limit adopted for the 2005-07 biennium in the 2005 session.
- An increase of \$2.86 million General Fund to support enhancements to Agricultural Experiment Station programs. This includes \$1.21 million General Fund and seven positions (5.50 FTE) to enhance programs in viticulture and enology, with focuses on research into sustainable production of high quality wine grapes; and \$1.65 million General Fund, and five positions (6.50 FTE) for unspecified program enhancements. The enhanced funding includes support for twelve positions (12.00 FTE) in total.

Limited Other Funds expenditures are increased only 2.2% over last biennium's level, and combined limited funds support is 0.5% below the essential budget level. The Governor's budget shows an increase of twelve positions (1.5%) from the prior biennium level.

### DHED – Extension Service

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	35,123,305	37,194,367	39,412,723	43,146,261
Other Funds	20,304,911	22,838,785	23,776,830	24,647,553
Other Funds (NL)	3,708,888	7,698,032	6,708,073	6,916,460
<b>Total Funds</b>	<b>\$59,137,104</b>	<b>\$67,731,184</b>	<b>\$69,897,626</b>	<b>\$74,710,274</b>
Positions	484	589	595	603
FTE	416.53	418.46	418.46	426.46

### Program Description

The Extension Service is the educational outreach arm of OSU as Oregon's Land Grant and Sea Grant university. Extension faculty on campus and in county offices throughout the state work with researchers and volunteers to develop and deliver non-credit educational programs based on locally identified needs. Two-thirds of Extension faculty are assigned to county locations. Extension Specialists are OSU faculty members who develop educational programs and serve as technical resources for county-delivered programs. Extension

Agents are OSU faculty assigned to county field locations. Generally, counties provide office space and operating expenses, including support staff. Programs also use the services of a large number of volunteers.

### Revenue Sources and Relationships

The Extension Service is funded cooperatively from federal, state, county, and private sources. Federal Funds are primarily from the U.S. Department of Agriculture through the Smith-Lever Act. Nonlimited funds include gifts and sponsored research financed by the federal government, private industry, and other private groups.

### Budget Environment

In 1999, the Legislature approved a \$3.65 million expansion of the Extension Service's service activities, increasing state support by 11%. In 2001-03, the funding of these expanded programs was continued. During the 2001-03 biennium, General Fund was reduced by \$1 million, and essentially maintained at this reduced level in the 2003-05 biennium. The Extension Service budget has had to implement cutbacks to bring ongoing expenses in line with ongoing Other Funds revenues. The Service had been financing ongoing costs through a reduction of fund balances. This level of expenditure was not sustainable. In 2005, the Legislature increased General Fund by \$2.1 million (or 5.9%) over the 2003-05 biennium level. The Extension Service also received \$2.2 million in General Fund from the Emergency Board for compensation cost increases, thereby resulting in a 12.2% General Fund increase in the 2005-07 biennium over the prior biennium level.

### Governor's Budget

The Governor's recommended budget's \$43.1 million General Fund is a \$3.7 million (or 9.5%) increase over the 2005-07 biennium level. Combined limited funding of \$67.8 million is a \$4.6 million (or 7.3%) increase over the 2005-07 biennium level. These totals are arrived at primarily as a result of one major item in the Governor's budget:

- An increase of \$1.83 million General Fund to support unspecified enhancements to Extension Service programs. The enhanced funding includes support for 8 positions (8.00 FTE).

Limited Other Funds expenditures are increased 3.7% over last biennium's level, and combined limited funds support is 2.8% above the essential budget level. The Governor's budget shows an increase of eight positions (1.3%) from the prior biennium level.

### DHED – Forest Research Laboratory

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	4,938,639	5,258,370	5,536,652	6,608,458
Other Funds	7,320,481	9,760,398	8,500,000	8,000,214
Other Funds (NL)	23,003,313	20,820,807	23,902,147	23,528,122
<b>Total Funds</b>	<b>\$35,262,433</b>	<b>\$35,839,575</b>	<b>\$37,938,799</b>	<b>\$38,136,794</b>
Positions	214	271	271	274
FTE	172.41	219.16	219.16	222.16

### Program Description

The Forest Research Laboratory at OSU was established by the Oregon Legislature in 1941. Research is organized into six program areas: Forest Regeneration, Forest Productivity, Protecting Forests and Watersheds, Evaluating Forest Policies and Practices, Wood Processing and Product Performance, and Research Support. A 15-member statutory committee establishes the research priorities of the Laboratory. This Research Advisory Committee has nine members from the forest industry, including at least one small woodlot owner; three lay persons; the Oregon State Forester; the U.S. Forest Service Regional Forester; and the State Director of the Bureau of Land Management.

### Revenue Sources and Relationships

The Forest Research Laboratory is supported by state, federal, and forest industry resources. Other Funds subject to expenditure limitation come from the Forest Products Harvest Tax; sales and service charges; and from Federal McIntire-Stennis funds. Nonlimited expenditures from grants and contracts support approximately \$24 million of the Forest Research Laboratory's expenditures.

## Budget Environment

In 1999, the Legislature approved a \$1 million General Fund expansion of the Laboratory's research activities, increasing state program support by 25%. After this, General Fund support remained essentially flat at around \$5 million for three biennia. In 2005, the Legislature increased General Fund by \$320,000 (or 6.5%) over the 2003-05 biennium level. The Forest Research Laboratory also received \$280,000 in General Fund from the Emergency Board for compensation cost increases, thereby resulting in a 12.1% General Fund increase in the 2005-07 biennium over the prior biennium level.

## Governor's Budget

The Governor's recommended budget's \$6.6 million General Fund is a \$1.1 million (or 19.4%) increase over the 2005-07 biennium level. Combined limited funding of \$14.6 million is a \$570,000 (or 4.1%) increase over the 2005-07 biennium level. These totals are arrived at primarily as a result of two major items in the Governor's budget:

- Limited Other Funds are reduced by \$2.7 million from the level approved last session. This adjustment corrects the budget to reflect the fact that Other Funds revenues have not been sufficient to fund the Other Funds expenditure limitation for several years. The Emergency Board recognized this in June 2006 when it adjusted the Forest Research Laboratory's budget to finance 2005-07 biennium compensation cost increases. The Emergency Board reduced the 2005-07 biennium Other Funds expenditure limitation by \$1.3 million to reflect actual 2005-07 biennium revenues. The Governor's action to reduce the Other Funds expenditure limit by \$2.7 million represents a comparable adjustment for the 2007-09 biennium. The two adjustments are not cumulative. They both represent reductions from the Other Funds expenditure limit adopted for the 2005-07 biennium in the 2005 session.
- An increase of \$1.83 million General Fund to support unspecified enhancements to Forest Research Laboratory programs. The enhanced funding includes support for three positions (3.00 FTE).

Limited Other Funds expenditures are forecast to fall 5.9% from last biennium's level, and combined limited funds support is 11.7% below the calculated essential budget level. This calculation is misleading, however, because it does not take into account that the Other Funds expenditure limitation approved last session overstated the true amount of Other Funds revenues available to the Forest Research Laboratory. As indicated, the Governor's budget includes an adjustment to reflect this, but the essential budget level is not so adjusted and therefore comparisons to it are misleading. The Governor's budget shows an increase of three positions (1.1%) from the prior biennium level.

## DHED – Sports Action Lottery

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Lottery Funds	4,295,218	5,744,213	5,744,213	13,481,449
<b>Total Funds</b>	<b>\$4,295,218</b>	<b>\$5,744,213</b>	<b>\$5,744,213</b>	<b>\$13,481,449</b>

## Program Description

The Sports Action lottery game was authorized by the 1989 Legislature. Eighty-eight percent of the proceeds from the game, not to exceed \$8 million annually, 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 2005 Legislative Assembly abolished the Sports Action lottery game, and dedicated 1% of net lottery receipts to the Department of Higher Education Sports Action Lottery program area. Both actions are effective beginning July 1, 2007.

## Revenue Sources and Relationships

All revenue through the 2005-07 biennium is from proceeds of the Sports Action lottery games. All revenue beginning in the 2007-09 biennium is from the 1% of net lottery receipts dedicated by statute to the Sports Action Lottery program area.

## Budget Environment

The Sports Action lottery game, which has funded program services since the 1989-91 biennium, will be discontinued on July 1, 2007. Beginning with the 2007-09 biennium, program services will be funded instead by 1% of net lottery receipts from the remaining lottery games, which are now dedicated to these programs by statute. The proceeds will continue to be distributed 88% for intercollegiate athletics and 12% for graduate student scholarships.

The expenditure limitation for the Sports Action lottery is typically set equal to the projected revenue. In the 2005-07 biennium, however, the budget authorized expenditures above the level of revenues. The chosen expenditure level was calculated to leave a projected \$300,000 ending balance, down from the \$542,479 beginning fund balance that has built up when revenues exceeded projections in prior biennia. The \$5.74 million of Lottery Funds expenditures exceeded the prior biennium level by 34%.

The dedication of 1% of net lottery receipts will provide significantly more revenue for the Sports Action Lottery program area than the Sports Action lottery game did. Revenues will increase by 135% (or \$7.7 million) in the 2007-09 biennium when the revenue source is changed. Revenues are expected to increase more rapidly over time too, than they would have from the Sports Action lottery game.

## Governor's Budget

The expenditure limitation for the Sports Action Lottery program is set equal to the projected revenue. The \$13.5 million Lottery Funds in the Governor's recommended budget is a \$7.7 million (or 135%) increase over the prior biennium level. In the past, campuses have typically not spent all of the Sports Action Lottery funds available to them, and actual expenditures may not increase to the permitted level in 2007-09. This increase provides increased support, above the 2005-07 biennium level, of \$6.8 million for intercollegiate athletics and of \$900,000 for graduate student scholarships.

Note that the Governor's budget reduces support for intercollegiate athletics by \$4.9 million General Fund in the Education and General program area. This reduction reduces the net increase amount of state support for intercollegiate athletic programs to \$1.9 million above the 2005-07 biennium level. The Governor's budget calculated the \$4.9 million as the General Fund component of the \$14 million of limited Education and General funds that are being used to subsidize the intercollegiate athletic departments at Oregon State University and Portland State University per biennium.

## DHED – Debt Service

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	26,406,270	30,275,204	30,275,204	45,987,146
Lottery Funds	3,212,379	5,673,311	5,673,311	18,008,612
Other Funds (NL)	89,653,408	104,289,912	113,620,030	139,120,227
<b>Total Funds</b>	<b>\$119,272,057</b>	<b>\$140,238,427</b>	<b>\$149,568,545</b>	<b>\$203,115,985</b>

## Program Description

This program reflects debt service expenditures for capital construction projects financed by bonds or certificates of participation. General Fund appropriations are made to pay the debt service on Article XI-G bonds, traditionally used to finance instructional and public service facilities. In 2001, the Legislature approved the use of Lottery Bonds to finance campus capital projects for the first time. Revenues from self-supporting programs and student building fees are the sources of debt service for repayment of Article XI-F(1) bonds, which are traditionally a revenue source for construction of student unions, dorms, parking structures, and similar self-supporting programs. The Department has recently used Article XI-F(1) bonds to construct certain instructional facilities as well, such as the new Law Center at the University of Oregon.

In 2005, the Legislature approved the use of Small-Scale Energy Loan Program (SELP) bonds to finance campus capital projects for the first time. SELP bonds are general obligation bonds that may be authorized for deferred maintenance capital construction project expenses that generate energy savings. The debt service on SELP bonds is paid with a combination of General Fund and campus operating funds (the latter are included in Other Funds [NL]). General Fund for SELP bond debt service is only appropriated to the extent that the debt service

charges exceed the energy cost savings resulting from the deferred maintenance capital project. This is calculated on a project-by-project basis. For example: if the biennial debt service costs on the SELP bonds issued for a capital construction project total \$400,000 per biennium, and the campus's biennial energy savings generated by the project only total \$300,000 per biennium, then the state would appropriate \$100,000 General Fund for SELP bond debt service for a capital project. The remaining \$300,000 of debt service would be paid by the campus with Other Funds that are not limited in the state budget, and the campus would essentially finance the payment with its utility cost savings.

### Budget Environment

Debt service is a fixed cost that must be paid to avoid defaulting on the bonds. The General Fund component includes the debt service payment on Article XI-G bonds, and the debt service payments on SELP bonds to the extent they exceed campus energy savings. The Lottery Fund portion pays debt service on Lottery Bonds, which were first issued for Department capital projects in the 2001-03 biennium. Debt service payments on Article XI-F(1) bonds are not limited in the budget and are paid by auxiliary revenues (including the Student Building Fee), and in some cases by university general operating budgets. Debt service payments on certificates of participation (COPs), issued primarily to procure information system projects, are also not limited and are paid with Other Funds.

### Governor's Budget

State-paid (General Fund plus Lottery Funds) debt service costs are budgeted for a total \$64 million, a \$28 million (or 78%) increase over the 2005-07 biennium level. The \$64 million total includes:

- **\$55.5 million (General Fund plus Lottery Funds) for debt service on bonds issued for capital construction projects authorized in prior legislative sessions.** This amount exceeds 2005-07 biennium amounts by \$19.6 million (or 55%). The very large rate of growth results from the high level of state-supported debt approved in the 2005-07 biennium capital construction budget. Only in 2007-09 is the state beginning to pay debt service for projects approved in the 2005 session. Historically, debt service costs on capital construction projects have always initiated in the biennium subsequent to the biennium of the project approval.
- **\$8.5 million Lottery Funds for debt service on bonds for capital projects that the Governor proposes for the 2007-09 biennium.** In a break with prior practice, the Governor's budget is recommending \$174.9 million of Lottery Bonds for 16 capital construction projects that would generate debt service costs in the same biennium for which they are approved. In the past, the state did not issue Lottery Bonds for higher education capital construction projects until shortly before the end of the biennium, thereby delaying debt service costs until the following biennium. The need for this \$8.5 million of Lottery Funds is contingent upon legislative approval of the proposed projects in the Department's capital construction budget. The full amount would not be needed unless all of the proposed projects are approved. Also, the Legislature could eliminate these costs from the 2007-09 biennium budget by directing the Department to continue the practice of delaying the issue of the Lottery Bonds until close to the end of the biennium.

Although the proposed 2007-09 biennium capital construction projects would generate \$8.5 million in debt service costs in 2007-09, this represents only a small portion of the debt service costs associated with the Governor's budget for higher education capital construction projects. The proposed projects would, if they are all approved, generate \$57.1 million of biennial debt service costs, beginning in the 2009-11 biennium, that would need to be paid by General Fund or Lottery Funds. This would be \$48.6 million (or 76%) increase over the 2007-09 biennium level.

### DHED – Capital Construction

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	11,519,853	14,796,329	14,796,329	0
Other Funds	436,238,120	395,522,060	548,267,057	594,486,786
<b>Total Funds</b>	<b>\$447,757,973</b>	<b>\$410,318,389</b>	<b>\$563,063,386</b>	<b>\$594,486,786</b>

### Program Description

The Capital Construction budget includes major construction, renovation, and land acquisition costs. The budget also finances ongoing expenses to address deferred maintenance and to modernize and repair academic facilities.

## Revenue Sources and Relationships

Funding for capital construction comes from a broad variety of sources. These sources can be classified, however, into two broad categories: state-supported and self-supported. State-supported revenues include General Fund and debt (i.e., bond or COP proceeds) that is paid with state discretionary funds (General Fund or Lottery Funds). Self-supported capital construction is financed by debt that becomes an obligation to the campus or OUS system budget, or by other campus Other Funds, including donations, gifts, grants, and cash. The state-paid debt includes debt on Article XI-G bonds, on Lottery bonds, and a portion of the debt on Article XI-J bonds. Self-paid debt includes debt on Article XI-F(1) bonds, most debt on COPs, and a portion of the debt on Article XI-J bonds. Traditionally, self-paid debt is used for capital construction relating to the portions of the Department's operating budget that do not receive state support, such as auxiliary activities. State-supported debt is used for academic facilities such as classrooms, offices, and libraries. The activities in these facilities are generally the Education and General types of operations that state General Fund and Lottery Funds help to support.

Historically, the construction, renovation, and acquisition of instructional and public service buildings have been financed equally by the General Fund and Article XI-G general obligation bond proceeds. Addressing deferred maintenance, and academic modernization and repair – which does not include construction or major renovation projects – is also financed with General Fund and Article XI-G bonds. More recently, these facilities have been financed generally by donations and Article XI-G bonds. The donations are categorized as Other Funds in the budget, even though they are technically transferred to the General Fund so that they can be used to match Article XI-G bonds. Student unions, dorms, parking structures, and similar projects are generally financed from auxiliary enterprise balances and the proceeds of Article XI-F(1) bonds. In addition, revenue from self-supporting projects, gifts, grants, and donations are a major funding source for capital construction. Recently, the use of Article XI-F(1) bonds has been expanded to instructional buildings (the new Law Center at the University of Oregon and the Fourth Avenue Building at Portland State University are examples).

In recent biennia, the state has added additional financial instruments to pay for capital construction. In 2001, the Legislature approved the use of Lottery Bonds to finance campus capital projects for the first time, and in 2005, the Legislature approved using Article XI-J bonds, also known as Small-Scale Energy Loan Program (SELP) bonds, to finance costs relating to energy saving components of the capital projects.

## Budget Environment

The 2001 Legislature appropriated \$12.1 million of General Fund in the Capital Construction program as a match for Article XI-G bonds. The resulting \$24.2 million was budgeted for critical deferred maintenance (academic modernization and repair) and to begin to seriously address the Department's backlog of maintenance projects. Even with distance learning and other new ways of delivering services, projected enrollment growth will strain existing facilities. Nonetheless, the Department continues to focus on deferred maintenance. Many of the facilities of the Oregon University System are in a state of disrepair. The Department estimates that cumulative deferred maintenance (i.e., the cost to restore OUS facilities to proper condition) totals \$600 million systemwide. The Department also estimates that expenditures of \$80 million per biennium are required just to keep the system's capital facilities in their current state of repair and to avoid further deterioration. Many facilities also require academic modernization, which includes equipment modernization such as telecommunications connectivity and enhanced computer linkages.

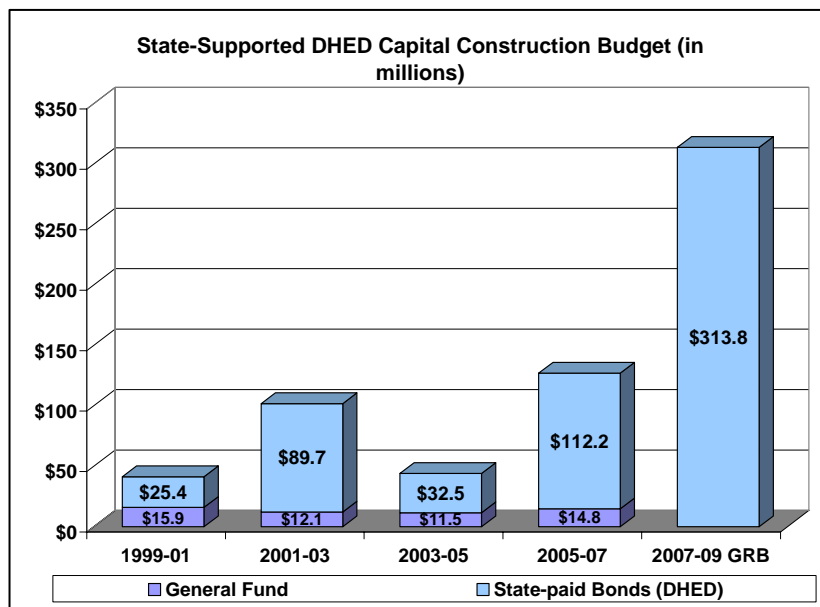
The 2001 Legislature also approved over \$90 million of state-paid bonds (Article XI-G and Lottery Bonds) to finance new capital projects on a number of campuses, more than triple the prior biennium level. Lottery Bonds were approved for Department capital projects for the first time.

The 2003 Legislature approved \$446.1 million of capital construction projects for the Department of Higher Education. The projects were funded from a number of sources, including various categories of bonds, gifts, grants and other revenues, and direct General Fund appropriation. Although approved total expenditures exceeded the prior biennium level, state support was considerably reduced from the 2001-03 biennium level. A total of \$11.5 million General Fund (\$1 million less than the Governor proposed) was appropriated to support academic modernization, capital repair, deferred maintenance, and code and safety compliance projects, and state-paid bonds were limited to \$32.5 million, bringing them back closer to earlier levels.

The 2005-07 biennium budget, however, greatly expanded state support for capital construction. State-paid bond authorization was approved for \$112.2 million, approximately 3.5 times the prior biennium level, and direct General Fund support was increased almost 30%. The budget also included a policy directive to OUS relating to Article XI-G bond-funded projects. A budget note approved with the 2005-07 capital construction budget directs the Department to end the practice of soliciting donations for capital projects, with the intent of using Article XI-G bonds in the project's funding, prior to obtaining legislative authorization to do so. This addresses situations where campuses have raised donations first and then asked for the state to match them with Article XI-G bonds only afterwards. This directive becomes effective for capital projects approved beginning in the 2009-11 biennium.

### Governor's Budget

The Governor's recommended budget supports 45 specified capital construction projects, and includes general support for deferred maintenance and capital repair. Five of the 45 specified projects are provided only \$1 expenditure limitations, and would thus require additional legislative or Emergency Board approval prior to construction. These inclusions are to allow the full Legislature to consider planned capital projects in the early stages of development, and to reduce the number of projects that are considered by the Emergency Board but which the full Legislature never sees.



The most salient aspects of the Governor's capital construction budget include the large increase in state-support for construction costs, compared to prior biennia. The budget includes \$313.8 million of state-supported debt (Article XI-G bonds, Lottery bonds, and SELP bonds) for OUS capital construction projects. State-supported debt is repaid with state discretionary funds – General Fund and Lottery Funds. The amount of state-supported debt in the Governor's budget is almost triple (2.8 times) the level authorized in the 2005-07 biennium, and approximately 10 times the amount authorized the biennium before that. Debt service costs for these bonds is projected to total \$57.1 million of General Fund and Lottery Funds per biennium, beginning in the 2009-11 biennium when these costs fully phase in. These costs would continue for the term of the bonds, which would generally cover 10 or 15 biennia (20-year terms or 30-year terms). The proposed projects would also generate \$8.5 million of debt service costs immediately in 2007-09. The Department was directed, last session, to report to the Emergency Board on potential Article XI-G bond-funded projects that it might bring forward for authorization to the Legislature in 2007. All of the Article XI-G bond-funded projects that are in the Governor's budget were included in the Emergency Board report, however the bond requests for some of these projects exceed the amounts that the report indicated they would be.

Another important aspect of the Governor's budget is its large increase in funding for campuses to address deferred maintenance issues. The budget includes \$80.4 million of Lottery bond proceeds to address capital repair and deferred maintenance needs. This level of funding, along with \$87.3 million of Lottery bonds and SELP bonds for six additional deferred maintenance capital projects, would significantly address the backlog of deferred maintenance of OUS campuses, now estimated to total \$600 million. The budget also includes \$20 million of state-supported debt toward financing \$25 million of renewable energy demonstration projects. The projects involve research into renewable energy resources. The inclusion of these projects in the agency's capital construction budget is unusual in that the campuses did not request them. The other projects included in the budget are all based on campus requests that went through a department-wide prioritization process.

The budget also discontinues the practice of financing ongoing capital repair with a combination of General Fund and Article XI-G bonds. This represents a \$12.2 million General Fund cut. Instead, as indicated above,

Lottery bonds would be used to fund these activities. The budget also authorizes \$280.7 million in non-state-supported expenditures for capital construction projects. This amount is reduced 36% from the prior biennium level. Non-state-supported expenditures include self-supported debt (Article XI-F(1) bonds) paid by student building fees and Oregon University System auxiliary enterprise income, and expenditures financed by donations, grants, or other cash.

**DHED – Other Services (Nonlimited)**

	<b>2003-05 Actual</b>	<b>2005-07 Legislatively Adopted</b>	<b>2005-07 Legislatively Approved</b>	<b>2007-09 Governor's Recommended</b>
Other Funds (NL)	718,887,749	945,938,615	877,422,967	906,916,420
<b>Total Funds</b>	<b>\$718,887,749</b>	<b>\$945,938,615</b>	<b>\$877,422,967</b>	<b>\$906,916,420</b>
Positions	1,759	1,649	1,903	1,903
FTE	1,592.98	1,462.71	1,633.99	1,633.99

*Excludes Nonlimited expenditures of sponsored research and other grants, and Debt Service programs, which are described in sections dealing with those programs.*

**Program Description**

The Nonlimited Other Funds displayed here consist of: 1) self-support activities operated on an auxiliary basis such as dormitories, bookstores, parking, health centers, and food services; 2) self-support instruction; and 3) student aid and loan repayments. The scope of self-support instruction activities was reduced during the 1999-2001 biennium, when the Legislature provided General Fund support for most academic programs. Generally, only non-credit continuing education (distance learning) programs are still conducted on a self-support basis. Most Nonlimited funds (including federal support for research) are not shown here, but are shown in the appropriate program level (Education and General Services, the OSU Public Services, or Debt Service), to provide a clearer picture of program costs and funding.

**Revenue Sources and Relationships**

Most self-supporting Nonlimited revenue sources are dedicated to a specific purpose and are independent of General Fund and limited Other Funds supported programs. The revenue sources include student aid funds, food service and other enterprise sales, dormitory fees, health service fees, and course fees for non-credit continuing education programs, among others.

**Budget Environment**

Projected Nonlimited expenditures appear in the budget for information purposes only. Available Nonlimited funds may be spent without limitation by the Legislature. Showing the Nonlimited expenses in the budget gives a clearer picture of the Department's overall activities. Approximately 47% of all expenditures are in Nonlimited programs. This figure refers to all Nonlimited funds in the budget and not merely to the funds identified in this program area.

**Governor's Budget**

The Governor's recommended budget anticipates an Other Services (Nonlimited) expenditures decrease of 4% from the level adopted in the 2005 session. These expenditures are difficult to project with accuracy, however, and since they are Nonlimited they may end up varying significantly from the projected amounts without any legislative action. The estimate for 2005-07 biennium Other Services (Nonlimited) expenditures was adjusted downwards after the 2005 session after additional review of what the actual expenditures in these programs would likely be. The Governor's budget projects a 3.4% increase in 2007-09 over the revised estimate for 2005-07.