

EDUCATION

Department of Community Colleges and Workforce Development (CCWD) - Agency Totals	2
CCWD - Office Operations.....	3
CCWD - State Support to Community Colleges	4
CCWD - Federal/Other Support.....	7
CCWD - Debt Service.....	8
CCWD - Community College Capital Construction.....	8
CCWD - Oregon Youth Conservation Corps.....	10
Department of Education (ODE) - Agency Totals	11
ODE - Operations.....	12
ODE - Special Schools	15
ODE - Youth Corrections Educational Program	16
ODE - Grant-in-Aid	17
ODE - School Funding	19
ODE - Debt Service	23
ODE - Common School Fund Distributions.....	23
Oregon Health and Science University Public Corporation (OHSU) - Agency Totals	25
OHSU - Education and General/Hospitals and Clinics/CDRC.....	27
OHSU - Oregon Opportunity Program	30
OHSU - Bond-related Costs.....	31
Department of Higher Education (DHED) - Agency Totals	32
DHED - Education and General Services	33
DHED - Fee Remissions.....	38
DHED - Agricultural Experiment Station	39
DHED - Extension Service.....	40
DHED - Forest Research Laboratory.....	41
DHED - Sports Action Lottery	42
DHED - Debt Service.....	43
DHED - Capital Construction	44
DHED - Other Services (Nonlimited)	47
Oregon Student Assistance Commission (OSAC) - Agency Totals	48
OSAC - Administration Division.....	50
OSAC - Grants and Scholarships.....	51
OSAC - Loan Division.....	53
OSAC - Information Services Division	54
OSAC - Office of Degree Authorization/Policy Research	55
Teacher Standards and Practices Commission - Agency Totals	57

Department of Community Colleges and Workforce Development (CCWD) – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	382,129,816	416,431,168	393,642,264	433,067,380
Lottery Funds	0	49,000	0	0
Other Funds	13,908,964	13,564,684	13,557,139	90,488,832
Federal Funds	146,092,209	126,606,054	127,459,844	131,173,928
Federal Funds (NL)	0	2,339,105	12,000,000	12,000,000
Total Funds	\$542,130,989	\$558,990,011	\$546,659,247	\$666,730,140
Positions	48	48	50	50
FTE	47.07	45.70	48.74	49.70

Agency Overview

The Department of Community Colleges and Workforce Development's (CCWD) mission is to provide leadership and technical assistance to, and to coordinate the work of, Oregon's seventeen community colleges. The agency has responsibility for monitoring the programs, services, outcomes, and effectiveness of local community colleges and for reporting to the Legislative Assembly. Direct state support to community colleges is also funded in the Department's budget, primarily through the Community College Support Fund (CCSF). The agency also coordinates and provides statewide administration of the federally-funded Workforce Investment Act (WIA Title IB) and Adult Education and Family Literacy (WIA Title II) programs. The Department also houses the Oregon Youth Conservation Corps (OYCC).

The WIA Title IB program provides services to dislocated workers, youth employment training programs, and other workforce training programs for adults. These programs help workers obtain new skills to become more employable, improve their earnings, and decrease welfare dependency. CCWD retains a small portion of WIA Title IB funds for administration, but distributes the bulk of the funds to workforce investment boards and service providers in the state's seven local service delivery areas. Funding is also provided under WIA Title IB for the National Emergency Grant (NEG) program, which addresses mass layoff situations. The Adult Education and Family Literacy (also known as, Adult Basic Education) funds are provided through the WIA as well, but this is a separate program under Title II. These Federal Funds support developmental education for adults, and are distributed to community colleges and other community-based organizations.

Revenue Sources and Relationships

The budget projects Federal Funds receipts of \$139 million in the 2005-07 biennium. These include \$127 million for WIA Title IB programs, and \$12 million for Adult Education and Family Literacy (WIA Title II) programs. Federal Funds from these two programs are projected to increase approximately 11% from the prior biennium level, although projecting the level of these revenues is difficult. An estimated \$12 million of the Title IB fund total is projected to be received in the form of National Emergency Grants. This program provides federal funds to retrain dislocated workers when large numbers of workers are laid off because of poor economic conditions. CCWD must apply to the federal government for any NEG funds, and expenditures of these funds are Nonlimited in the state budget.

The budget also projects \$90.5 million of Other Funds revenue in the 2005-07 biennium. This includes \$77 million of Article XI-G bond proceeds and community college matching funds for state-supported community college capital construction projects. Most of the remaining \$13.5 million of Other Funds are Carl D. Perkins funds from the federal government, which are characterized as Other Funds because they are transferred to CCWD through the Department of Education. Carl D. Perkins revenues are projected at \$9.6 million, and are used by the Department and community colleges to support development of Professional/Technical programs. The remaining Other Funds include \$2 million of Amusement Device Tax and other receipts of the Oregon Youth Conservation Corps, and \$1.4 million from fees for services in the General Educational Development (GED) and Tracking Outcomes for Programs and Students (TOPS) System programs and other miscellaneous revenues. Timber Tax revenues that are distributed to community colleges are also included in the agency budget. The 2003 Legislature added Lottery Funds to support advanced technology education and training programs.

CCWD – Office Operations

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	2,188,247	2,022,209	2,969,234	2,034,350
Other Funds	1,599,814	1,801,181	2,041,827	1,976,965
Federal Funds	17,666,539	6,976,234	7,379,181	7,558,482
Total Funds	\$21,454,600	\$10,799,624	\$12,390,242	\$11,569,797
Positions	45	45	47	47
FTE	44.07	42.70	45.74	46.70

Program Description

Office Operations funds the administration of the programs that the Department houses, with the exception of the Oregon Youth Conservation Corps (its administrative costs are included in the separate OYCC program area). The Department's administrative functions are to provide leadership and accountability for statewide policy development, and to provide assistance with local implementation. The agency works directly with Oregon's seventeen community colleges. The program manages the State Support to Community Colleges budget, and provides leadership in the development and delivery of college transfer and professional/technical course work, adult literacy education, and workforce development services. The agency also co-administers Carl D. Perkins Professional/Technical programs with the Department of Education, and the staff provides GED testing, Basic Adult Skills Inventory testing, statewide adult basic education programming, and course approvals.

Revenue Sources and Relationships

Other Funds in the Office Operations program include: fees from applicants for the General Education Development and Tracking Outcomes for Programs and Students System tests; charges to community colleges for the cost of copying Adult Basic Education curriculum materials and summer conference fees; and funds from the Department of Education for Carl D. Perkins Professional/Technical program support. The Federal Funds dollars are those retained for administration of the federally-funded Workforce Investment Act (WIA Title IB) and Adult Education and Family Literacy (WIA Title II) programs. The agency retains 17.5% of Title II funds for administration and staff development activities.

Legislatively Adopted Budget

The legislatively adopted budget increases General Fund support for Office Operations by 33% over the 2003-05 biennium level. All funds support is increased 13%. These percentage figures include a special purpose appropriation to the Emergency Board on behalf of the Department's budget, although that appropriation is not included in the table above. The budget also adds two new positions (2.00 FTE), and extends two limited-duration grant-funded positions approved by the Emergency Board during the past interim.

The only General Fund added above the level needed to fund continuing operations is \$664,400 to develop an integrated K-16 student data system to facilitate data sharing among community colleges, K-12 schools, and Oregon University System (OUS) campuses. The budget includes similar funding enhancements in both the Department of Education and Department of Higher Education budgets. These funds were provided through a special purpose appropriation to the Emergency Board. The Governor's budget included \$873,400 General Fund for this system, appropriated directly to the Department. The Legislature reduced the total appropriation by \$209,000, removing funds for community colleges purchases of the system hardware and software that will reside at the colleges. The remaining funds were appropriated to the Emergency Board with the requirement that the Department report to the Joint Legislative Audit Committee on proposed performance measures for the integrated student data system prior to requesting an allocation of the appropriated funds. The Department, with the assistance of the Department of Education and the Department of Higher Education, will also report to the Emergency Board on the design, architecture, and total cost to complete the data system, and report on the timeline to completion and implementation, and the expected outcomes of system implementation.

This integrated student data system initiative was developed by the State Board of Higher Education, which worked with both OUS campuses and community colleges to identify means to increase the ability of students to complete degree programs more quickly. These efforts were typically described as "More, Better, Faster." The improved data system is to contribute to this effort by providing information to assist in the transfer of

credits between the educational sectors, and to aid in academic advising, thereby allowing students to avoid unnecessary duplication in their coursework when they transfer from one institution to another.

This General Fund enhancement is offset by the partial shift of funding for one department position away from General Fund (\$31,063 reduction), and by a \$1,221 General Fund reduction from participation in the Smart Buy program. Other Funds increases include \$1 for management costs relating to a new capital construction program for community colleges (see the Community College Capital Construction program description below for detail). The Governor’s budget had proposed \$100,000 Other Funds for this purpose, but the Legislature reduced the increase to \$1 and directed the Department to seek an additional Other Funds expenditure limitation increase, if needed, once management costs are known. The source of Other Funds to pay management costs will be fees collected from community colleges with approved capital construction projects.

CCWD – State Support to Community Colleges

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor’s Recommended	2005-07 Legislatively Adopted
General Fund	375,240,447	411,092,904	388,414,455	428,774,455
Lottery Funds	0	49,000	0	0
Other Funds	1,782,400	316,292	185,293	185,293
Total Funds	\$377,022,847	\$411,458,196	\$388,599,748	\$428,959,748

Program Description

All funds in the State Support to Community Colleges program are transferred to the state’s seventeen community colleges, primarily through the Community College Support Fund (CCSF). Almost all of the CCSF moneys are distributed to community colleges on an adjusted enrollment basis. A small portion is distributed to support contracted out-of-district reimbursements and distance learning programs. Generally, colleges receive funding for their full-time equivalent (FTE) enrollments in Lower Division Collegiate, Professional/Technical, Developmental Education, and certain Self-Improvement courses. Lower Division Collegiate courses parallel the offerings of the first two years of four-year institutions and carry regular college credit. Professional/Technical courses generally lead to a certificate or associate degree in a professional program. Developmental Education includes Adult Basic Education, English as a Second Language, GED and Adult High School programs, and post-secondary remedial courses. Self-Improvement courses aid in student self-development but do not lead to a degree.

Revenue Sources and Relationships

State support to community colleges is almost exclusively provided by the General Fund. In 1999, however, the Legislature changed the state’s system of timber taxation. The new law eliminated the timber privilege tax distribution to community colleges and made this revenue a state resource. The law also required that the state distribute a portion of the funds to the CCSF. The revenues did not appear in the state budget when community colleges collected the tax, since community college districts are not state agencies, but after 1999, when the tax revenue became a state resource, they did. This revenue is distributed as Other Funds. All of the Other Funds in this program area are derived from this source. In the 2003 session, the Legislature added Lottery Funds to support advanced technology education and training programs at the colleges.

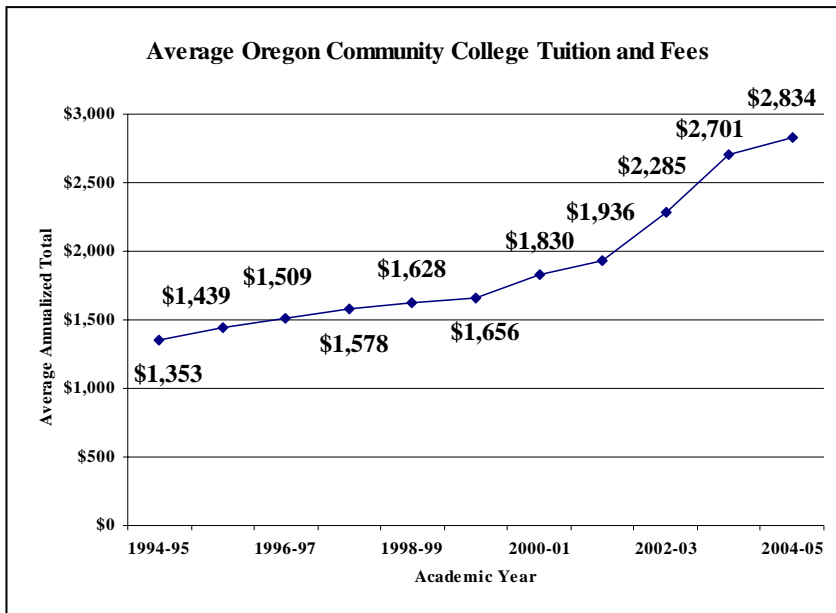
Community colleges also collect property taxes to fund their operations. These taxes do not flow through the agency budget, however, and are not included in any budget figures identified here. Approximately \$221 million of property tax collections are projected for community colleges in the 2005-07 biennium, providing approximately 23% of college operating revenue. Tuition and fees, which are also not included in the state agency budget, are projected to provide \$338 million (or 34%) of college operating revenues. The state General Fund supports the remaining 43% of college costs covered by these three principal fund sources.

Budget Environment

In the 2001 regular session, the Legislature increased General Fund support for community colleges by 9% over the prior biennium level. During the interim following that session, however, General Fund support was reduced to help address the state’s General Fund revenue shortfall. The Legislature reduced support and “shifted” the final 2001-03 biennium CCSF distribution payment of \$56 million to the 2003-05 biennium. At the same time, the Legislature enacted legislation to allow colleges to accrue the shifted payment to their 2002-03 fiscal year revenues. The impact of this authority was intended to eliminate the need for colleges to reduce 2002-

03 expenditures, but this action violated community college accounting rules, and many colleges chose not to accrue the delayed payment to their prior year budget. The combined effect of these special session reductions was to reduce 2001-03 biennium General Fund support by an effective 7.8% from the level originally approved in the 2001 regular session, and to leave funding levels back essentially at 1999-2001 biennium levels.

Funding was reduced further in the 2003-05 biennium. After adjusting for the one-time \$56 million funding reduction for the payment shift, the 2003-05 legislatively adopted budget provided \$14.8 million (or 3.4%) less than what the colleges effectively received for 2001-03 after all of the special session reductions. This reduction increased to \$21.6 million (or 5%) when, in Measure 30, voters rejected temporary income tax increases that had been approved to balance the legislatively adopted budget. General Fund was reduced \$6.8 million by the outcome of that vote. To help better manage the funding reduction, the legislatively adopted budget directed community colleges to freeze salary and benefits packages for the 2003-05 biennium. This paralleled a similar action regarding state employees. Community colleges retain their right to establish compensation packages under law, so the directive is not enforceable. The Legislature also directed that state dollars not be used to support self-improvement courses that are not health-, safety-, or workforce-related.



Community college services are affected by changes in the economy, in community college tuition costs, and in the funding of and accessibility to the Oregon University System. An estimated 29% of Oregon class of 2003 high school graduates went on to attend an Oregon community college in 2004. This was higher than the 24% who enrolled in the Oregon University System. Also, approximately 4,900 students transferred from community colleges to the Oregon University System in the 2003-04 academic year. The determinants of community college enrollment levels are more complex than for either K-12 enrollments or Oregon University System enrollments, however. Only

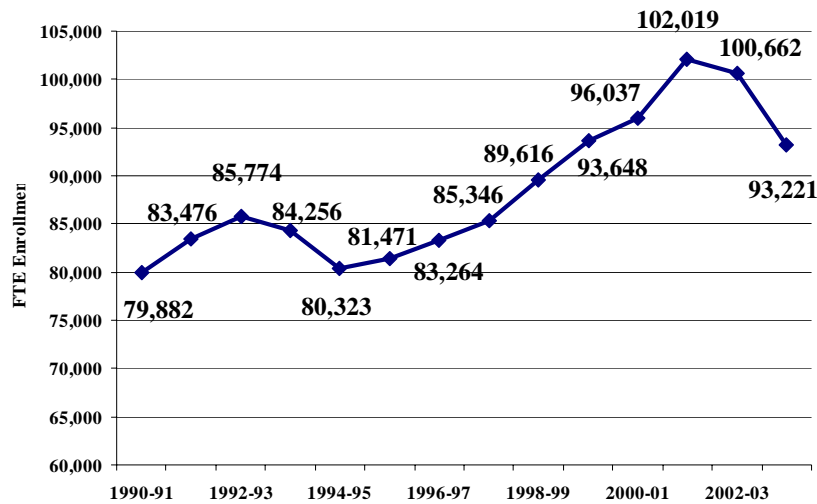
26% of community college students (on a headcount basis) are in the traditional college age category of 18 to 24. Over 28% are 45 or older. Changes in the size of the 18- to 25-year-old population, therefore, is a less important determinant of enrollment demand for community colleges than it is for other higher education institutions.

Many community college students are workers seeking retraining as the types of jobs that are available change, and graduating high school students seeking professional/technical education to become qualified for available jobs. Students may also seek an associate degree at a community college or choose to take lower division transfer courses preparatory to transfer to a four-year degree institution. As jobs become more technical and requirements for workers to have a high school diploma or GED increase, there is more demand for adult literacy service. All in all, demand for community college services is very sensitive to changes in economic conditions. Typically, demand has been counter-cyclical, falling during good economic times and rising during recessions.

Recently, however, total enrollment grew strongly even as the economy did well during the later 1990's. On a full-time equivalent basis, enrollment eventually surpassed the previous peak attained in the 1992-93 academic year by almost 19%. Enrollments first declined as community colleges increased tuition rates after the passage of Measure 5. For three years, tuition rates increased at annual rates of 15% or higher. After that, however, tuition rate increases had moderated and had been below the rate of inflation.

This period of moderate rate increases ended when the cutback in state support started in the 2001-03 biennium. Colleges responded to state support reductions by increasing tuition rates and reducing course section offerings. The average cost of tuition and fees increased over 18% in both the 2002-03 and 2003-04 academic

Total Community College FTE Enrollment



years. Although the 2004-05 academic year increase is a more moderate 5%, the average cost of tuition and fees at community colleges has risen more than 71% in the last five years.

Enrollment growth at first accelerated in the late-1990's. Total enrollment on a full-time equivalent (FTE) basis increased 6.2% in 2001-02 to an all time high of 102,019 FTE. In the following two years, however, as tuition rates increased and course section offerings were reduced (over 4,000 net course sections were eliminated), enrollment declined to 93,221 FTE, an 8.6% decline from the peak. Enrollment is now below the level it was four years ago.

Unduplicated headcounts have declined even more rapidly. The 2003-04 unduplicated headcount of 330,595 is an almost 19% drop from the peak level of two years earlier. Headcounts are falling more rapidly than FTE enrollment because, although the number of full-time students has remained relatively stable over the period, part-time enrollments have fallen by almost 22%.

A more useful measure of the funds available to community college programs would include both property tax collections and tuition and fee revenues, along with state General Fund support. Colleges essentially combine these three revenue sources to finance program delivery. Property taxes and community college tuition and fee revenue are not included in the state budget. Revenue from these combined sources increased at a healthy rate during the 1990's. Each biennium, revenues increased from a low of 7.6% (in 1993-95) to a high of 12.7% (in 1997-99) over the prior biennium level. Since then, the rate of increase has been falling each biennium. The relative shares of the three fund sources have shifted as well. Between the 1999-2001 and 2003-05 biennium, the share of tuition revenue of the total increased from 25% to 33%. The General Fund share fell from 54% to 45%, while the property tax share remained constant at 22%.

Legislatively Adopted Budget

The Governor's budget included \$388.6 million of state support to community colleges. This represented a \$22.9 million (or 5.6%) decline from the 2003-05 biennium level, and a \$44.4 million (or 10.3%) reduction from the effective level of funding in the 2001-03 biennium after special session rebalances reduced that support. The budget also eliminated Lottery Funds distributed outside of the CCSF in support of advanced technology education and training programs.

The Governor's funding level was \$18.9 million below the calculated essential budget level (or the budget necessary to continue services at the current level). Even the essential budget level, however, did not accommodate a number of cost increases that community colleges were known or projected to face. Unlike in other agency budgets that support state employees, the essential budget level does not finance the expected increase in PERS contribution costs for community college employees. Also, the calculation does not roll-up the increase in health insurance benefit costs incurred in the 2003-05 biennium.

The Legislature increased General Fund for the Community College Support Fund by \$39.7 million (or 10.2%) over the level the Governor had proposed. The approved funding level included a decision to temporarily suspend, for the 2005-07 biennium only, the regular practice of reducing General Fund support to offset increases in property tax collection forecasts. As a result of this increase, which is calculated increase General Fund support for the CCSF at the projected rate of inflation, the CCSF General Fund appropriation of \$428.1 million is \$17 million (or 4.1%) above the 2003-05 biennium level, in contrast to the 5.6% funding

reduction for the CCSF proposed in the Governor’s recommended budget. The adopted budget also added \$330,000 General Fund for the Portland Community College Skill Center, and \$330,000 General Fund for the Sabin-Schellenberg Skills Center..

Community colleges combine their state support dollars with tuition and fee revenues, and property taxes, to finance their general education operating budgets. If projected property taxes and the colleges’ projected revenue from tuition and fees are included, total 2005-07 biennium funding will be up by a projected 7.4% over the 2003-05 biennium level. This projection is subject to error. The budget noted, however, that with this increase, community colleges are expected to contain tuition rate increases as much as practicable in the 2005-07 biennium, and that the approved Community College Support Fund appropriation will minimize the need for colleges to increase tuition rates to maintain program offerings. (Tuition and fee rates are set independently by local community college district boards.)

CCWD – Federal/Other Support

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor’s Recommended	2005-07 Legislatively Adopted
Other Funds	8,661,473	9,085,542	9,303,595	9,303,595
Federal Funds	128,425,670	119,629,820	120,080,663	123,615,446
Federal Funds (NL)	0	2,339,105	12,000,000	12,000,000
Total Funds	\$137,087,143	\$131,054,467	\$141,384,258	\$144,919,041

Program Description

This program area includes Federal and Other Funds that are not spent at the agency but that are transferred to community colleges, workforce investment boards, and service providers. Federal Funds support the Workforce Investment Act (WIA Title IB) and Adult Education and Family Literacy (WIA Title II) programs. Other Funds are Carl D. Perkins Technical and Applied Technology Act moneys that are transferred to support development of community college Professional/Technical programs. The federal government is the ultimate source of these funds, but the agency receives them as Other Funds because they are transferred to it through the Office of Professional Technical Education in the Oregon Department of Education.

The WIA Title IB program provides services to dislocated workers, youth employment training programs, and other workforce training programs for adults. These programs help workers obtain new skills to become more employable, improve their earnings, and decrease welfare dependency. WIA programs serve approximately 30,000 people each biennium. CCWD retains a small portion of WIA funds for administration, but distributes the bulk of the funds to workforce investment boards and service providers in the state’s seven local service delivery areas. WIA Title IB funds also support the National Emergency Grant (NEG) program. This program provides federal funds to retrain dislocated workers when large numbers of workers are laid off because of poor economic conditions. CCWD must apply to the federal government for any NEG funds. These applications are specific to particular layoff events, and the grant funds are spent as Nonlimited Federal Funds.

The Adult Education and Family Literacy (WIA Title II) funds are received from the U.S. Department of Education and distributed to community colleges to support programs in developmental education for adults. Approximately 26,000 students are served by these funds each year. The 2001-03 biennium figures also include expenditures under the federal Even Start Family Literacy program. This program was transferred to the state Department of Education when the 2001-03 biennium ended. Even Start Family Literacy finances family-centered literacy programs that target both children and their parents.

Budget Environment

Federal support for these programs is expected to grow in the 2005-07 biennium. The programs assist workers in upgrading their skills to meet the needs of a changing labor market, and support Adult Basic Education programs at community colleges. Changes in the economy increase the need for the services these programs provide, even if the economy as a whole is growing. Demand for program services has only increased further though as a result of the recent recession. The Department has successfully obtained additional funds through the National Emergency Grant (NEG) program, which addresses large layoffs. Beginning in the 2001-03 biennium, the Legislature permitted the Department to spend NEG program funds without limitation. This treatment reflects the emergency nature of these funds, which the Legislature did not wish to limit in that no state match is required to obtain the monies.

Legislatively Adopted Budget

The legislatively adopted budget supports these programs at the projected Federal Funds and Other Funds revenue levels, including 2005-07 biennium expenditures of grant funds received in 2003-05. The budget projects that funding will increase by approximately 11% over the 2003-05 biennium legislatively approved budget level. The Legislature increased the Federal Funds expenditure limitation in the Governor's budget by \$2,375,236 to reflect the increase in projected federal revenues for CCWD programs, and by \$1,085,021 Federal Funds to allow expenditures of federal grant funds, if awarded. Other changes made to the Governor's budget included the shift of \$41,854 Federal Funds from this program area to Office Operations, to correctly account for a special payment to the Employment Department for the PRISM program, and the shifting of \$86,692 Federal Funds to this program area from Office Operations, to allow this amount of Personal Services cost savings to be distributed to local service providers.

It is difficult to know now, however, what the eventual biennial funding for these programs will be. In recent biennia, the Emergency Board has increased the Federal Funds expenditure limitation substantially as federal program funding increases became known. In any event, if federal revenues fall short of projection, the Department will reduce transfers to service providers who will in turn reduce services. If federal revenue exceeds projection, the Department will request the Emergency Board to authorize the transfer of the additional funds.

CCWD – Debt Service

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	4,344,935	3,316,055	2,258,575	2,258,575
Total Funds	\$4,344,935	\$3,316,055	\$2,258,575	\$2,258,575

Program Description

This program pays the principal and interest on general obligation bonds issued under Article XI-G of the state Constitution for community college capital construction projects. The Legislature has not authorized new Article XI-G bonds for community colleges since the 1979 session. Debt service requirements are declining as the existing bonds are paid off. Costs in 2005-07 will be down 32% from the prior biennium level.

Legislatively Adopted Budget

The legislatively adopted budget fully funds 2005-07 biennium debt service costs. There are no funds included for debt service on Article XI-G bonds that the budget authorizes for new community college capital construction projects. This additional debt service is projected to total \$5.5 million per biennium when phased in. Any 2005-07 biennium debt service costs on these new bonds will be financed from bond sale proceeds. General Fund would be first required to pay debt service on any new bonds beginning in the 2007-09 biennium.

CCWD – Community College Capital Construction

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	0	0	12	77,000,000
Total Funds	\$0	\$0	\$12	\$77,000,000

Program Description

This program finances state support for the construction, acquisition, and major renovations of community college properties. The state has not provided financial support to community colleges for capital construction since the 1979 session. Throughout this period, community colleges have financed capital expenditures entirely from their own revenues – including in some cases with property taxes approved by local voters for capital projects.

Legislatively Adopted Budget

The Governor's budget included, for the first time since the 1979-81 biennium, state support for community college capital projects. The projects were to be financed by Article XI-G bonds matched by an equal contribution of local college dollars. Article XI-G bonds are a constitutionally-authorized general obligation debt of the state. The state is required to match the bonds with at least an equal amount of General Fund. In lieu of

regular General Fund, the colleges would transfer the required matching funds to the state. These matching funds are designated as the General Fund match, and the matching funds are then returned to the colleges, with the Article XI-G bond proceeds, as Other Funds expenditures in the state budget.

The budget included \$91.2 million of Article XI-G bond authority to finance \$182.4 million of expenditures for six community college capital construction projects. Only \$12 of Other Funds expenditure limitation was actually in the budget for the six projects, however. The Governor expected the Legislature to consider the appropriate financing for the projects. These projects included construction of new campuses to replace aging or leased facilities for three community colleges: Clatsop, Klamath, and Tillamook Bay; new facilities in three cities (essentially also the creation of a new campus) for a fourth: Oregon Coast; a new health sciences building and classrooms for Columbia Gorge; and a new Medford facility for Rogue, to be shared with Southern Oregon University (SOU). (The Governor financed the SOU portion of the facility in the Department of Higher Education’s capital construction budget, which included \$5.4 million of General Fund and an additional \$5.9 million of Article XI-G bonds.)

The Governor’s budget also included \$100,000 Other Funds to pay for bond issuance and project administrative costs in the Office Operations program area of the budget. Debt service on the Article XI-G bonds is financed by General Fund. Any debt service costs incurred before the end of the biennium would be paid from the bond sale proceeds. Debt service costs will be paid by General Fund beginning in the 2007-09 biennium. The Legislative Fiscal Office estimated that General Fund debt service costs would equal approximately \$12.9 million per biennium during the 30-year term of the bonds, if all of the bond authority included in the Governor’s was utilized.

The Legislature approved all six projects proposed in the Governor’s budget, but reduced Article XI-G bond support for all of them, except for the project at Tillamook Bay Community College, which was fully funded at the proposed level. The budget adopts a policy that total debt service costs for outstanding Article XI-G bonds, issued during or after 2005 for community college capital construction projects, not exceed \$6.5 million per biennium. The Legislative Fiscal Office estimates that General Fund debt service costs will equal approximately \$5.5 million per biennium during the 30-year term of the bonds if all of the bond authority included in the legislatively adopted budget is utilized, leaving limited capacity for additional project approval under this policy. A list of the funded projects is included below:

**Department of Community Colleges and Workforce Development
2005-07 Capital Construction Budget**

Project List	Governor’s Project Request	Article XI-G Bonds	Community College Match	Approved Total
(1) Clatsop Community College				
Land acquisition or facilities	\$50,000,000	\$7,500,000	\$7,500,000	\$15,000,000
(2) Columbia Gorge Community College				
New facilities and renovations of existing facilities	21,600,000	7,500,000	7,500,000	15,000,000
(3) Klamath Community College				
New facilities	50,000,000	7,700,000	7,700,000	15,400,000
(4) Oregon Coast Community College				
New facilities	34,000,000	4,500,000	4,500,000	9,000,000
(5) Rogue Community College				
Medford facility for joint use with SOU	17,000,000	4,100,000	4,100,000	8,200,000
(5) Southwestern Oregon Community College				
New Curry County facilities	Not included	2,300,000	2,300,000	4,600,000
(7) Tillamook Bay Community College				
New campus and facilities	9,800,000	4,900,000	4,900,000	9,800,000
Grand Total	\$182,400,000	\$38,500,000	\$38,500,000	\$77,000,000

CCWD – Oregon Youth Conservation Corps

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	356,187	0	0	0
Other Funds	1,865,277	2,361,669	2,026,412	2,022,979
Total Funds	\$2,221,464	\$2,361,669	\$2,026,412	\$2,022,979
Positions	3	3	3	3
FTE	3.00	3.00	3.00	3.00

Program Description

The Oregon Youth Conservation Corps (OYCC) was established in 1987. OYCC provides education, training, and employment opportunities based on conservation efforts to disadvantaged and at-risk youth ages 14 to 25. The OYCC has created a private nonprofit foundation, which allows private fundraising in support of its activities.

OYCC operates two programs. The first – the Conservation Corps – operates during the summer and supports at least one youth crew in every county who work on natural resource and conservation projects. The second program – the Community Stewardship Corps – offers alternative education programs during the school year for at-risk youth through hands-on environmental projects. Approximately 1,800 youth were involved in both programs during the 2003-05 biennium.

Revenue Sources and Relationships

Other Funds are primarily from the Amusement Device Tax. The Amusement Device Tax is levied on the state's video lottery terminals. OYCC also receives transfers from the other state agencies (Marine Board and the Parks and Recreation Department) as Other Funds for contract work.

Legislatively Approved Budget

The Legislature eliminated General Fund support for the OYCC in the 2003-05 biennium, to help address the state's General Fund shortfall. The legislatively adopted budget continues to operate the OYCC without General Fund support in 2005-07. The OYCC will continue to function during the biennium, although there will be a reduction in the number of youth who can be served in the two programs the OYCC operates. Funds from the Amusement Device Tax, and transfers from other state agencies (fees for services), were not reduced.

The elimination of General Fund in the 2003 session required the OYCC to reduce its program expenditures and the number of youth it could serve. The Emergency Board, however, allowed OYCC to spend additional one-time resources of approximately \$300,000, and unanticipated ongoing grants of approximately \$100,000, in the 2003-05 biennium. These expenditures allowed the OYCC to avoid the program reductions that were expected in the 2003-05 biennium. With the one-time resources no longer available, OYCC will need to finally implement the program reductions during the 2005-07 biennium. Funds for the direct support of the OYCC's two programs are reduced 18.5% from the level available in 2003-05 biennium after the Emergency Board actions.

Department of Education (ODE) – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	4,043,880,643	4,703,298,799	4,941,233,788	5,075,292,291
Lottery Funds	670,555,680	507,799,698	352,661,954	461,524,403
Other Funds	324,756,410	66,912,964	52,045,043	55,116,367
Federal Funds	694,639,174	698,979,045	800,899,023	733,271,172
Other Funds (NL)	6,010,883	5,522,234	4,856,586	94,756,586
Federal Funds (NL)	0	235,042,702	243,186,904	227,855,675
Total Funds	\$5,739,842,790	\$6,217,555,442	\$6,394,883,298	\$6,647,816,494
Positions	572	486	478	480
FTE	457.14	447.32	440.00	441.05

Agency Overview

The Oregon Constitution directs the Legislature to “provide by law for the establishment of a uniform and general system of common schools.” The State Board of Education and the State Superintendent of Public Instruction are responsible for adopting rules for the general governance of public kindergartens, elementary, and secondary schools (ORS 326.051(1)(b)); implementing statewide standards for public schools (ORS 326.011 and 326.051(1)(a)); and making distributions from the State School Fund to districts that meet all legal requirements (ORS Chapter 327). The State Superintendent of Public Instruction is elected by the voters for a four-year term. The current superintendent was elected in May 2002 and took office in January 2003.

The Oregon Department of Education (ODE) provides support to the State Board and the State Superintendent in carrying out their responsibilities. ODE also is responsible, under federal and state laws, for administering special education programs, including services to disabled children from birth through age 21; pre-school programs; compensatory education programs; and vocational education programs. ODE’s role generally is to provide curriculum and standards development, technical assistance, monitoring, accountability, and contract administration. Department staff provide direct educational services at the Schools for the Deaf and Blind and assist in the education program at the juvenile correctional institutions such as Hillcrest and MacLaren.

Overall, the 2005-07 legislatively adopted budget of \$6.65 billion Total Funds is a \$430.3 million, or 6.9%, increase over the 2003-05 legislatively approved budget. Over \$300 million of this increase is due to an increase in State School Fund distributions to school districts and education service districts (ESDs). The balance is due primarily to the inclusion of \$89.9 million in Common School Fund distributions in ODE’s budget as a result of HB 3183 (2005) as well as an increase of \$24.9 million in federal funds available for grants to local programs.

- The budget provides \$5.24 billion in state support for K-12 school funding. This is an increase of \$323 million, or 6.6%, over the 2003-05 legislatively approved budget of \$4.917 billion. Local formula revenues, mainly from property taxes, are estimated to be \$247 million higher in 2005-07. Together, state and local support increase by 7.8% from 2003-05 to 2005-07.
- The budget for Department Operations increases from \$85.2 million Total Funds in 2003-05 to \$88.1 million Total Funds in 2005-07 due to growth in federal funding (direct and indirect). Direct federal funding increases by \$3.1 million, or 8%. General Fund support is \$31.8 million, a decrease of 7.1% from the 2003-05 budget of \$34.2 million and a 25.5% decrease from 1999-2001 expenditures of \$42.7 million. The 2005 Legislature did appropriate an additional \$1.8 million to the Emergency Fund for ODE’s participation in the development of a statewide student data system.
- The budget includes \$192.1 million General Fund for Grant-in-Aid programs that provide support to school districts and other local programs. This amount is 1.1% more than the 2003-05 General Fund budget of \$190.1 million. The 2005 Legislature restored \$11.5 million to the Oregon Prekindergarten program, which serves low-income 3- and 4-year-olds, so that the percentage of eligible children served in 2005-07 will remain at roughly the same percentage served in 2003-05, or 60%. A special purpose appropriation of \$4.9 million was established in the Emergency Fund for another early childhood program, the Early Intervention/Early Childhood Education (EI/ECSE) Program, for caseload growth.
- State support for two Grant-in-Aid programs – the Frontier Learning Network and Student Leadership Centers – was restored in whole or in part (\$0.5 million and \$0.7 million, respectively).

The Department's budget consists of the following programs: Operations, Special Schools, Youth Corrections Educational Program, Grant-in-Aid, School Funding, Debt Service, and Common School Fund Distributions.

ODE – Operations

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	34,814,836	34,219,320	36,060,740	31,798,657
Other Funds	8,264,969	6,611,324	6,912,794	9,409,227
Federal Funds	27,690,596	38,869,643	42,443,548	41,992,817
Other Funds (NL)	6,010,883	5,522,234	4,856,586	4,856,586
Total Funds	\$76,781,284	\$85,222,521	\$90,273,668	\$88,057,287
Positions	275	263	258	260
FTE	269.06	258.26	254.20	255.25

Program Description

Department Operations includes the overall leadership responsibilities and activities of the State Board and the State Superintendent, administration of a variety of programs, and assistance to and review of local districts.

State leadership is provided by the *State Board of Education* and the *Office of the State Superintendent*. The Board adopts standards for public schools and is the policy-making body. The Office of the State Superintendent exercises a general superintendency of school officers and public schools. This office also includes the agency's internal audit function, communications, and federal liaison functions.

Last biennium, the Department reorganized in response to budget reductions and to focus the agency on the Superintendent's priorities, which include leadership, school improvement, and accountability. To achieve results in these areas, the agency streamlined its office and management structures and moved toward more cross-agency collaboration. Also, the Department established the *Office of Systems Accountability and Policy Development*, which is responsible for, among other things, coordinating the development of education policy at the state, local, and federal levels; coordinating agency operations with those policies; revising the agency's strategic plan; managing the development of appropriate and useful performance measures; and creating and implementing a comprehensive statewide accountability system for K-12 education.

Other offices within the Department now include the *Office of Educational Improvement and Innovation*, which is charged with ensuring all components of the educational system are interconnected to provide appropriate instruction for each student. The office includes programs under the federal No Child Left Behind Act, PreK-16 systems integration, alternative education, charter schools, home schooling, private schools, professional/technical education, school improvement, and standards and framework for curriculum and instruction.

The *Office of Student Learning and Partnerships* is responsible for programs that provide services to diverse learners and efforts to help children with unique learning differences meet standards. Programs managed by this office include early childhood education, special education, federal program compliance and accountability, and capacity building and partnerships with community stakeholders.

The *Office of Assessment and Information Systems* is responsible for the development and maintenance of the agency's technical and information infrastructure. This includes data collection from and reporting on individual schools, school districts, and education service districts. It also includes the design, development, and implementation of the statewide student assessment system, which measures student performance against state content standards for kindergarten through grade 12.

The *Office of Finance and Administration* provides fiscal and administrative services, such as accounting, budgeting, employee services, and procurement. This office also is responsible for the pupil transportation program, including the training and certification of the state's bus drivers, and the federally supported school- and community-based nutrition programs.

Revenue Sources and Relationships

Other Funds revenues include indirect cost recovery from federal programs (38%); fees for fingerprinting and background checks (14%); funds from the Department of Human Services for health-related and other programs (9%); funds from the Department of Community Colleges and Workforce Development (DCCWD) for professional/technical education services and administration (7%); fees for licensing private vocational schools (6%); tuition protection fees from private vocational schools to reimburse students in case of closure of these schools (5%); textbook review fees (4%); and miscellaneous fees, contracts, and grants (17%).

Nonlimited Other Funds are from registration fees that pay for related workshop and conference costs and a School Lunch Revolving Fund for brokering surplus food for schools.

Major federal revenue sources include the Individuals with Disabilities Education Act, the National School Lunch Program, No Child Left Behind Act (NCLB) assessment funds, and various compensatory education programs.

Budget Environment

A major focus of the Department over the last decade has been the implementation of the Oregon Educational Act for the 21st Century, Oregon's school reform legislation. A primary emphasis of the Department's reform effort is to help students master subject matter, demonstrate knowledge, and apply learning to new situations. To these ends, the State Board adopted statewide Certificate of Initial Mastery (CIM) standards. In 1999, the first Certificates of Initial Mastery were awarded to tenth graders successfully passing tests taken in Spring 1999 in English and mathematics. Science was later added and the Department developed an implementation timeline for other CIM subject areas such as the arts, second languages, and social sciences.

HB 2744 (2003) reduced the mandated CIM subject areas to mathematics, science, and English, eliminating the mandate for the arts, physical education, history, geography, economics, civics, and second languages. This essentially reduced the academic areas in which students must demonstrate proficiency to those same subjects required by the federal No Child Left Behind Act of 2001. The Department still must have state academic content standards for the optional subject areas and develop assessments for history, geography, economics, and civics (commonly known as "social sciences") for school districts that choose to award the CIM in the optional subject areas.

The 2003 Legislature expressed interest in finding ways to reduce the cost of the student assessment system, which is a key component of the standards-based reform effort. The Legislature reduced the Department's assessment budget by \$1 million and directed the agency to develop a plan that implements the most cost-effective assessment program for the testing requirements under NCLB. (NCLB requires annual testing in grades three through eight and once in high school, beginning with the 2005-06 school year. At the time the federal act was signed into law, ODE already had developed math, reading, and science content standards and an assessment system aligned to those standards for certain grade levels - 3rd, 5th, 8th, and 10th.) A \$1 million special purpose appropriation was established in the Emergency Fund should the agency not find savings. The agency did not request this amount; its goal was to manage without these funds.

The Department has been moving away from the traditional paper and pencil system as a way to streamline the assessment system. The traditional system creates additional demands on school staff, diverts time away from instruction, and produces test results that are not always available on a timely basis to provide maximum benefit to the student. During the 1999-2001 biennium, the Department received funding to begin phasing in a project called the Technology-Enhanced Student Assessment (TESA) system. This Internet-based system will eventually replace the paper and pencil process, thereby reducing the turnaround time for test results as well as the workload associated with the current system. TESA also complements the goal of electronic record-keeping of test results. Approximately one-half of the schools used TESA in 2003-04. In spite of budget reductions in 2001-03 and 2003-05, the Department kept TESA a priority.

The Operations program's General Fund was reduced by over 20% during 2001-03 because of the statewide General Fund shortfall. To manage to the cuts, the agency suspended student assessment tests for certain grades in the 2002-03 school year. The U.S. Department of Education expressed concern over these suspensions and ODE subsequently restored the tests. ODE has used some federal revenues for Operations to mitigate the effect of General Fund reductions, but typically additional federal requirements accompany these resources.

Legislatively Adopted Budget

The legislatively adopted budget is a 3.3% increase over the 2003-05 legislatively approved budget and a 2.5% decrease from the Governor's recommended budget. Within the overall increase above the 2003-05 legislatively approved budget, General Fund is decreased by 7.1%, Other Funds expenditure limitation is increased by 42.3%, the Nonlimited Other Funds amount is decreased by 12.1%, and Federal Funds expenditure limitation is increased by 8%. Within the overall decrease from the Governor's recommended budget, General Fund is decreased by 11.8%, Other Funds expenditure limitation is increased by 36.1%, the Nonlimited Other Funds amount remains the same, and Federal Funds expenditure limitation is decreased by 1.1%.

Several factors contribute to the decrease from the General Fund amount recommended in the Governor's budget:

- The Legislature removed a \$1.8 million policy package for an integrated student data system and established a like amount as a special purpose appropriation in the Emergency Fund. This funding is for support of a part-time position (0.50 FTE) and special payments for the project, which includes the integration of school district and education service district student data systems. The project also includes the integration of student data among the Department of Education, the Department of Community Colleges and Workforce Development, and the Oregon University System (OUS). The work during 2005-07 will focus on policies and processes needed to create the foundation for sound technical infrastructure. Areas to be addressed include privacy, confidentiality, standards definitions, roles and responsibilities of districts and ODE, and necessary statutory changes. Activities will also include developing and/or analyzing pilot or existing projects to assist in the development of the system.

ODE is expected to report to the Emergency Board with a detailed budget and an update of the proposed project. It is expected that ODE will report jointly with OUS and DCCWD. The Governor's recommended budget for these latter two agencies included \$2.2 million General Fund and \$0.9 million General Fund, respectively, for the project. The 2005 Legislature removed these amounts from the two agencies' budgets, established special purpose appropriations in the Emergency Fund, and adopted budget notes directing OUS and DCCWD to report to the Joint Legislative Audit Committee as well as the Emergency Board.

- The Legislature made an unspecified reduction of \$2.3 million in General Fund support. The agency may be able to offset part or all of this reduction with indirect federal revenues. In recognition of the increased availability of this funding source, the Legislature increased the Other Funds expenditure limitation for Operations by \$2.6 million.
- The agency's budget was reduced by \$0.25 million General Fund for the decreases in the PERS employer contribution rate, the Attorney General hourly rate, and statewide assessments used in developing the Governor's recommended budget.

The Legislature approved a policy package in the Governor's budget that reduced General Fund support by \$2.7 million to meet budget targets. The agency's plan to manage to this overall reduction includes: suspension of the math problem-solving assessment (\$0.7 million); elimination of 6 positions (\$0.7 million); elimination of paper student reports (\$0.4 million); elimination of a database project for the Oregon Prekindergarten program (\$0.3 million); shift in support of 2 positions from General Fund to Federal Funds (\$0.3 million); and a delay in the English proficiency test (\$0.2 million).

The Legislature also approved a policy package to shift \$1 million General Fund between budget categories to create a placeholder for budgetary impacts from the consolidation of the state's computer infrastructure. The state is in the process of consolidating the data centers of twelve state agencies and the Department of Education is one of the participating agencies. As noted in the budget report for HB 5166, ODE will need to internally shift a total of \$329,785 from Personal Services, Services and Supplies, and Capital Outlay budget categories to State Government Service Charges to reflect its payments in support of the State Data Center. In addition, ODE will phase out 0.50 FTE.

A policy package that completes the agency's recent reorganization and realigns indirect federal revenue to pay for staff was also approved. The package is essentially cost-neutral, with minimal adjustments in General Fund (\$61) as well as Other Funds (-\$88) and Federal Funds (\$27) expenditure limitations.

Finally, the Other Funds and Federal Funds expenditure limitations were adjusted to reflect the decreases in the PERS employer contribution rate, the Attorney General hourly rate, and various statewide assessments. The Legislature also reduced the Federal Funds expenditure limitation to align it with estimated federal revenues in 2005-07.

ODE – Special Schools

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	15,977,168	16,595,302	17,086,756	16,988,568
Other Funds	3,486,620	3,111,039	3,326,083	3,310,184
Federal Funds	987,695	923,366	721,450	368,197
Total Funds	\$20,451,483	\$20,629,707	\$21,134,289	\$20,666,949
Positions	265	192	191	191
FTE	156.08	158.06	156.80	156.80

Program Description

The School for the Blind (OSB), with 11 structures on a 7-acre campus, annually serves approximately 50 students who have visual impairments and educational needs beyond what a local school district or regional program can provide. Students range in age from 4 to 21 years. They generally have multiple disabilities that require intensive services and are referred to OSB by the local school district after a finding that needed services are not available locally. OSB also provides summer programs and coordinates diagnostic services to over 200 students annually and provides consultation services to school districts, regional teachers, and others.

The School for the Deaf (OSD) is a residential/day program that annually serves about 130 students who are hearing-impaired and cannot be served in the community. OSD provides academic and career education, living skills development, athletics, and leadership training. Enrollment has declined from 206 students in 1982-83 because students whose deafness was caused by rubella have now completed their education. OSD has 19 structures on a 52-acre campus.

Revenue Sources and Relationships

Most of the funding for operating costs comes from the General Fund. Parents pay no tuition or room and board because of the federal requirement for a free and appropriate public education for every child.

Other Funds revenues are from County School Fund receipts for special education billings (52%); donations (10%); Medicaid reimbursements (5%); transfers from the Commission for the Blind (8%); fees from local school districts for services provided to their students (6%); nutrition reimbursements (2%); and other miscellaneous sources (17%). Federal Funds are from the Individuals with Disabilities Education Act.

Budget Environment

Enrollment at OSB has been at about the same level since 1986. Over the past five years, annual enrollment has ranged from 41 to 48 students. Over the same period, annual enrollment at OSD has ranged from 121 to 129 students. This is a slight increase from 115 students in 1995-97.

During 2001-03, the Special Schools' General Fund budget was reduced by \$1.7 million due to the statewide revenue shortfall. The program was able to manage some of these cuts through fund shifts to Other and Federal Funds, but reductions in capital outlay, services and supplies, and staffing also were necessary. To achieve the estimated General Fund savings in 2003-05 from the roll-up of permanent reductions, similar reductions were planned.

Equipment purchases and other capital outlay have been deferred over several biennia due to funding levels. Kitchen equipment, washers and dryers, dining room equipment, beds, dressers, and upgrades in technology have been identified as some of the purchases needed to ensure the health and safety of students and provide effective programs.

Legislatively Adopted Budget

The legislatively adopted budget is a 0.2% increase over the 2003-05 legislatively approved level and essentially continues existing operations. The Legislature adjusted the Governor's recommended budget for reductions in the PERS employer contribution rate, the Attorney General hourly rate, and various statewide assessments. It also reduced Federal Funds expenditure limitation due to revisions in estimated federal revenues available for the program in 2005-07.

ODE – Youth Corrections Educational Program

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	25,554,206	21,758,832	24,380,130	24,358,569
Federal Funds	2,726,280	2,794,352	2,863,181	2,462,874
Total Funds	\$28,280,486	\$24,553,184	\$27,243,311	\$26,821,443
Positions	32	31	29	29
FTE	32.00	31.00	29.00	29.00

Program Description

ODE is responsible for ensuring that educational services are provided to children in the state's close custody facilities, including Hillcrest and MacLaren, and transition programs (formerly "youth work-study camps"). The Department contracts with local education agencies to provide services to students.

HB 3619 (2001) made the Department of Education, rather than the resident school district, responsible for providing educational services to eligible students in county detention centers. The average daily membership is limited to 350.

Revenue Sources and Relationships

Funding for the program comes from the State School Fund and is reflected as Other Funds. For 1995-97, funding was set aside for the program with the remainder of the State School Fund distributed to local school districts through the normal distribution formula. The provision that set aside funding for the program sunsetted at the end of the 1995-97 biennium. The program now is treated as a separate school district with per student revenues distributed through the formula.

Federal funding is from the Title 1 Neglected and Delinquent Program, the Individuals with Disabilities Education Act, and a youth offender workplace training grant.

Budget Environment

Youths in juvenile corrections facilities include those prosecuted under Measure 11, which took effect in April 1995. For any of 21 violent crimes, Measure 11 allows youths aged 15 to 17 to be tried as adults and mandates minimum sentences. Oregon law also allows juvenile offenders charged with other serious crimes to be remanded or "waived" to the adult system. Approximately 27% of this population is made up of Measure 11 and waived inmates.

The October 2005 close custody population forecast projects a 3.1% increase from July 2005 to July 2006 – from 1,085 to 1,119. The population is projected to reach 1,128 by July 2007 – or a total of 4% growth for the biennium. State budget reductions have affected the number of beds available, however. The 2005-07 legislatively adopted budget for the Oregon Youth Authority (OYA) funds 850 beds.

Historically, about 80% of the youths in juvenile facilities have been considered eligible for special education services, which results in a double-weighting in the distribution formula. More recently, ODE projected 64% were eligible for these services. The educational needs of the youths must be met for the most part in intensive, individualized services in small group settings. Students in county detention centers are assigned a weight of 1.5.

Legislatively Adopted Budget

The legislatively adopted budget is a 9.2% increase over the 2003-05 legislatively approved budget. Federal Funds expenditure limitation was reduced due to revisions in estimated federal revenues available for the program in 2005-07. Other Funds expenditure limitation for the program was adjusted for a lower PERS

employer contribution rate and reduced statewide assessments, but otherwise it is based on the Governor's \$5.0 billion budget for the State School Fund and the 850 beds funded in the Governor's budget for OYA. Funding for educational services to youths in county detention centers is based on 333 and 350 students in 2005-06 and 2006-07, respectively.

The agency may need to request additional expenditure limitation from the Emergency Board since the 2005 Legislature provided a higher level of funding for the State School Fund than that recommended in the Governor's budget.

ODE – Grant-in-Aid

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	190,978,925	190,115,696	184,269,151	192,112,725
Other Funds	16,269,073	14,386,845	14,744,661	14,894,661
Federal Funds	663,234,603	656,391,684	754,870,844	688,447,284
Federal Funds (NL)	0	235,042,702	243,186,904	227,855,675
Total Funds	\$870,482,601	\$1,095,936,927	\$1,197,071,560	\$1,123,310,345

Program Description

The majority of the Department's Grant-in-Aid programs purchase educational services for students with specific educational needs. These programs are administered by school districts or entities other than state government. Grants are made for special student services, such as Oregon Prekindergarten, compensatory education, teen parent programs, and child nutrition services. They also are made for special education services provided by regional programs, Early Intervention/Early Childhood Special Education, and private agencies. Other programs include vocational and workforce development, school reform implementation, and expansion of technology.

Revenue Sources and Relationships

The Department receives substantial federal funding for this program unit, mainly from the U.S. Departments of Education and Agriculture. Most of the funding is passed through to local school districts or contractors. The major federal sources for Grant-in-Aid programs are from the U.S. Department of Agriculture for nutrition programs and from the U.S. Department of Education for compensatory programs under the NCLB Act, special education, and teacher quality programs.

Other Funds revenues represent County School Fund receipts for special education billings (83%), state tobacco tax funds from the Oregon Health Division for tobacco education programs (13%), federal funds from the Oregon Employment Department for the Teen Parent program (2%), and miscellaneous grants (2%).

Budget Environment

In 1992, Oregon began implementing a state-operated program for children with disabilities from birth up to kindergarten age, known as Early Intervention/Early Childhood Special Education (EI/ECSE). At that time, the state came into compliance with federal PL 99-457 by providing mandated early childhood special education services to eligible children from ages three to kindergarten and following all federal special education regulations. Oregon also provides optional early intervention services to children with disabilities from birth to age three. The program had been experiencing increases since its inception, both in the number of eligible children entering the program and in the increasingly high cost to serve a small portion (about 4%) of those children. This program receives the largest portion – about 45% – of the General Fund budget for Grant-in-Aid programs.

Historically, annual growth had been about 5 to 6%, slowing to 2% in 2002-03. Because of the uncertainty surrounding caseload growth for 2003-05, the 2003 Legislature established a \$6.5 million special purpose appropriation in the Emergency Fund and directed the Department to report to the Emergency Board on the status of the EI/ECSE program, including caseload growth and any additional federal revenues available to support the program. Due to lower caseload growth and an increase in federal support for the program, the Department did not request allocation of the funds. Caseload actually declined in 2003-04 by 0.3% and, while preliminary data for 2004-05 indicated recurring growth, additional federal revenues were deemed to be more than adequate to cover this growth.

For 2005-07, both the Governor's budget and the legislatively adopted budget assumed growth of 2% per year. However, current data indicate growth is at least double that originally anticipated for the 2005-07 biennium. It appears increased efforts to identify eligible children is causing this unexpected growth.

The Oregon Prekindergarten program, established in 1987 and modeled after the federal Head Start program, serves low-income 3- and 4-year-olds to foster their development and enhance their success in school. State and federal funds, as well as services, are coordinated to serve eligible children. State statute mandates that Oregon serve 50% of all eligible children by 1999 and 100% by June 2004. The Department achieved a 50% service level in June 2001. Currently, approximately 60% of eligible children are served.

The Grant-in-Aid budget also includes funding for regional programs. Regional programs, in collaboration with other entities, provide specialized educational support for children with hearing impairments, vision impairments, autism spectrum disorders, severe orthopedic impairments, and deaf-blindness. These are known as low-incidence disabilities, occurring in the general population at a low rate. There are eight regional contractors (generally an ESD) and each program hires trained, certified staff to provide the needed specialized services. The regional service delivery model provides equal access to services regardless of where the children live in the state. ODE estimates about 7,300 children are served currently.

The Department also is responsible for ensuring the delivery of education services to children in day and residential mental health programs as well as hospital programs, which provide educational services to students with severe, low-incidence types of disabling conditions such as burns, head injuries, and other acute or chronic medical conditions. The Department contracts with local school districts or ESDs to provide the required services.

Actions taken during 2001-03 to balance the state's General Fund budget resulted in a \$19 million reduction in Grant-in-Aid programs. Approximately \$3.5 million in federal funding was expected to offset some of these reductions, specifically in the EI/ECSE program. To achieve General Fund savings in 2003-05 from the roll-up of permanent reductions, some services provided through Department programs were expected to become the responsibility of local school districts.

Service reductions may put the Department at risk of lawsuits, especially in the area of special education where eligible students are entitled to a free and appropriate education by federal law. In spite of these reductions, the Department has been successful in meeting federal maintenance of effort (MOE) requirements. In general, these requirements mean a state education agency shall expend at least the same amount of state funding for special education and related services in a current year as was done in the preceding year. Otherwise, federal funding received under the Individuals with Disabilities Education Act must be repaid to the U.S. Department of Education.

Legislatively Adopted Budget

The legislatively adopted budget is a 2.5% increase over the 2003-05 legislatively approved budget. Within this overall increase, General Fund support is increased by 1.1%, Other Funds expenditure limitation increases by 3.5%, and federal resources grow by 2.8%. The legislatively adopted budget is a 6.2% decrease from the Governor's recommended budget. The primary reason for the decrease is an 8.2%, or \$81.8 million, reduction in the agency's Federal Funds expenditure limitation to align it with expected federal revenues. The 2005 Legislature increased the General Fund support by 4.3% and Other Funds expenditure limitation by 1% over the Governor's budget.

The adopted budget includes the following:

- an \$11.5 million General Fund restoration to the Oregon Prekindergarten program to maintain the percentage of eligible children served at about 60%, the same percentage served in 2003-05;
- restoration of General Fund support (\$0.7 million) for Student Leadership Centers; and
- partial restoration of state support (or an add-back of \$0.5 million out of a \$0.7 million reduction in the Governor's budget) for the Frontier Learning Network, a mobile classroom and Internet-based program designed to serve students in rural and remote parts of North Central Oregon.

As recommended in the Governor's budget, the Legislature approved a \$0.1 million General Fund appropriation for the SMART (Start Making A Reader Today) reading program, which is designed to increase

the literacy of young children; a reduction of \$0.2 million General Fund (or 25%) for the Oregon Public Education Network, a statewide technology project that helps K-12 schools participate in a coordinated information network and distance learning; and a combined \$0.7 million General Fund reduction in hospital, regional, and long-term care and treatment programs. Reductions in these programs that affect the Department's MOE compliance were held to a level that should allow the agency to meet the federal requirements.

Due to fluctuations in caseload growth in the Early Intervention/Early Childhood Special Education program over the past several years, the 2005 Legislative Assembly removed funding for caseload growth from the agency's budget and established a \$4.9 million special purpose appropriation in the Emergency Fund pending updated data from the agency. As noted earlier, it appears the rate of growth in the program is at least double that expected earlier. As a result, in October 2005, the agency appeared before the Emergency Board to request allocation of the special purpose appropriation. The Emergency Board approved the request and the agency indicated that, when it returns to the Emergency Board with updated data at a later date, it may need to request additional funding for the program.

The following table shows the funding levels in the Governor's recommended budget for specific Grant-in-Aid programs:

2005-07 Legislatively Adopted Budget – Grant-in-Aid Programs (\$ in millions)				
Program Name	General Fund	Other Funds	Federal Funds	Total Funds
Early Intervention/Early Childhood Special Ed	84.7	0.0	29.8	114.5
Oregon Prekindergarten	55.4	0.0	0.0	55.4
Regional Programs	30.8	0.0	24.1	54.9
Long-Term Treatment & Hospital Programs	19.2	11.5	2.2	32.9
Title 1 Low-Income & Migrant Education	0.0	0.0	272.7	272.7
Nutrition Programs	0.0	0.0	227.9	227.9
Local & Other Special Education Programs	0.0	0.0	192.1	192.1
Title II Teacher Quality	0.0	0.0	55.6	55.6
Vocational Education	0.0	0.0	15.7	15.7
Other Programs (primarily under the NCLB Act)	<u>2.0</u>	<u>3.4</u>	<u>96.2</u>	<u>101.6</u>
TOTAL EXPENDITURES	192.1	14.9	916.3	1,123.3

ODE – School Funding

	2001-03 Actual	2003-05 Legislatively Approved *	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	3,802,109,714	4,462,368,481	4,703,817,141	4,834,392,341
Lottery Funds	614,555,682	452,100,536	295,732,859	405,057,659
Other Funds	267,626,128	17,191,710	950,000	950,000
Total Funds	\$4,684,291,524	\$4,931,660,727	\$5,000,500,000	\$5,240,400,000

* The 2003-05 Legislatively Approved Budget includes \$14.3 million Other Funds expenditure limitation for the Department of Education to distribute additional property tax revenues to schools. These revenues were part of the tax package defeated by voters in February 2004 (Measure 30). The defeat of the measure did not automatically reduce the Other Funds limitation. The actual 2003-05 state funding level is \$4.917 billion rather than \$4.93 billion.

Program Description

The Oregon Constitution directs the Legislature to "provide by law for the establishment of a uniform and general system of common schools." General state support for K-12 schools and education service districts (ESDs) is provided through the State School Fund. The Department of Education makes distributions of state support to districts that meet all legal requirements (ORS Chapter 327).

Allocations to school districts include a transportation grant, a facility grant, and a general-purpose grant. The general-purpose grant follows a legislatively prescribed distribution formula based on number of students, additional weighting reflecting specific greater education costs, teacher experience, and local tax resources. This formula was designed to equalize allocations to schools. It was phased in over time through the use of flat and

stop-loss grants designed to ease the transition for certain school districts. Full implementation of the equalization formula occurred in the 2001-03 biennium. The 2001 Legislature adopted a phase-in plan to equalize ESD funding. Final equalization for ESDs begins in 2005-06.

Each regular legislative session, the Legislature typically approves modifications to the distribution formula. Changes made by the 2005 Legislature can be found in HB 2450. These changes include the extension of a high-cost disability grant as part of the school equalization formula and continuation of a small school district supplement fund.

Revenue Sources and Relationships

General Fund represents the primary source of support for the State School Fund.

Lottery Funds in 2001-03 included \$262 million in transfers from the Education Stability Fund (ESF) and \$353 million of net unobligated lottery resources. The 2003-05 legislatively approved budget includes a \$122 million transfer from the Education Stability Fund in May 2005 (HB 3642) as well as net unobligated lottery resources of \$330 million. The Governor's 2005-07 budget included net unobligated lottery resources of \$295.7 million, including \$4.4 million to be generated from the addition of line games to the selections currently offered to players of video lottery games.

For 2001-03, the majority of Other Funds were from Medicaid Upper Payment Limit resources (\$242 million). The balance of \$26 million was primarily from state timber taxes. In 2003-05, state timber tax revenues are estimated to be \$2.9 million. Of the total \$17.2 million Other Funds expenditure limitation for 2003-05 shown in the table above, \$14.3 million was for distribution of additional property taxes to schools. These revenues were to have come from a reduction in the discount for early payment of property taxes, but they were part of the tax package defeated by voters in February 2004. In the Governor's budget, Other Funds revenues are from state timber taxes.

Budget Environment

Currently, there are 199 elementary and secondary school districts and 20 education service districts, serving about 550,000 students in grades K-12. Over the ten-year period from 1992-93 to 2002-03, enrollment increased by 8.6%. In 2003-04, enrollment dropped by 0.5%, reportedly the first decrease since 1984-85. Enrollment is expected to increase slightly in 2005-07.

There has been a significant change in student demographics over the last decade. In its *2003-04 Statewide Report Card*, ODE illustrates this change.

- The proportion of minority enrollment to total enrollment has increased from 12.5 % in 1992-93 to 25% in 2003-04.
- The number of students for whom English is not the primary language has increased substantially, from 2.4% of all students in 1992-93 to 11 % in 2003-04. These students speak at least one of about 138 different languages other than English. The most common second language is Spanish, with about 44,000 students speaking it.
- The low-income population in public schools (as indicated by the number of free and reduced-price lunches) was about 41% of all students in 2003-04, up from 31% in 1995-96.
- Students needing special education services made up about 13% of the total of all students in 2003-04, up from 10.8% in 1992-93.

These changes have implications in how education is provided locally, ranging from the need for English as a Second Language services to culturally-sensitive programs needed to reduce the higher drop-out rate among minority students.

Voter approval of Measure 5 in 1990 and Measure 50 in 1997, both of which limited local property tax revenues, caused a significant shift in funding sources for K-12 education. The proportion of state support for K-12 education has increased from about 28% in 1990-91 to about 66% in 2004-05. As this shift in funding has occurred, there has been more focus on how to balance local control of expenditures with accountability to the Legislature, the taxpaying public, and others. High academic standards, student assessments, school and district report cards, public access to schools' financial information through a database maintained by ODE, and other efforts are steps towards accountability.

The federal No Child Left Behind Act reinforces and adds to accountability requirements for the school districts and individual schools. Annual student assessments aligned with state standards are the primary measure of accountability. Schools are responsible for ensuring students make adequate yearly progress (AYP), as defined by the state. There are consequences for failure to make progress, such as allowing students to transfer to another school. For the 2004-05 school year, about 32.4% of schools in Oregon failed to meet AYP. Title 1 schools [about one-quarter of the AYP-deficient schools] are eligible for federal school improvement funds. Although the U.S. Congress appropriated additional federal funding to implement NCLB requirements, states have expressed serious concerns that the funding may be inadequate to carry out the federal mandates.

In recent years, state funding for Oregon schools has experienced a great degree of instability. The 2001-03 legislatively adopted budget for the State School Fund was \$5.2 billion, but legislative actions taken in 2002 to rebalance the statewide General Fund budget resulted in reductions of about \$500 million from the adopted budget. The Legislature attempted to mitigate \$211 million of these reductions by passing legislation enabling school districts to implement an accounting practice (the "accrual provision") that effectively uses part of a given year's state funding to pay expenditures of the previous year. Anecdotal reports indicated that about one-half of districts used this provision. Had all districts used it, total state support would have been at approximately \$4.9 billion, about \$100 million over the 1999-2001 level.

In response to these budget reductions, with most affecting the 2002-03 school year, school districts reported staff layoffs and reductions in the number of school days. In Spring 2003, 90 school districts reported they were cutting days due to budget reductions. Although the average number of days cut was five, some districts, such as Hillsboro at 17 days, were much higher than the average. About one-third of those districts reporting fewer school days indicated they would be below the minimum number of hours required in Oregon.

In 2003, the Legislature adopted a State School Fund budget of \$5.2 billion, essentially the same as that approved by the 2001 Legislature prior to special session reductions. To potentially reach a K-12 funding level of \$5.3 billion, the 2003 Legislature provided that the State School Fund could receive additional funding if economic recovery occurred in 2003-05. As long as the state's 2003-05 General Fund ending balance was at least \$100 million as of the June 2004 revenue forecast, the State School Fund was eligible to receive 50% of any excess over the \$100 million ending balance, until state support of the State School Fund reached a total of \$5.3 billion.

While schools did receive \$8.3 million under these provisions, the State School Fund was reduced by \$298.9 million due to the defeat of Measure 30 by voters in February 2004. Thus, the 2003-05 state support dropped to \$4.92 billion. Offsetting the state reductions to a slight degree were increased Common School Fund distributions of \$26 million and a \$50 million increase in other local revenues.

The effects of last biennium's reductions depended upon an individual school district's circumstances. Districts had more time to plan for reduced state support in 2003-05, unlike 2001-03, and many reported implementing the reductions over two years to avoid drastic program cuts in 2004-05. However, for a variety of reasons, many districts had difficulty in maintaining program levels. Budget reductions have come on top of declining enrollment, depleted financial reserves, and/or higher program costs. Districts reported staff layoffs, reductions in course offerings, and increased class sizes resulting from last biennium's state budget reductions. Certain districts have been able to pass local revenue measures to help mitigate some of the effects of these reductions.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget provides \$5.24 billion in state support for K-12 school funding. This is an increase of about \$323 million, or 6.6%, above the 2003-05 legislatively approved budget of \$4.92 billion. General Fund is increased by \$372 million, but about \$50 million of this increase is due to a shift from Lottery and Other Funds to General Fund support in 2005-07. The legislatively adopted budget does not rely on one-time funding sources.

Of the total \$5.24 billion budget, \$4.834 billion is from General Fund support, \$405.1 million is from lottery support, and \$950,000 from state timber taxes (expended as Other Funds). The budget provides \$2.567 billion for schools and education service districts in 2005-06 and \$2.673 billion in 2006-07.

To potentially reach a K-12 funding level of \$5.263 billion, the Legislature provided that the State School Fund would receive additional funding if General Fund revenues increase over the close-of-session economic and

revenue forecast for 2005-07. If General Fund growth occurs as of the June 2006 forecast for 2005-07, then the State School Fund is eligible to receive an additional amount of up to \$23 million for the 2006-07 school year.

The budget includes \$400,000 General Fund for local option matching grants to eligible districts that have passed local option levies. An additional \$800,000 is appropriated to the Emergency Board for these grants. The Legislature directed the Department of Education to report with updated data on eligible districts when requesting allocation of the special purpose appropriation.

The essential budget level for the State School Fund is determined each interim by the School Revenue Forecast Committee, which was established by executive order in 1999. Assumptions made by the Committee for the 2005-07 essential budget level include, among other factors, a 15.09% PERS rate; increases of 12% annually in health benefits costs; about a 2% annual increase in teacher salaries; and growth in student counts of 0.31% for 2005-06 and 0.48% for 2006-07. Going into the 2005 session, the essential budget level was calculated at \$5.318 billion.

During the 2005 legislative session, the budget committees discussed an anticipated increase in the estimated PERS employer contribution rate for schools in 2005-07 – from 15.09% to 15.72%; a possible decrease in the rate of growth in health benefits costs for the first year – from 12% to 8%; and a \$50 million increase over previous estimates for local revenues in 2005-07, primarily due to growth in estimated Common School Fund distributions for K-12 schools. Had these assumptions been used by the School Revenue Forecast Committee, the essential budget level would be closer to \$5.258 billion. However, the Committee does not typically meet during legislative sessions to update or refine its calculation. And, regardless of the assumptions used, decisions involving collective bargaining agreements and school budgets are made at the local level and likely will differ (up or down) from some of these statewide assumptions.

During 2005-07, districts will receive an estimated \$247 million increase in local revenues, which are primarily property taxes. Thus, combined state and local support increases by 7.8% from 2003-05 to 2005-07 (from \$7.261 billion to \$7.83 billion). The statewide average for per-student (weighted) spending in 2005-06 is estimated to be approximately \$5,472.

The following table shows the trend in state support for K-12 education:

<i>(\$ in millions)</i>											
Fiscal Year	State funding	Local funding	Total	Percent change	State share	Fiscal Year	State funding	Local funding	Total	Percent change	State share
	(a)						(a)				
1990-91	626	1598	2224	-	28%	1999-2000	2326 (d)	967	3293	4.9%	71%
1991-92	818	1561	2379	7.0%	34%	2000-01	2437 (d)	995	3432	4.2%	71%
1992-93	1100	1490	2590	8.9%	42%	2001-02	2537 (e)	1040	3577	4.2%	71%
1993-94	1132	1343	2475	-4.4%	46%	2002-03	2358 (f)	1112	3470	-3.0%	68%
1994-95	1427	1178	2605	5.3%	55%	2003-04 Est	2591	1134	3725	7.3%	70%
1995-96	1750	902	2652	1.8%	66%	2004-05 Est	2326 (g)	1210	3536	-5.1%	66%
1996-97	1760	956	2716	2.4%	65%	2005-06 LAB	2566	1273	3839	8.6%	67%
1997-98	2078 (b)	896	2974	9.5%	70%	2006-07 LAB	2673	1318	3991	4.0%	67%
1998-99	2250 (c)	889	3139	5.5%	72%						

a State funding includes juvenile corrections for 1992-93 through 2003-05; Common School Fund distributions are reflected as local revenues

b Includes one-time funding of \$50 million for classroom needs and \$5 million for security; reflects reduction for \$26 million excess property taxes over cap

c Includes \$150 million from lottery bond sale for school facilities

d Includes \$127 million lottery bond proceeds, \$50 million in SB 622 proceeds, and \$4 million General Fund to schools with more than 50,000 ADMw; assumed distribution: \$83 million in 1999-00, \$98 million in 2000-01

e Includes \$108 million School Improvement Fund and \$225,000 for local option matching grants

f Includes \$225,000 for local option matching grants; includes potential accrual of \$211 million by school districts from 2003-05 resources (SB 1022 – 2002 Third Special Session); without the accrual, the percentage change from 2001-02 is -9.4%; reflects failure of Measure 28 (\$95 million) and \$46 million allotment reduction

g Includes \$8.3 million generated under legislatively adopted trigger language; reflects failure of Measure 30 in 2004-05 per HB 5077; both 2003-04 and 2004-05 include state funding for local option matching grants (biennial total of \$400,000)

Source: Legislative Revenue Office & Legislative Fiscal Office; historical data adjusted to actual and comparable funding sources

ODE – Debt Service

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Lottery Funds	55,999,998	55,699,162	56,929,095	56,466,744
Other Funds	3,555,414	3,853,214	1,731,375	2,193,726
Total Funds	\$59,555,412	\$59,552,376	\$58,660,470	\$58,660,470

The ORBITS report includes \$94.1 million in Nonlimited Other Funds that reflects the re-funding of lottery-backed bonds. This was done to reduce debt service on these bonds. The above table does not reflect this re-funding, since the agency did not receive additional proceeds.

Program Description

This program provides debt service (principal and interest) on lottery-backed bonds, including:

- \$150 million of bonds approved by voters in November 1997 and issued in Spring 1999; and
- \$127 million of bonds approved by the 1999 Legislative Assembly and issued in 1999-2001 for state education projects as defined in HB 2567 (1999).

Proceeds to schools were intended for the acquisition, construction, remodeling, maintenance, or repair of school facilities. Schools also were allowed to use the proceeds for certain operational expenses, such as textbooks, computers, and instructional training.

Revenue Sources and Relationships

HB 3411 (1997) established the Education Lottery Bond Fund to repay the debt from net unobligated lottery proceeds, legislative appropriations, and interest earnings of the fund. The law also states the legislative intent to pay debt service after 1997-99 from 75% of the interest earnings on the Education Endowment Fund (now the Education Stability Fund).

Additionally, the 1997 Legislature specified that if distributions from the State School Fund and local revenues exceeded specified ceiling amounts for 1997-98 and 1998-99, any excess was to be transferred to the Education Lottery Bond Fund for the purposes of paying the principal, interest and premium, if any, on the lottery bonds. The 1999 Legislature also provided that any excess from 1999-00 and 2000-01 be used for debt service. During the 1999-2001 biennium, approximately \$27 million in excess of the legislative caps set for 1997-99 State School Fund distributions were transferred to the Education Lottery Bond Fund for debt service.

Currently, lottery revenues are the primary source of funds for debt service on these bonds.

Budget Environment

In recent years, interest earnings on the Education Stability Fund have been lower due to transfers of principal from the Education Stability Fund to the State School Fund as well as to lower interest rates. Two transfers totaling \$262 million were made in 2001-03. A transfer of slightly over \$126 million was made in May 2005. Lower interest earnings result in a greater need for general lottery resources since the required debt payments are fixed.

Legislatively Adopted Budget

The budget provides \$55.5 million Lottery Funds, \$1 million in Education Stability Fund interest earnings (these are reflected as Lottery Funds), and \$2.2 million in other interest income from debt service-related accounts.

ODE – Common School Fund Distributions

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds (NL)	0	0	0	89,900,000
Total Funds	\$0	\$0	\$0	\$89,900,000

Program Description

This program reflects the transfers of Common School Fund distributions from the Department of State Lands to the Department of Education. Beginning in 2005-06, ODE will distribute these monies to K-12 school districts.

Previously, the Department of State Lands distributed these monies to county treasurers, who in turn made payments to school districts. HB 3183 (2005) made the Superintendent of Public Instruction responsible for making these distributions to the districts.

Budget Environment

The distribution policy adopted by the State Land Board is based on a sliding scale for annual distributions between 2% and 5% of the Common School Fund market value as of December 31st of each year. The percentage of distribution is based on the annual growth rate in the Common School Fund's market value. The policy took effect with the 1999-2000 school year.

Distributions have fluctuated over the past several biennia. The total distribution of \$48 million for 2001-03 was far below the 1999-2001 distribution of \$76 million, due to declines in the stock market as well as lower earnings. On the other hand, distributions in 2003-05 were \$53.5 million, a \$26.4 million increase over the amount originally anticipated by the 2003 Legislature. This large increase was due to a rebound of the market.

Common School Fund distributions by the Department of State Lands are anticipated to be \$89.9 million in 2005-07, an increase for K-12 schools of about \$36 million over the 2003-05 amount of \$54 million. The wide disparities among recent distributions are illustrative of the effect of market conditions on distributions from the Fund. To prevent such large variations in distributions in the future, the State Land Board voted to switch to a three-year rolling average for calculating the Fund's value after January 1, 2006.

Legislatively Adopted Budget

The legislatively adopted budget includes \$89.9 million in nonlimited Other Funds for distributions to K-12 schools in 2005-07.

Oregon Health and Science University Public Corporation (OHSU) – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	3,058,672	84,379,467	52,986,575	73,337,168
Other Funds	191,658,978	128,391,300	31,975,150	31,975,150
Total Funds	\$194,717,650	\$212,770,767	\$84,961,725	\$105,312,318

The tables for OHSU only show expenditures of state funds in the OHSU budget. Total OHSU expenditures for operations in the 2005-07 biennium are projected to exceed \$2.3 billion.

Agency Overview

The Oregon Health and Science University (OHSU) is the only academic medical center in the state. OHSU's mission includes education, research, clinical care, and public service. The university operates on its main campus adjacent to downtown Portland and on the site of the Oregon Primate Research Center and the Oregon Graduate Institute (West Campus) in Washington County. The university is also expanding into Portland's North Macadam Urban Renewal Area. The University's academic programs include degree programs in Medicine, Dentistry, Nursing, Allied Health Professions, and biomedical research; and graduate programs in Engineering and Management through the Oregon Graduate Institute (OGI) School of Science and Engineering. In addition to its two (soon to be three) main sites, OHSU also has clinical facilities throughout the Portland metropolitan area, and teaching programs in various locations throughout the state.

OHSU has been organized as a public corporation since 1995. Prior to that, the university was a campus in the Department of Higher Education. The change in status was granted to allow OHSU to operate more efficiently and to respond in a more businesslike manner to changes in the health care marketplace. At the same time, the public corporation status was designed to retain principles of public accountability and fundamental public policy.

The university is governed by a Board of Directors that is appointed by the Governor and confirmed by the Senate. The public policy of the university is delineated in statute. Nonetheless, under its public corporation status, OHSU operates with considerable autonomy. The Legislature no longer approves the university budget (or limits its expenditures from tuition and other sources), though the state continues to support OHSU through grants for its educational and clinical activities. These grants totaled \$85.8 million in the 2003-05 biennium. The state also provided an additional \$106.3 million in the 2003-05 biennium, as the second part of a two-biennium fund transfer, to support the Oregon Opportunity Program – OHSU's expansion of its research programs in genetics and biotechnology, and \$20.7 million for debt service on bonds the state issued to finance the Oregon Opportunity Program fund transfer.

Budget Environment

State support for OHSU's education and clinical programs has declined since the institution was reorganized as a public corporation. OHSU received \$125.1 million from the state in 1993-95, the last biennium that it was a part of the Department of Higher Education. This level declined 15% when OHSU was turned into a public corporation in the 1995-97 biennium, and has declined a further 19% since then (this excludes Oregon Opportunity Program funds). General Fund was the source of state support until the 2001-03 biennium. During the 2001 session, the Legislature approved most state support in the form of funds from the Medicaid Upper Payment Limit (MUPL) Account. The MUPL account held payments from health districts, under the Proportionate Share Incentive Adjustment State Plan Amendment to the State Medicaid Plan and under intergovernmental agreements with the health districts, that were attributable to the federal funds portion of the total payment made to the health districts. The Legislature dedicated the MUPL account funds to health-related programs, and used these funds for almost all the state support it provided OHSU. Only \$3.3 million in General Fund was provided for the Child Development and Rehabilitation Center and the Area Health Education Centers, to meet federal fund match requirements.

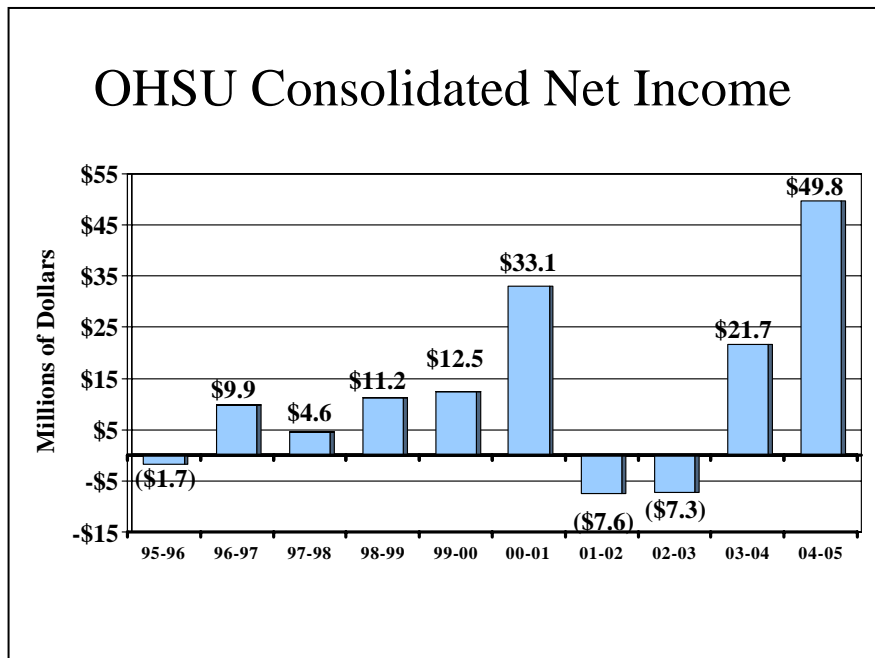
For the 2003-05 biennium, the largest source of revenue in the OHSU operating budget is the net patient service fee revenue generated by the hospitals and clinics, projected to total almost \$1.2 billion per biennium and to contribute 51% of total operating revenue. Another 36% of operating revenue comes from gifts, grants, and contracts. State support is projected to fall to only 3.6% of total operating revenue, student tuition and fees will

contribute 3%, and the sales and services of education departments will contribute another 2%. The remainder is divided among various miscellaneous revenue sources.

OHSU has significantly expanded its operations in the first seven years since it organized as a public corporation. Although student enrollment in health programs has increased 15%, other measures have shown even greater expansion. The institution’s operating budget has grown 113%, its total employment count has increased 76%, and annual grant awards totals have risen 204%. Similarly, the university’s clinical services show a large increase. The number of hospital discharges (excluding newborns) is up 47% since 1995, the number of clinic outpatient visits is up 70%, and the number of beds in the hospital is up 16%.

The university is also significantly expanding and upgrading its capital plant. In addition to its \$2.3 billion of biennial operating expenditures, OHSU is also spending about \$440 million this biennium on capital projects. The institution finances approximately \$106 million of capital expenditures per biennium out of its operating cash. The remainder is being financed from a combination of state Article XI-L bonds issued for the Oregon Opportunity program, OHSU-issued revenue bonds, and gifts and grants. The major capital projects currently under construction include: a new \$144 million, 270,000 sq. ft. Biomedical Research Building, being built on the main campus and scheduled for completion in Fall 2005, being primarily financed by Article XI-L bonds; a new \$213 million, 330,000 sq. ft. Patient Care Facility on the main campus that will include 146 beds and scheduled for completion in Spring 2006; and a new \$44 million, 400,000 sq. ft. building with associated infrastructure in the North Macadam Urban Renewal Area, as the first phase in the development of a new “River Campus” for the university.

OHSU recently issued \$250 million in revenue bonds to finance the hospital expansion and the development of property in Portland’s North Macadam district. This bond is in addition to a \$200 million bond the state issued, and the debt service on it will be paid by OHSU. OHSU’s hospital is operating at capacity, and the university is expanding the hospital to allow it to serve more patients and to increase medical fee revenue. OHSU projects that the facility expansions will house an additional 1,000 employees.



OHSU’s net income, after depreciation expense, has fluctuated considerably over the years. The chart on the left shows OHSU consolidated net income in millions of dollars. This figure represents the amount earned by OHSU from both operating and non-operating sources after expenses, including depreciation, are subtracted. In addition to income generated from clinical and education services, the figures in the chart include investment income and the change in value of investments, and the earnings of the OHSU Foundation. State support dollars are also included in the figure, with the effect that if state support for the 2003-04 fiscal year were reduced by

\$21.7 million, and the university did not change its expenditures, it would show a 2003-04 fiscal year net income of zero. (In reality, the institution would reduce some expenditures if state support were lowered, so that the impact on net income would not be as great.)

The consolidated figures shown in the chart do not disaggregate between OHSU’s educational and clinical programs. Such a disaggregating shows that the educational programs do not generate sufficient revenue to cover their operating costs, with the net operating loss currently running at about \$40 million per biennium. In the 2003-05 biennium, the university covered almost all of this loss with investment income and Foundation funds. Including these non-operating incomes, the educational operations posted a net loss of only \$3.3 million

in the 2003-05 biennium. Indeed, in the second year of the biennium, the educational programs actually generated a positive net income (of \$8.8 million) for the first time since the 1999-00 fiscal year. OHSU, by generating net income from its hospital and clinical operations of almost \$75 million, was able to finance the educational costs, and still realize a \$71 million consolidated net income during the biennium.

As part of its \$250 million bond sale, OHSU has committed to a five-year financial plan which includes expectations of financial performance to assure bondholders that the university will have sufficient income to repay the bonds. The Board of Directors adopted a financial plan to eliminate any net loss in educational operations by the 2004-05 fiscal year, but this target has been delayed. This will, at current levels of state support, require additional expenditure cuts in the education program. The corporation's financial plan also calls for an increase in the total margin (rate of net income based on operating and investment incomes) in clinical services to 6%.

The university worked with the Joint Legislative Audit Committee prior to the 2001 session to develop a number of performance measures relating to its education, patient care, research, and public service missions. The university also tracks measures reflecting its economic impact. The institution does not report targets for these performance measures, but it does report on changes to them. The 2005 Legislative Assembly formally approved a set of performance measures and directed the university to establish targets for them.

The university's research performance measures track total dollar awards and national rankings. Total research awards reached \$260.3 million in the 2003-04 fiscal year, an increase of 18% over the fiscal year two years earlier, and more than triple the 1995 level when OHSU assumed its public corporation status. In 2003, the university ranked 31st in terms of National Institutes of Health support to institutions of higher education, a drop from 28th rank the year earlier, but still up from when the institution first became a public corporation. The university's performance measures for its public service mission track various activities, including: participation in the Area Health Education Centers (AHEC) program, which brings educational training to centers throughout the state; services provided by the Office of Rural Health; calls handled by the Oregon Poison Center; contacts made by the Center for Research on Occupational and Environmental Toxicology (CROET); and the patient service activities of the Child Development and Rehabilitation Center (CDRC).

Legislatively Adopted Budget

The total state support in the legislatively adopted budget of \$105.3 million represents a \$107.5 million (or 50.5%) decline from the 2003-05 biennium level. Most of this decline is due to the phase-out of Oregon Opportunity program funding. The state provided OHSU with \$200 million of bond proceeds to support the Oregon Opportunity program, divided between the 2001-03 and 2003-05 biennia. Funding for this program is now complete, and the lack of funds in 2005-07 represents a \$106.3 million decline from the 2003-05 level of funding.

The Legislature added \$20.4 million General Fund to the amount in the Governor's recommended budget for the university's education and clinical programs. Even after this increase, however, funding for the operations of the university's education and clinical programs is reduced from the prior biennium level. State support funds are reduced \$12.4 million (or 14.5%) below the 2003-05 level. These two reductions are partially offset by an increase in funding to pay debt service on the state bonds issued to support the Oregon Opportunity program. Debt service costs on these bonds is fully phased-in during the 2005-07 biennium. Expenditures are increased \$11.3 million (or 55%) above the prior biennium level.

OHSU – Education and General/Hospitals and Clinics/CDRC

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	3,058,672	84,379,467	52,986,575	73,337,168
Other Funds	92,919,599	1,400,000	0	0
Total Funds	\$95,978,271	\$85,779,467	\$52,986,575	\$73,337,168

Program Description

The instructional activities of the University are organized into four schools – the Schools of Medicine, Dentistry, Nursing, and the OGI School of Science and Engineering. The University offers professional degrees in medicine, dentistry, and pharmacy; baccalaureate degrees in nursing, medical technology, radiation therapy,

and physician assistant studies; graduate degrees in biomedical science specialties, public health, and nursing; and certificate programs in nursing, paramedic training, and dietetics. The University had an enrollment in Fall 2003 of 2,539 students, and grants over 700 degrees and certificates each year. Most academic programs are offered on the main and west campuses, but degree programs are also offered in Nursing on the campuses of Eastern Oregon University, Southern Oregon University, the Oregon Institute of Technology, and the Oregon State University Cascades Campus. The university does not use any state support dollars for the OGI School of Engineering and Science.

The University Hospitals and Clinics are the clinical teaching facilities of the university. The facilities include the OHSU Hospital, the Doernbecher Hospital for Children (part of the OHSU Hospital complex), and approximately 85 sub-specialty and primary care clinics. The hospital has 411 staffed inpatient beds. Clinic facilities are primarily located on the campus, though OHSU has established a network of primary care clinics throughout the Portland metropolitan area. The hospitals handle over 23,000 patient discharges, about 44,000 emergency room visits, and about 2,800 births each year. The clinics handle close to 550,000 outpatient visits per year. The hospitals and clinics handle about twice the statewide average of indigent care cases. In the 1999 session, the Legislature identified supporting access to medical care by under-served populations and non-sponsored patients as one of the purposes of state funding, and directed OHSU to utilize its state funds to best achieve this and other purposes.

The Child Development and Rehabilitation Center (CDRC) identifies persons under age 21 in Oregon with disabilities, coordinates clinical services for these individuals, and collaborates with sister agencies in case management. CDRC also provides education to health professions working with the disabled, and funds research on the health of the disabled. CDRC will diagnose and treat any person under 21 who has or is suspected of having a handicapping condition. The initial evaluation is provided at no out-of-pocket cost. The Center operates clinics in 18 Oregon communities, and serves approximately 7,000 children each year.

Revenue Sources and Relationships

The primary source of non-state funds for the educational programs is tuition. Other sources include sales and charges for services, indirect cost recovery on grants, and other miscellaneous revenue. State funds are distributed to the University's three health science schools, to the Biomedical Information Communication Center, and for facilities and support services.

Other Funds in the Hospital and Clinics program were never limited by the Legislature. The primary source of these funds are payments for services by patients and third party payers. These revenues have not been included in the state budget since OHSU became a public corporation.

CDRC receives fees for services (including payments from the Office of Medical Assistance Programs), and federal funds from the Maternal and Child Health Block Grant. State funds cover approximately 14% of the CDRC budget.

Note that none of the Other Funds discussed here appear in the table above, since none of these funds enter into the state budget as shown for OHSU.

Budget Environment

The Education and General Program (referred to internally at OHSU as the "University" budget) does not generate net revenue to the institution. This is standard for educational enterprises of this type throughout the country, which all rely on clinical care revenues, public support, or private endowments to operate. OHSU maintains its educational programs with the assistance of General Fund support and the net revenues generated by its hospitals and clinics. The three schools vary in the degree to which state funds support their budgets. For the 2003-05 biennium, state funds covered only 5% of the School of Medicine's budget, but covered 29% of the School of Nursing's budget. The figure for the School of Dentistry was 24%. The Oregon Graduate Institute of Science and Technology (OGI) receives some state support from the Oregon Engineering Education Investment Fund, which is supported in the Department of Higher Education budget, but no state support from the funds appropriated directly for OHSU.

Legislatively Adopted Budget

The Governor's budget reduced direct state support for OHSU's education and clinical programs (including CDRC) by \$32.8 million (or 38.2%) from the prior biennium level. The funding level also represented a 50% cut

from the amount OHSU received from the state when it was first reorganized as a public corporation in the 1995-97 biennium. The OHSU Board of Directors was free to determine how this funding reduction was to be distributed among its various programs, subject to a restriction that no less than \$2,741,720 of the \$53 million total had to be used to finance the Oregon Poison Center. The support in the Governor's budget for the Oregon Poison Center fully funded the Center's budget and eliminated the need for a subsidy from the rest of the Hospital and Clinics budget.

The OSHU Board of Directors [Board] proposed the following program changes in response to the reduction in state support proposed in the Governor's budget. All reduction amounts and percentages are relative to 2003-05 biennium funding levels:

- **Hospitals and Clinics (including the Oregon Poison Center)** – Reduced state support by \$12.4 million (or 82%) to \$2.7 million. The Board chose to eliminate all direct state support for the Hospital and Clinics budgets outside of the Oregon Poison Center program. The remaining funds would fully support the Oregon Poison Center budget without the need to use other hospital revenues. The impact of this reduction would be to reduce hospital earnings, which the university would offset through cost containments, and initiatives to increase the proportion of its patient population able to pay full medical compensation costs. The impact of these initiatives would reduce the number of Medicaid and non-sponsored patients served.
- **School of Medicine** – Reduced state support by \$5.6 million (or 19%) to \$23.3 million. Initially, the Board indicated that it planned to eliminate the tuition differential for Oregon resident students and raise tuition to the nonresident rate. Later, the tuition proposal was modified to raise resident tuition rates for incoming medical students to approximately 90% of the out-of-state rate, up from the existing ratio of 67%. This tuition rate increases would offset all but an estimated \$2.6 million of the funding reduction, thereby requiring various program cuts in the School budget.
- **School of Nursing** – Reduced state support by \$3.8 million (or 25%) to \$11.5 million. The Board proposed increasing tuition for Oregon resident students by approximately 63% in one year to help offset most of the funding reduction. This increase was projected to reduce access to lower-income students and reduce overall enrollment in Nursing programs.
- **School of Dentistry** – Reduced state support by \$4.7 million (or 38%) to \$7.8 million. As with the School of Medicine, the Board initially indicated that it planned to eliminate the tuition differential for Oregon resident students and raise tuition to the nonresident rate. Later, the tuition proposal was modified to raise resident tuition rates for incoming medical students to approximately 90% of the out-of-state rate, up from the existing ratio of 55%. To further help offset the funding reduction, the School planned to increase patient fees at its dental clinic by 5-7% over the rates previously assumed, reducing affordability for the clinic's primarily low-income clientele.
- **Child Development and Rehabilitation Center** – Reduced state support by \$4.5 million (or 46%) to \$5.2 million. The Board proposed eliminating a number of CDRC programs, including: Spina Bifida, Genetics, Feeding Disorders, Cranio-Facial Disorders, Developmental Follow-up of High Risk Infants, Special Education, and Social Work.
- **Area Health Education Centers/Office of Rural Health** – Reduced state support by \$1.8 million (or 43%) to \$2.4 million. These reduction would eliminate state funds for all four regional AHEC centers, and reduce Office of Rural Health staff supplying technical support to rural communities and hospital.

The Legislature added \$20.4 million General Fund (representing a 38% increase over the level in the Governor's budget) to restore all of the proposed funding reductions listed above, with the exception of the first bullet item. Funding for the Schools of Medicine, Nursing and Dentistry, for the Child Development and Rehabilitation Center, and for Area Health Education Centers and the Office of Rural Health, are funded at 2003-05 biennium levels. As of result of these restorations, 1) the School of Nursing will retain full enrollment in Portland and at satellite programs, and continue to build partnerships with community colleges to increase statewide enrollment capacity in Nursing programs; 2) the program offerings funded with the support of General Fund and medical and dental student enrollments in the Schools of Medicine and Dentistry will not be reduced; and 3) tuition rate differentials based on Oregon residency will be retained in the Schools of Nursing, Medicine and Dentistry for programs that currently have a differential. Additionally, the university will maintain the existing programs of the Child Development and Rehabilitation Center, the Office of Rural Health, and the Area Health Education Centers that are funded with the support of the General Fund.

Funding for Hospitals and Clinics is reduced to \$2.7 million, enough to fully fund the Oregon Poison Center, but eliminating any additional support beyond this. The university will use the General Fund allocated for the Hospitals and Clinics budget to retain the existing level of services of the Oregon Poison Center, with the expectation that the university hospitals and clinics will continue to serve Medicaid and uninsured low-income patients as part of their public mission.

OHSU – Oregon Opportunity Program

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	0	0	0	0
Other Funds	93,651,594	106,298,400	0	0
Total Funds	\$93,651,594	\$106,298,400	\$0	\$0

Program Description

In 2001, the Legislature approved state funds in support of the Oregon Opportunity program. The Oregon Opportunity program is the name OHSU has given to a group of investments, totaling \$500 million, to expand the university's programs in genetic and biomedical research and its rural health programs. The 2001 Legislature approved \$200 million in bond proceeds in support of this effort, contingent on subsequent voter approval of a ballot measure to authorize general obligation bonds for this purpose. Voters approved that authorization in May 2002. These bond proceeds were to be matched with \$300 million in donations. All but \$20 million of these donations have been raised.

The combined state and private funds support the construction of a 270,000 square-foot biomedical research facility on the main campus, and the recruitment of an additional 71 scientists as principal investigators of sponsored research projects, along with research support and support staff for the added scientists. The funds also support the purchase of a research facility on the west campus, and facilities and technology infrastructure for rural health initiatives.

With this investment added to its existing resources, OHSU plans to increase the level of its sponsored research awards by 47% (to \$325 million annually) by fiscal year 2006-07. Other goals over this same period are to increase annual technology transfer licensing and royalty revenue by 188% (to \$3.34 million), and to increase the number of Oregon companies in which OHSU holds equity from the current 3 to 27. As of the 2002-03 fiscal year, the university had hired 70 of the 71 planned additional scientists. As of 2003-04, OHSU had increased its sponsored research award level to \$260.3 million, its licensing and royalty revenue totaled \$1.25 million, and the number of Oregon companies in which OHSU holds equity had increased to 7.

Revenue Sources and Relationships

State financing for the Oregon Opportunity program is generated from bonds issued under the authority of Article XI-L of the state constitution. That article authorizes general obligation bonds, with net proceeds of up to \$200 million, to finance capital costs at the Oregon Health and Science University. The state will finance debt service on the bonds with funds received from the Tobacco Master Settlement Agreement (TMSA).

Budget Environment

The state issued two series of Article XI-L bonds, in 2002 and in 2003. The bonds have a 20-year term. The first series generated \$93.7 million of net proceeds that were transferred to OHSU in the 2001-03 biennium. The second bond series generated \$106.3 million of net proceeds that were transferred in the 2003-05 biennium. This exhausted the \$200 million of bond authority authorized by Article XI-L. The state cannot issue additional Article XI-L bonds unless voters approve an increase in the constitutional limitation.

Each bond series was structured so that issuance costs, underwriters discount, and debt service costs, through the biennium of its issuance, were financed from the bond proceeds. Beginning in the 2005-07 biennium, all debt service costs for both bond series will be paid from TMSA funds. In the 2005-05 biennium, these payments will total approximately \$32 million.

Legislatively Adopted Budget

The state cannot issue additional Article XI-L bonds. The legislatively adopted budget does not transfer bond proceeds or any other funds to OHSU for the Oregon Opportunity program in the 2005-07 biennium.

OHSU – Bond-related Costs

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	0	0	0	0
Other Funds	5,087,785	20,692,900	31,975,150	31,975,150
Total Funds	\$5,087,785	\$20,692,900	\$31,975,150	\$31,975,150

Program Description

The Bond-related Costs program finances the state's costs relating to bonds issued for the Oregon Opportunity program. These costs include debt service, underwriters discount, and issuance costs.

Revenue Sources and Relationships

Bond-related costs are primarily paid from money the state receives from the TMSA. One series of bonds was issued during the 2001-03 biennium, and a second (and final) series was issued in 2003-05. In the biennium of their issuance, a portion of the debt service costs are paid out of the bond proceeds. Actual issuance and discount costs are also paid out from bond proceeds before transfer of remaining funds to OHSU.

Budget Environment

The state issued general obligation bonds for the Oregon Opportunity program under Article XI-L of the state constitution, which voters approved at a May 2002 election. Debt service on the bonds is the responsibility of the state, and will be paid for the 20-year term of the bonds. The state has exhausted all capitalized interest (bond proceeds) available to pay debt service. The state plans to pay all debt service costs with TMSA revenues for the remainder of the bond term. Bond-related costs for the Article XI-L bonds are fully phased-in, beginning with the 2005-07 biennium. These payments are projected at a steady \$32 million per biennium through the 2021-23 biennium. A final \$8.4 million payment is projected for 2023-25.

Legislatively Adopted Budget

The legislatively adopted budget fully funds 2005-07 biennium debt service costs with \$31.9 million of TMSA moneys. This represents a 55% increase in debt service costs over the prior biennium level. During the 2003-05 biennium, only \$9.6 million of the \$20.7 million in debt service costs was paid with TMSA moneys. The remainder was paid from bond sale proceeds. The increase in TMSA funds from the prior biennium is therefore \$22.3 million, or 230%. Future biennium debt services costs will not increase further. There is no unused capacity under Article XI-L to issue additional debt.

Department of Higher Education (DHED) – Agency Totals

	2001-2003 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	746,014,010	671,431,645	685,450,858	704,436,524
Lottery Funds	4,869,745	8,123,462	11,998,734	11,417,524
Other Funds	1,203,343,594	1,480,271,558	1,408,386,847	1,476,109,901
Other Funds (NL)	1,730,045,995	2,087,285,908	2,425,619,327	2,416,936,637
Total Funds	\$3,684,273,344	\$4,247,112,573	\$4,531,455,766	\$4,608,900,586
Positions	13,730	14,781	13,882	14,457
FTE	11,155.90	12,061.26	11,301.52	11,876.52

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, Western, and Southern Oregon Universities), and the Oregon Institute of Technology (OIT). OSU has also established a branch campus in Bend, OSU-Cascades.

Legislatively Adopted Budget

The legislatively adopted budget provides a 5.3% increase in state support (General Fund plus Lottery Funds) over the 2003-05 biennium level. This represents an \$18.4 million (or 2.6%) increase over the level in the Governor's recommended budget. Additionally, the legislatively adopted budget includes special purpose appropriations to the Emergency Board, on behalf of the Department, for 2005-07 state employee compensation changes and for an integrated K-16 student data system. If these appropriations are allocated as anticipated, total state support for the Department will be 9.9% above the prior 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 of \$565.1 million is an increase of \$21.8 million (or 4%) over the 2003-05 biennium level. If the special purpose appropriations to the Emergency Board are allocated to the Education and General Services program as anticipated, General Fund will total \$591.4 million, which is \$48.2 million (or 8.9%) above the prior 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 3.5% in the first year, and 3.2% in the second year, of the biennium. Within these overall increases, the budget limits average tuition and resource fee rate increases for resident undergraduate students to no more than a 3% increase each year. Combined limited funds support for the Education and General Services program is increased \$62.7 million (or 4.1%) over the amount in the 2003-05 biennium budget. The increase, however, in **actual** expenditures is more than this, because actual 2003-05 biennium Other Funds expenditures were less than were budgeted. Projected 2003-05 biennium expenditures of Other Funds are \$49.6 million below what was budgeted. The limited Other Funds increase in the Governor's budget for the 2005-07 biennium is therefore closer to \$112.3 million (or 7.6%) over actual 2003-05 biennium expenditures. When anticipated funding from the Emergency Board for state employee compensation changes and the K-16 student data system is added, the Education and General Services program increase over actual 2003-05 expenditures is 11.4%.

- **Agricultural Experiment Station** – General Fund support of \$51.9 million is a \$1.6 million (or 3.2%) increase over the 2003-05 biennium level. This represents a \$2.5 million (or 5.1%) increase over the amount in the Governor's recommended budget. When anticipated funding from the Emergency Board for state employee compensation changes is added, General Fund support totals \$54.5 million, and the increase over 2003-05

expenditures is \$4.2 million (or 8.4%). Combined limited funds support is 1.7% below the essential budget level.

- **Extension Service** – General Fund support of \$37.2 million is a \$2.1 million (or 5.9%) increase over the 2003-05 biennium level. This represents a \$2.3 million (or 6.6%) increase over the amount in the Governor’s recommended budget. When anticipated funding from the Emergency Board for state employee compensation changes is added, General Fund support totals \$39.1 million and the increase over 2003-05 expenditures is \$4 million (or 11.3%). Combined limited funds support is 3.4% below the essential budget level.
- **Forest Research Laboratory** – General Fund support of \$5.3 million is a \$320,000 (or 6.5%) increase over the 2003-05 biennium level. This represents a \$430,000 (or 8.9%) increase over the amount in the Governor’s recommended budget. When anticipated funding from the Emergency Board for state employee compensation changes is added, General Fund support totals \$5.6 million, and the increase over 2003-05 expenditures is \$620,000 (or 12.5%). Combined limited funds support is 3.1% below the essential budget level.
- **Debt Service** – State-paid debt service payments have increased by \$8 million (or 27%) over the 2003-05 biennium level. The Governor’s budget covers \$1.7 million of this increase with bond proceed interest earnings. General Fund and Lottery Funds payments are therefore up \$6.3 million (or 21%) from the prior biennium level, to a total \$35.9 million.
- **Capital Construction** – The capital budget totals \$410.3 million, although this figure is lower than is eventually anticipated after Emergency Board actions, because a number of projects are included with limited expenditure limitations pending further Emergency Board review. The total is down from the \$446.1 million in the 2003-05 biennium. General Fund for capital construction, however, is increased by 28% to \$14.8 million. The budget also supports \$112.2 million of state-paid bonds for the projects. This is up more than three-fold from \$32.5 million in 2003-05. The total includes \$32.7 million of State Energy Loan Program (SELP) bonds. Campuses will pay approximately 40% of the debt service costs on the SELP bonds from energy savings – the remaining debt service will be paid by the General Fund. Most of the state-paid bonds are issued to address deferred maintenance and seismic issues. Debt service on these bonds that will be paid by the state will total an estimated \$15.7 million General/Lottery Funds per biennium when fully phased-in.

DHED – Education and General Services

	2001-2003 Actual	2003-05 Legislatively Approved	2005-07 Governor’s Recommended	2005-07 Legislatively Adopted
General Fund	617,384,612	543,205,078	548,907,205	565,051,859
Other Funds	706,688,179	990,707,996	1,021,127,987	1,031,588,659
Other Funds (NL)	919,862,621	1,100,746,105	1,282,909,697	1,275,061,427
Total Funds	\$2,243,935,412	\$2,634,659,179	\$2,852,944,889	\$2,871,701,945
Positions	10,265	11,299	10,609	11,141
FTE	8,356.50	9,259.80	8,612.29	9,144.29

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, and ends the prior practice of pooling tuition revenue among institutions. Institutions combine their tuition

revenue 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 approximately 76% 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 remaining 24% 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. There are 20 targeted programs that receive funding in the 2003-05 biennium. The largest are the funding for smaller campuses that is additional to the amount they receive for their enrollments (4.5% of total General Fund); Engineering program enhanced funding for projects identified by the Engineering Technology Industry Council (3.8%); and the Chancellor's Office (3.8%). General Fund for the Chancellor's Office and the centrally-administered Oregon Center for Advanced Technology Education (OCATE) had been originally approved at \$26.4 million for the 2003-05 biennium. After the 2003 session, however, the State Board of Higher Education substantially reduced the size and operational costs of the Chancellor's Office and Oregon Center for Advanced Technology Education. The Chancellor's Office budget was reduced by approximately \$6 million per biennium on an ongoing basis – a 23% reduction.

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

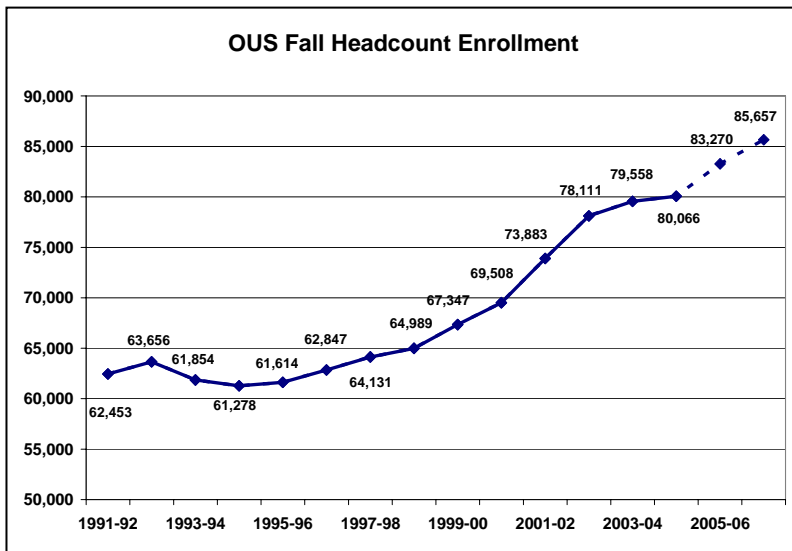
State support for the Department of Higher Education was reduced greatly after the passage of Measure 5 in 1990. The state met the requirements to support K-12 education by limiting funding for many programs, but OUS was particularly affected. State support for the Education and General Services program 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. The funds simply replaced increases in tuition that would have otherwise supported the current service level budget. The 1999-2001 budget also designated \$5 million for engineering education enhancements. But the remaining enhancements, totaling approximately \$86.4 million, were provided to be allocated through the then new Resource Allocation Model, and to support the implementation of that model.

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. Actual 2003-05 Other Funds revenues have fallen short of the amount in the legislatively adopted budget (LAB), because enrollments are lower than projected and because tuition rate increases were not as large as originally proposed. Actual OUS expenditures have been reduced even further from the 2003-05 LAB level than the lower-than-projected

revenues would even require, and indeed 2004-05 academic year expenditures of combined limited funds were actually below the prior year level. The 2003-05 LAB anticipated that OUS would spend all of its education and general revenues, plus an additional \$25.9 million of accumulated fund balances. Combined limited fund expenditures, though, are now projected to total \$44.1 million below budget. This exceeds the \$30.6 million revenue shortfall, so ending fund balances will be higher than budgeted.

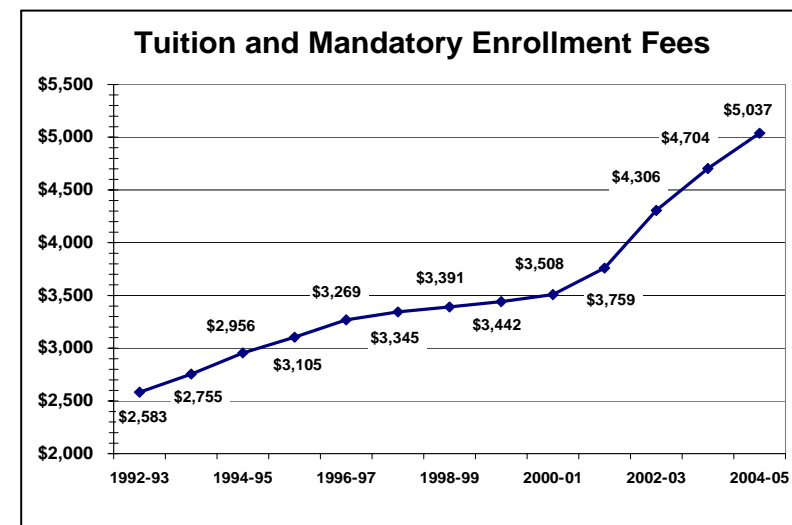
The RAM is designed to promote institutional effectiveness and entrepreneurship by tying financial resources more directly to the number of students served. Under the prior system, where most tuition revenues were pooled, an institution that successfully attracted additional students retained little additional revenue. In the RAM, the school retains all of this tuition, thereby increasing the financial reward of attracting students. The RAM also makes 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.



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. This year, enrollment is at record levels, exceeding not only the 1990-91 level (the last year prior to Measure 5), but also exceeding the all time record established back in 1980-81. This growth is occurring 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, has now 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. The two trends of larger high school graduating cohorts and high freshman participation rates are expected to continue. OUS projects enrollment growth to continue in each of the two years of the 2005-07 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.



Average mandatory enrollment fees for full-time resident undergraduate students is shown in the chart to the left. 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 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.

Legislatively Adopted Budget

The legislatively adopted budget's \$565.1 million of General Fund is a \$21.8 million (or 4%) increase over the 2003-05 biennium level. These changes reflect that the Legislature added a net \$16.1 million General Fund to the level proposed in the Governor's budget, a 2.9% increase. The Governor's budget had only increased General Fund support by 1% over the prior biennium level.

The funding level for Education and General Services incorporates the following principal changes from prior biennium program levels:

- General Fund distributions through the Resource Allocation model are reduced by a total of \$10.4 million. The components of this reduction include:
 - Chancellor's Office (-\$5.5 million, equal to the roll-up of 2003-05 biennium cuts)
 - Eliminate support for the Western Undergraduate Exchange program and for the fee remission equity program (-\$1.6 million)
 - Campus public service programs (-\$1,222,000)
 - Engineering Education (ETIC) (-\$663,000)
 - Systemwide expenses (-\$371,000)
 - Research support (-\$390,000)
 - Veterinary College expansion funding (-\$203,000)
 - Remaining reductions of less than \$200,000 each (-\$438,000)
- General Fund reductions other than to specific Resource Allocation Model programs, totaling \$11.3 million:
 - Reject restoration of \$5.1 million General Fund for IT purchases (-\$5.1 million)
 - Reduce 3% of the General Fund budget for services and supplies and capital outlay (-\$3.4 million)
 - Reductions in charges for Public Employees Retirement System contributions and state government service charges below the levels projected in the Governor's budget (-\$2.8 million)
- General Fund is added to support new or expanded activities. The six General Fund enhancements total \$27.4 million. They are:
 - Limit tuition and resource fee rate increases for resident undergraduate students to no more than an average 3% per year, without loss of revenue (\$17.25 million)
 - Undergraduate and Graduate "Cell Value" Enrollment Funding (\$6.05 million)
 - Faculty recruitment and retention funds (\$809,158)
 - Limited restoration of certain recent Chancellor's Office cuts (\$1.5 million)
 - Dispute resolution programs (\$1.5 million to repeal a scheduled sunset of the programs)
 - Oregon State University Natural Resources Institute (\$250,000)
- Other General Fund adjustments designed to distribute costs among fund types to reflect levels approved in the 2003-05 budget or to more accurately reflect projected costs. These adjustments sum to a reduction of

\$15.8 million General Fund and \$13.8 million Other Funds. These adjustments were entered into the budget as reductions from the essential budget level, but they are more properly viewed as technical corrections. Nonetheless, they could result in some program reductions because they would require OUS to use more of their Other Funds revenues for ongoing costs than they are currently using. As noted above, OUS has significantly reduced their Other Funds expenditures below 2003-05 LAB levels. The redistributions from General Fund to Other Funds are designed to maintain the fund split that was approved last session in the LAB, but it may require higher tuition rate increases (or lower program cuts) from the levels OUS originally requested.

- In addition to all of the above, the legislatively adopted budget also includes a \$2.1 million General Fund special purpose appropriation to the Emergency Board for a K-16 integrated student data system. The Governor had proposed appropriating General Fund for the integrated student data system directly to the Department. The Legislature reduced the total appropriation by \$95,000, removing funds for purchases of the system hardware and software that will reside at the campuses. The remaining funds were appropriated to the Emergency Board with the requirement that the Department report to the Joint Legislative Audit Committee on proposed performance measures for the integrated student data system prior to requesting an allocation of the appropriated funds. The Department, with the assistance of the Department of Education and the Department of Community Colleges and Workforce Development, will also report to the Emergency Board on the design, architecture, and total cost to complete the data system, and report on the timeline to completion and implementation, and the expected outcomes of system implementation. This \$2.1 million of General Fund is not included in the tables describing Department funding levels.
- The legislatively adopted budget also includes a special purpose appropriation to the Emergency Board for 2005-07 biennium state employee compensation changes. The Legislative Fiscal Office estimates that the Education and General Services Program will receive approximately \$24.3 million General Fund from the distribution of the \$130 million special purpose appropriation to the Emergency Board for 2005-07 state employee compensation adjustments. These funds, as with the K-16 student data funds described in the previous bullet, are not included in the table describing Department funding levels. This combined \$26.4 million from the two special purpose appropriations would be in addition to the \$565.1 million total General Fund appropriated directly to the Department during the legislative session. With these additional funds included, General Fund support totals \$591.4 million, and the increase over 2003-05 expenditures is \$48.2 million (or 8.9%).

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. Tuition and resource fee revenues are the primary sources of the limited Other Funds. The budget accommodates average tuition and fee rate increases of 3.5% in the first year, and 3.2% in the second year, of the biennium. Within these overall increases, the budget limits tuition and resource fee rate increases for resident undergraduate students to no more than an average 3% increase each year. Combined limited funds support for the Education and General Services Program is increased \$62.7 million (or 4.1%) over the level in the 2003-05 biennium budget. The increase, however, in **actual** expenditures is more than this, because actual 2003-05 biennium Other Funds expenditures were \$49.6 million less than were budgeted. The limited Other Funds increase in the Governor's budget for the 2005-07 biennium is, therefore, closer to \$112.3 million (or 7.6%) above the actual 2003-05 biennium expenditures. When anticipated funding from the Emergency Board for 2005-07 biennium state employee compensation changes and the K-16 student data system is added, the increase in combined limited funds in the Education and General Services program over 2003-05 actual expenditures is 11.4%.

The budget accommodates most, but not all, of the tuition and resource fee revenues that will be generated at forecast enrollment levels, if average tuition and resource fee rates are allowed to increase by 3.5% in the first year, and 3.2% in the second year, of the biennium. (Within these overall increases, the budget limits tuition and resource fee rate increases for resident undergraduate students to no more than an average 3% increase each year.) This rate increase will be significantly lower than recent tuition rate increases, including the average 7.1% rate increase imposed in Fall 2004. The Legislature added \$26.6 million to the Other Funds expenditure limitation to allow expected tuition and resource fee revenues to be spent to pay for compensation costs allowed under the essential budget level, with the expectation that the Emergency Board will approve an additional

\$31.1 million Other Funds expenditure limitation increase during the interim. This additional increase will allow all projected tuition revenues to also be used, to address 2005-07 state employee compensation changes.

The budget also includes \$7 million of Lottery Funds to expand the Oregon Nanoscience and Microtechnologies Institute (ONAMI). ONAMI is a collaborative effort to promote research that will have commercial value to the state's economy. These funds are **not** included in the Department's budget, however. Instead, they are included in the Oregon Economic and Community Development Department budget, although the funds will be distributed primarily to Oregon State University, the University of Oregon, and Portland State University (where they will be spent as Nonlimited Other Fund grants).

DHED – Fee Remissions

	2001-2003 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	89,590,000	0	0	0
Total Funds	\$89,590,000	\$0	\$0	\$0

Program Description

Fee remissions are tuition and fee reductions or waivers granted to students under a number of programs. They fall into two broad categories: Graduate and Programmatic. Graduate fee remissions are awarded as part of compensation to graduate students employed and teaching or research assistants. Programmatic fee remissions are typically (though not exclusively) awarded to undergraduate students and are awarded to achieve educational diversity, to provide need-based support, or to reward academic or athletic merit.

Prior to the 2001-03 biennium, fee remissions were considered a reduction in revenue and not an expense. There were no expenditures identified. In the 2001-03 biennium, fee remissions were accounted as an expense, rather than as a reduction in revenue. Beginning with the 2003-05 biennium, the treatment of fee remissions changed yet again (these changes were necessitated by changes in higher education accounting standards). In the 2003-05 budget, Programmatic fee remissions were again accounted as reductions in revenue. Graduate fee remissions continue to be identified as expenditures, but are included within the Other Funds expenditure limitation of the Education and General Services program area. Fee Remissions have been eliminated as a separate program area. In accordance with a recommendation of the Joint Legislative Audit Committee in December 2000 that the Department expand its reporting of tuition and fee remission policies to the Legislature, however, fee remissions will continue to be reported to the Legislature, including increases in fee remissions above the level in the legislatively adopted budget.

Budget Environment

Fee remissions have increased substantially in recent years. Programmatic fee remissions have increased 75% in the last five years to an estimated \$29.5 million per year, and are equal to about 9.7% of tuition revenue. Graduate fee remissions have increased 46% over the same period to approximately \$19.3 million per year. An estimated 17,000 students received Programmatic fee remissions, and an estimated 3,500 received Graduate fee remissions, in the 2002-03 academic year.

The 2003-05 legislatively adopted budget limited the level of fee remissions out of a concern that they were offsetting too much tuition revenue at a time when the budget was increasingly reliant on tuition revenue. The budget limited Programmatic fee remissions to no more than 8% of the tuition revenue. This was equivalent to \$65 million in Programmatic fee remissions for the 2003-05 biennium. Because actual tuition revenues are below budgeted expectations, OUS has limited Programmatic fee remissions to \$63.1 million this biennium to remain within the 8% cap. Many Programmatic fee remissions are offered on a multi-year basis, so campuses had to shift much of the fee remission reduction to the second year of the biennium. Programmatic fee remissions declined from \$34.7 million in 2003-04 to \$24.4 million in 2004-05. This decline was achieved through a severe reduction in new fee remission awards during the biennium.

Legislatively Adopted Budget

The Governor's budget proposed eliminating limits on Graduate fee remissions, and raising the limit on Programmatic fee remissions from 8% to 10% of tuition revenue in 2005-07, with the Programmatic fee remissions limitation eliminated entirely beginning in the 2007-09 biennium. The legislatively adopted budget repeals all limitations on fee remissions immediately, but instructs the Department of Higher Education to

direct additional fee remission authority available from the ending of the 8% fee remission cap on Programmatic fee remissions into fee remission programs that are need-based. The Department is also required to report to the Joint Legislative Audit Committee and Emergency Board, prior to November 2006, on the impacts of expanding Programmatic fee remissions beyond the limit of 8% of gross tuition revenues. This report shall include information on fee remission program awards for the 2005-06 and 2006-07 academic years, and shall include information on funding of need-based and merit-based fee remission programs, and on the impact of expanding fee remission programs on the enrollment of lower-income resident students.

DHED – Agricultural Experiment Station

	2001-2003 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	51,146,706	50,238,500	49,345,558	51,860,395
Other Funds	14,331,543	16,390,171	16,387,905	16,399,999
Other Funds (NL)	53,682,535	57,703,059	63,473,365	63,127,844
Total Funds	\$119,160,784	\$124,331,730	\$129,206,828	\$131,388,238
Positions	868	815	795	807
FTE	661.76	610.41	619.90	631.90

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 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 Experiment Station research in the 2003-05 biennium.

Budget Environment

In 1999, the Legislature approved an \$8.2 million expansion of the 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. Growth in Other Funds has more than offset this decline, yet cost increases have required the Station to eliminate 28 FTE.

Legislatively Adopted Budget

The legislatively adopted budget's \$51.9 million of General Fund is a \$1.6 million (or 3.2%) increase over the 2003-05 biennium level. These changes reflect that the Legislature added a net \$2.5 million General Fund to the level proposed in the Governor's budget, a 5.1% increase. The Governor's budget had actually reduced General Fund support by 1.8% from the prior biennium level. The net \$2.5 million General Fund addition to the Governor's budget contains the following elements:

- A General Fund increase of \$2.8 million and twelve positions (12.00 FTE) to partially offset a \$4.1 million General Fund reduction in the Governor's budget. The remaining reduction is unspecified, as it was in the Governor's budget, but includes both funding reductions, and the reallocation of costs between General and Other Funds to reflect the fund split approved in the 2003 Session or more appropriate fund splits for state government service charges.
- A General Fund increase of \$100,875 to support the recruitment and retention of highly qualified faculty. This is the Agricultural Experiment Station's portion of the \$1 million included in the Governor's budget for faculty recruitment and retention. The Governor's budget had provided the full \$1 million to the Education and General Services program, but the Legislature shifted a portion of this funding to each of the three statewide public service programs based on their proportionate share of total General Fund faculty salary costs.
- A \$300,091 General Fund reduction in charges for Public Employees Retirement System contributions and state government service charges below the levels projected in the Governor's budget.

- A \$85,947 General Fund reduction representing 3% of the General Fund budget for services and supplies and capital outlay.
- The Legislative Fiscal Office (LFO) estimates that the Agricultural Experiment Station will receive approximately \$2.6 million General Fund from the distribution of the \$130 million special purpose appropriation to the Emergency Board for 2005-07 state employee compensation adjustments. This \$2.6 million would be in addition to the \$51.9 million total appropriated during the legislative session. With these funds included, General Fund support totals \$54.5 million, and the increase over 2003-05 expenditures is \$4.2 million (or 8.4%).

Limited Other Funds expenditures are essentially flat at last biennium's level, and combined limited funds support is 1.7% below the essential budget level. The legislatively adopted budget shows a reduction of eight positions (1%) from the prior biennium level. This impact is not entirely the result of funding levels in the limited budget. Grant and contract funds are estimated to be \$1.55 million short of the need to fund essential budget level costs. This shortfall contributes to the expected staff reductions.

DHED – Extension Service

	2001-2003 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	35,323,279	35,123,305	34,898,665	37,194,367
Other Funds	24,525,111	27,177,395	22,904,908	22,838,785
Other Funds (NL)	8,728,504	7,746,780	7,845,090	7,698,032
Total Funds	\$68,576,894	\$70,047,480	\$65,648,663	\$67,731,184
Positions	670	682	578	589
FTE	469.99	464.28	407.46	418.46

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. The Extension Service will employ an estimated 46 fewer FTE during the 2003-05 biennium than its budget permitted.

Legislatively Adopted Budget

The legislatively adopted budget's \$37.2 million of General Fund is a \$2.1 million (or 5.9%) increase over the 2003-05 biennium level. These changes reflect that the Legislature added a net \$2.3 million General Fund to the level proposed in the Governor's budget, a 6.6% increase. The Governor's budget had actually reduced General Fund support by 0.6% from the prior biennium level. The net \$2.3 million General Fund addition to the Governor's budget contains the following elements:

- A General Fund increase of \$2.45 million and eleven positions (11.00 FTE) to partially offset a \$2.8 million General Fund reduction in the Governor’s budget. The remaining reduction is unspecified, as it was in the Governor’s budget, but includes both funding reductions, and the reallocation of costs between General and Other Funds to reflect the fund split approved in the 2003 Session or more appropriate fund splits for state government service charges.
- A General Fund increase of \$80,561 to support the recruitment and retention of highly qualified faculty. This is the Extension Service’s portion of the \$1 million included in the Governor’s budget for faculty recruitment and retention. The Governor’s budget had provided the full \$1 million to the Education and General Services program, but the Legislature shifted a portion of this funding to each of the three statewide public service programs based on their proportionate share of total General Fund faculty salary costs.
- A \$231,944 General Fund reduction in charges for Public Employees Retirement System contributions and state government service charges below the levels projected in the Governor’s budget.
- A \$2,915 General Fund reduction representing 3% of the General Fund budget for services and supplies and capital outlay.
- LFO estimates that the Extension Service will receive approximately \$1.9 million General Fund from the distribution of the \$130 million special purpose appropriation to the Emergency Board for 2005-07 state employee compensation adjustments. This \$1.9 million would be in addition to the \$37.2 million total appropriated during the legislative session. With these funds included, General Fund support totals \$39.1 million, and the increase over 2003-05 expenditures is \$4 million (or 11.3%).

Limited Other Funds expenditures are down 16% from last biennium’s level, resulting in combined limited funds support that is 3.4% below the essential budget level. Limited Other Funds are being reduced from earlier and unsustainable levels, that had been supported by one-time reductions in fund balances. The legislatively adopted budget shows a reduction of 93 positions (13.6%) from the prior biennium level. The Department reports that Oregon State University will have to eliminate some faculty positions that are partly supported with Extension Service funds. Reductions will be implemented in Agriculture and Forestry programs, in family and community development programming, and in 4-H program and Sea Grant program activities.

DHED – Forest Research Laboratory

	2001-2003 Actual	2003-05 Legislatively Approved	2005-07 Governor’s Recommended	2005-07 Legislatively Adopted
General Fund	5,025,056	4,938,639	4,827,897	5,258,370
Other Funds	7,891,903	9,757,876	9,791,989	9,760,398
Other Funds (NL)	22,568,480	21,833,249	20,941,905	20,820,807
Total Funds	\$35,485,439	\$36,529,764	\$35,561,791	\$35,839,575
Positions	266	246	251	271
FTE	206.92	196.77	199.16	219.16

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 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 \$21 million of the 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%. Since then, General Fund support has remained essentially flat at around \$5 million. The General Fund appropriation has therefore not kept pace with cost increases. The combined limited funds budget has grown by about 31% over this period, however. This, along with slowly increasing grant and contract funds (Nonlimited in the state budget), has allowed the Laboratory to increase program activity and staffing in comparison to the 1999-2001 levels.

Legislatively Adopted Budget

The legislatively adopted budget's \$5.3 million of General Fund is a \$320,000 (or 6.5%) increase over the 2003-05 biennium level. These changes reflect that the Legislature added a net \$430,000 General Fund to the level proposed in the Governor's budget, an 8.9% increase. The Governor's budget had actually reduced General Fund support by 2.2% from the prior biennium level. The net \$430,473 General Fund addition to the Governor's budget contains the following elements:

- A General Fund increase of \$450,000 and one position (1.00 FTE) to offset a \$453,196 General Fund reduction in the Governor's budget. The remaining funding reallocates costs between General and Other Funds to reflect the fund split approved in the 2003 Session and more appropriate fund splits for state government service charges.
- A General Fund increase of \$9,406 to support the recruitment and retention of highly qualified faculty. This is the Forest Research Laboratory's portion of the \$1 million included in the Governor's budget for faculty recruitment and retention. The Governor's budget had provided the full \$1 million to the Education and General Services program, but the Legislature shifted a portion of this funding to each of the three statewide public service programs based on their proportionate share of total General Fund faculty salary costs.
- A \$28,933 General Fund reduction in charges for Public Employees Retirement System contributions and state government service charges below the levels projected in the Governor's budget.
- LFO estimates that the Forest Research Laboratory will receive approximately \$300,000 General Fund from the distribution of the \$130 million special purpose appropriation to the Emergency Board for 2005-07 state employee compensation adjustments. This \$300,000 would be in addition to the \$5.3 million total appropriated during the legislative session. With these funds included, General Fund support totals \$5.6 million, and the increase over 2003-05 expenditures is \$620,000 (or 12.5%).

Limited Other Funds expenditures are essentially flat at last biennium's level, leaving combined limited funds support up 2.2% over the prior biennium level. The legislatively adopted budget shows an increase of 25 positions (10%) over the prior biennium level, but funding will not actually support such an increase. The reason is partly due to declines in restricted (i.e., Nonlimited) funding that will contribute to expected staff reductions.

DHED – Sports Action Lottery

	2001-2003 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Lottery Funds	4,400,753	4,902,324	5,561,871	5,744,213
Total Funds	\$4,400,753	\$4,902,324	\$5,561,871	\$5,744,213

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.

Revenue Sources and Relationships

All revenue is from proceeds of the Sports Action lottery games.

Budget Environment

The expectations, during the 2001 session, of a large increase in Sports Action lottery game revenue in the 2001-03 biennium, did not materialize. Revenue increased to \$4.87 million and not the \$5.4 million projected. Revenues since then have held fairly steady at around \$5 million per biennium. The Sports Action lottery, along with other non-video lottery games, is under pressure from both the Lottery's own video games and other competitors such as Indian gaming. The National Collegiate Athletic Association refuses to hold most college sports tournaments in the state, in protest of the Sports Action lottery games.

Legislatively Adopted Budget

The expenditure limitation for the Sports Action lottery is typically set equal to the projected revenue. This time, however, the budget includes expenditures above the level of revenues. The chosen expenditure level will 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 will exceed the prior biennium level by 17.2%.

The Legislature also passed HB 3466, which abolishes the Sports Action lottery games on July 1, 2007. This abolition will have no effect on the 2005-07 budget, but beginning in 2007-09, HB 3466 dedicates 1% of net lottery receipts to the Department's Sports Action program area, *in lieu* of Sports Action lottery game revenues. The 1% of net lottery receipts exceeds the funding that is available from the Sports Action lottery games. The impact of HB 3466 is projected to increase program revenues in the 2007-09 biennium by approximately \$4.5 million over the level they would be without this law.

DHED – Debt Service

	2001-2003 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	21,217,880	26,406,270	30,275,204	30,275,204
Lottery Funds	468,992	3,221,138	6,436,863	5,673,311
Other Funds (NL)	76,992,312	89,444,226	104,441,450	104,289,912
Total Funds	\$98,679,184	\$119,071,634	\$141,153,517	\$140,238,427

Program Description

This program reflects debt service expenditures for capital construction projects financed by bonds. 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.

Budget Environment

Debt service is a fixed cost that must be paid to avoid defaulting on the bonds. The General Fund portion is the debt service payment on Article XI-G bonds. 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 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.

Legislatively Adopted Budget

State-paid (General Fund plus Lottery Funds) debt service costs are budgeted for a total \$36.7 million, a \$7.1 million (or 24%) increase over the 2003-05 biennium level. This reflects debt service added for approximately \$32.5 million of new Article XI-G and Lottery bonds approved during the 2003-05 biennium for capital construction projects, plus the issuance of some bonds that had been approved in earlier biennia but which did not incur a full 24 months of debt service in the 2003-05 biennium. The actual cost to service this debt is \$38.4 million, up 30% from the prior biennium. The budget substitutes \$1.7 million of Other Funds Nonlimited interest earnings for General Fund, however, and thereby reduces the General Fund needed.

Including this fund transfer, total Nonlimited Other Funds payments of \$104.4 million are included, a 17% increase from the prior biennium to support additional Article XI-F(1) bond and COP debt. Debt service payments for any capital construction projects approved for the 2005-07 biennium (see next section) will not appear in the agency's budget until the 2007-09 biennium.

DHED – Capital Construction

	2001-2003 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	15,916,477	11,519,853	17,196,329	14,796,329
Other Funds	449,906,858	436,238,120	338,174,058	395,522,060
Total Funds	\$465,823,335	\$447,757,973	\$355,370,387	\$410,318,389

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

Traditionally, 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. More recently, these facilities have been generally financed 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, Article XI-F(1) bonds have been used for instructional buildings (the new Law Center at the University of Oregon, the Fourth Avenue Building at Portland State University are examples). Deferred maintenance (academic modernization and repair) – which does not include construction or major renovation projects – is also financed in the Capital Construction budget.

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 \$400 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 \$103 million of state-paid bonds (Article XI-G and Lottery Bonds) to finance new capital projects on a number of campuses. 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. 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.

Legislatively Adopted Budget

The legislatively adopted budget supports 46 specified capital construction projects, and includes general support for deferred maintenance and small projects. Six of the 46 specified projects are provided only \$1 expenditure limitations, thus requiring further Emergency Board review 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 significant of these six is the New Steam Plant/Utility Switch Construction at Oregon State University. Expenditure limitation for this project was reduced from the \$55 million in the Governor's budget to four \$1 limitations when it became clear that the funding plan contained in the Governor's recommended budget might not be possible. The Emergency Board will increase this expenditure limitation back up to the \$55 million in the Governor's budget after the financing plan becomes known. This is a very high priority project in the budget, as the University's existing utility plant is unable to provide sufficient heating under cold winter conditions.

Expenditures approved for capital construction projects total \$410.3 million (or \$465.3 million including anticipated expenditures for the OSU New Steam Plant). This includes a total of \$14.8 million General Fund. The General Fund includes \$11.8 million for deferred maintenance projects, and \$3 million for Southern Oregon University for a joint instructional facility with Rogue Community College in Medford. The Medford facility received approval for a total of \$11.1 million in the Department of Higher Education budget, and \$8.2 million in the Department of Community Colleges and Workforce Development budget.

The budget also authorizes \$272.6 million in bonds for Department projects. These bonds can broadly be categorized into two groups: state-supported debt and self-supported debt. State-supported debt is repaid with state discretionary funds, including General Fund and Lottery Funds. The budget authorizes \$275.7 million in bonds, including \$112.2 million of state-supported debt. The remaining \$160.4 million of debt is self-supported debt (Article XI-F(1) bond) paid by student building fees and Oregon University System auxiliary enterprise income. The \$100.2 million of state-paid bonds (or \$112.2 million including bonds for the OSU New Steam Plant) is a 208% increase (or a 245% increase including the OSU Steam Plant) over the prior biennium level, and comparable to the \$103 million approved in 2001-03. The remainder of the capital construction budget is financed by donations, grants, or other cash.

Debt service on the state-paid bonds will total an estimated \$18.2 million General/Lottery Funds per biennium when these costs are fully phased-in. The \$112.2 million of state-paid bonds includes \$48 million of Article XI-G bonds and \$19.4 million of Lottery Bonds. State Energy Loan Program (SELP) bonds are also used as a financing mechanism for the first time. A total of \$32.7 million of SELP bonds are included in the \$112.2 million total. These SELP bonds are general obligation bonds. The debt service on them is paid with General Fund. SELP bonds are used for projects that produce an energy savings. Campus budgets would contribute to pay a portion of the debt service costs with their realized energy savings. This portion will total an estimated \$2.5 million per biennium. Thus, although there is a total of \$18.2 million of debt service costs incurred through state-paid bonds, only an additional \$15.7 million per biennium will need to be financed after energy cost savings are applied toward debt service.

A list of approved capital construction projects and their financing is included in the table on the next page.

2005-07 Department of Higher Education Capital Construction Budget

Project list							Total Funds
	General Fund	Art. XI-G Bonds	Lottery Bonds	Energy Loans	Art. XI-F Bonds	Other Funds	
Department of Higher Education							
System							
- Capital Repair/Code Compliance	11,796,329	\$ 11,796,329	\$ --	\$ --	20,000,000	\$ 10,000,000	\$ 53,592,658
- Small Capital Projects	--	--	--	--	6,000,000	6,000,000	12,000,000
- Miscellaneous Student Building Fee Projects	--	--	--	--	3,000,000	--	3,000,000
Western Oregon University							
- Deferred Maintenance Tier 1, Physical Plant	--	--	2,538,000	1,552,000	--	--	4,090,000
- Deferred maintenance, Humanities and Social Sciences Building	--	--	--	--	--	1,500,000	1,500,000
Eastern Oregon University							
- Deferred Maintenance Tier 1, Central Heating Plant	--	--	--	3,044,000	--	--	3,044,000
Portland State University							
- Retail Development Various Locations	--	--	--	--	5,000,000	--	5,000,000
- University Place Redevelopment Phase 1	--	--	--	--	1	--	1
- Parking Structure Construction	--	--	--	--	30,000,000	--	30,000,000
- Student Recreation/Fitness Center and Housing	--	--	--	--	42,000,000	--	42,000,000
- Smith Memorial Student Union Renovation	--	--	--	--	1,500,000	--	1,500,000
- City Tower Building Acquisition	--	--	--	--	--	1	1
- Deferred Maintenance Tier 1, Heating Plant	--	--	32,000	5,498,000	--	2,570,000	8,100,000
- Deferred Maintenance Tier 2, Shattuck Hall	--	--	7,312,000	6,383,000	--	--	13,695,000
University of Oregon							
- Outside Tennis Courts Replacement	--	--	--	--	850,000	950,000	1,800,000
- Earl Residence Hall Complex Accessibility Upgrade	--	--	--	--	750,000	--	750,000
- Food Service Upgrade	--	--	--	--	3,500,000	--	3,500,000
- Erb Memorial Union, International Area Renovation	--	--	--	--	500,000	634,000	1,134,000
- Basketball Arena, land acquisition, parking structure	--	--	--	--	1	1	2
- New Education Building and Education Complex	--	19,400,000	--	400,000	4,300,000	24,000,000	48,100,000
- Deferred Maintenance Tier 1, Heating/Power Plant	--	--	174,000	13,049,000	--	--	13,223,000
- Living Learning Center	--	--	--	--	3,000,000	--	3,000,000
- Theater Complex	--	3,950,000	--	--	--	3,950,000	7,900,000
- Gilbert Hall	--	3,300,000	--	--	--	3,300,000	6,600,000
Oregon State University							
- Cauthorn Hall Housing Remodel	--	--	--	--	10,500,000	--	10,500,000
- Student Family Housing & Childcare Center. Construction	--	--	--	--	--	17,500,000	17,500,000
- Student Housing Suites & Apartments Construction	--	--	--	--	--	17,500,000	17,500,000
- Residential Infrastructure deferred maintenance	--	--	--	--	3,000,000	--	3,000,000
- Arnold Dining Center remodel	--	--	--	--	1,000,000	--	1,000,000
- Finley Hall remodel	--	--	--	--	12,500,000	--	12,500,000
- Memorial Union Phase 3 Renovation	--	--	--	--	--	7,500,000	7,500,000
- New Steam Plant/Utility Switch Construction	--	1	--	1	1	1	4
- Research Park Multi-tenant #1 and #2	--	--	--	--	--	1	1
- Our Little Village Child Care Center	--	--	--	--	2,200,000	--	2,200,000
- Deferred Maintenance Tier 2, Education Hall	--	--	7,152,000	1,355,000	--	--	8,507,000
- Apperson Hall	--	--	--	--	--	10,000,000	10,000,000
- Reser Stadium and Parking Addition	--	--	--	--	4,000,000	--	4,000,000
- Vet Medicine, Large Animal Hospital	--	--	--	--	--	12,000,000	12,000,000
- Deferred maintenance, Nash Hall	--	--	--	--	--	2,000,000	2,000,000
- Animal sciences education and research pavilion	--	4,000,000	--	--	--	4,000,000	8,000,000
- Nash Chiller (Transfers existing limitation - net \$0)	--	--	--	--	--	--	--
Southern Oregon University							
- Jefferson Public Radio Equipment	--	--	--	--	--	500,000	500,000
- Land Acquisition	--	--	--	--	1	--	1
- Theatre Arts Expansion and Remodel	--	--	--	--	--	4,200,000	4,200,000
- Stevenson Union Addition Remodel	--	--	--	--	1,500,000	--	1,500,000
- Medford Instructional Facility w/ Rogue Community College	3,000,000	5,550,000	--	--	--	2,550,000	11,100,000
- Deferred Maintenance Tier 1, Central Heating Plant	--	--	881,000	363,000	--	--	1,244,000
Oregon Institute of Technology							
- Student Housing Project Construction	--	--	--	--	1	--	1
- Deferred Maintenance Tier 1, Facilities Services	--	--	579,000	549,000	--	--	1,128,000
- Deferred Maintenance Tier 2, Snell Hall	--	--	762,000	532,000	--	550,000	1,844,000
Project Reserves	--	--	--	--	5,334,000	3,732,720	9,066,720
Total Department of Higher Education	14,796,329	\$ 47,996,330	\$ 19,430,000	\$ 32,725,001	\$ 160,434,005	\$ 134,936,724	\$ 410,318,389

The budget approved a number requests for capital projects requiring Article XI-G bonds, where a university had already accepted donations to be used as the required matching funds for the Article XI-G bonds. The Legislature found it in the public interest, however, that the Department of Higher Education not solicit or accept donations for any capital construction project that requires Article XI-G bond proceeds to be completed, prior to obtaining authorization in law for Article XI-G bond proceeds to be expended on that project. The budget requires the Department to report to the Emergency Board this interim on anticipated capital construction projects that are likely to require Article XI-G bond proceeds, and to identify those projects for which an Oregon University System campus has solicited or accepted pledges or contributions or expects to do so. Beginning with projects to be authorized in the 2009-11 biennium budget, the Department must obtain authorization for Article XI-G bond proceeds for the projects from the Legislature prior to seeking or accepting donations for them.

DHED – Other Services (Nonlimited)

	2001-2003 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds (NL)	648,211,543	809,812,489	946,007,820	945,938,615
Total Funds	\$648,211,543	\$809,812,489	\$946,007,820	\$945,938,615
Positions	1,661	1,739	1,649	1,649
FTE	1,460.73	1,530.00	1,462.71	1,462.71

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 49% 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.

Legislatively Adopted Budget

The legislatively adopted budget anticipates an Other Services (Nonlimited) expenditures increase of 41% over the level adopted in the 2003 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 budget also shifts approximately \$6 million of charges for debt service on the state's Pension Obligation Bond to the Other Services (Nonlimited) program area.

Oregon Student Assistance Commission (OSAC) – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	35,812,991	44,845,597	94,812,378	76,824,638
Lottery Funds	1,648,271	647,977	761,190	1,527,619
Other Funds	15,681,134	15,343,263	3,888,998	3,562,481
Federal Funds	1,097,891	1,239,605	2,103,860	2,103,860
Other Funds (NL)	58,471,638	54,174,750	9,014,812	9,014,812
Total Funds	\$112,711,925	\$116,251,192	\$110,581,238	\$93,033,410
Positions	93	87	26	23
FTE	91.72	87.00	26.00	22.35

Agency Overview

The Oregon Student Assistance Commission (OSAC) administers financial aid programs designed to assist students in obtaining post-secondary education in Oregon. The Commission has administered both grant and loan programs. Within this mission, the agency's activities could be categorized into four broad but quite distinct functions. The agency: 1) administers state-funded student aid programs; 2) administered the federal student loan guarantee (FFELP) program in Oregon and a number of other small federal programs; 3) administers a large number of private scholarships for donors who have contracted with the Commission to provide this service; and 4) houses the Office of Degree Authorization. The administrative costs associated with these programs are financed from the same fund sources as the programs themselves. Thus, the state provides General Fund to the Commission to administer the state-funded programs, the federal government and fees (both identified as Other Funds in the budget) provide funds to administer the loan guarantee programs, private donors provide Other Funds to administer the Private Awards program, and both General Fund and fees finance the Office of Degree Authorization. Many agency costs are paid by a combination of General Fund and Other Funds. The Other Funds primarily consist of revenues generated by the agency's participation in the federal student loan guarantee program. The state budget relies on Other Funds to cover a portion of the shared costs.

During the 2003-05 biennium, OSAC withdrew from administration of the federal student loan guarantee (FFELP) program. The agency had been unable to financially compete with other guarantor services, and was unable to recover its costs of participating in FFELP. Post-secondary institutions and students in Oregon will continue to have access to the federal student loan program through these alternative guarantors. For the agency and for the state budget, however, OSAC's withdrawal from FFELP has major consequences. Most of the agency's personnel and budget supported the FFELP program. OSAC's withdrawal from that program required the agency to be reorganized and drastically downsized. The Commission's remaining functions are to administer the Opportunity Grant and other state financial aid programs, and to administer the Private Award and ASPIRE programs and the Office of Degree Authorization.

Approximately 97% of the agency's budgeted state funds (General Fund and Lottery Funds) are paid out to students through the Oregon Opportunity Grant, a program that awards need-based grants to students attending Oregon post-secondary institutions. The remaining state funds are used for three small programs that fund student expenses, and to cover the Commission's administrative costs relating to its General Fund-supported programs.

The Commission also operates the Private Award program. This program had centrally administered over 250 privately funded scholarship programs, with awards projected to total \$21.5 million in the 2003-05 biennium. The program's largest donor (the Ford Family Foundation), however, is withdrawing. The Foundation will self-administer its scholarship program instead.

The Office of Degree Authorization (ODA) is responsible for enforcing certain regulations relating to post-secondary education. ODA responsibilities include authorizing private institutions' degree programs and reviewing the postsecondary programs of public institutions to avoid detrimental duplication.

Revenue Sources and Relationships

The Commission began receiving Lottery Funds in the 1999-2001 biennium. One-quarter of the earnings of the Education Endowment Fund (now renamed the Education Stability Fund) were continuously appropriated to the Commission for Opportunity Grants. All of the Commission's Federal Funds are also used for Opportunity Grants.

Most of the Other Funds revenue was received under the federal loan guarantee program. The Commission received Other Funds revenue from loan processing fees; federal reimbursements for defaulted loans that the Commission purchases from lenders; retained receipts from collections on defaulted loans; federal reimbursements for certain operating expenses; interest on accumulated loan program revenues; private award donations and charges for administering privately funded scholarship programs; and fees for reviewing degrees from private post-secondary institutions. Other Funds payments for administrative expenses (personnel costs, services and supplies) are limited in the budget. Other Funds payments for student aid (e.g., Private Award payments, JOBS Plus payments) are Nonlimited.

Budget Environment

In 1997, the Legislature made a major change in Opportunity Grant funding. The state constitution dedicated 15% (since increased to 18%) of net lottery proceeds to the Education Endowment Fund. The Fund's principal cannot be spent but the investment earnings of the Fund can be. In 1997, the Legislature dedicated 25% of these earnings to the Opportunity Grant program. The 1999-2001 biennium was the first where the Commission spent funds from this source. All Lottery Funds in the budget are from this source.

In 2001, the Legislature increased Opportunity Grant funding by 20% over the prior biennium level. This large increase was designed to address the increasing demand for grants that resulted from rising college costs and increasing college participation rates among lower-income students. But, during the course of the five 2002 special sessions, the Legislature reduced Opportunity Grant support by \$5.1 million General and Lottery Funds.

In recent years, only 66-70% of the students eligible for the Opportunity Grant under the criteria established by the Commission were able to receive awards. The remaining students, although eligible, received no awards due to insufficient funding. The determining factor was the student's application date for aid. Late applicants, though otherwise eligible, did not receive awards.

The Legislature and the people approved changes to the Education Endowment Fund during the 2001 session and the interim following that session. These changes reduced the availability of Lottery Funds for the Opportunity Grant program. The Legislature referred and the voters passed a ballot measure (Measure 19) that changed the Education Endowment Fund to an Education Stability Fund, and that withdrew \$150 million to offset reductions in funding to K-12 education that were taken to address the state General Fund shortfall. In the 2003 session, the Legislature transferred an additional \$122 million from the Education Stability Fund to K-12. The effect of these actions eliminated most of the anticipated 2003-05 biennium Lottery Fund revenue to the Commission, leaving only about \$650,000. Over the long term, Lottery Funds for the Commission budget will continue to increase if the Education Stability Fund balance grows over time, and will exceed \$1.5 million in the 2005-07 biennium.

Legislatively Adopted Budget

The Legislature adopted major changes to the Commission's budget. Most of these changes result from a large increase in the level of state student aid support, or from the agency's withdrawal from the federal student loan guarantee program (FFELP). As a result, it is helpful to segregate the budget adjustments into three broad categories: Opportunity Grant Funding Increase, Withdrawal from Loan Guarantee Program, and Other Adjustments. The Other Adjustments category includes both the changes needed to continue funding existing activities in the 2005-07 biennium (essential budget level adjustments) and program changes that are independent of the changes in the Opportunity Grant and FFELP.

Opportunity Grant Funding Increase – The budget increases state support for the Opportunity Grant program from the 2003-05 biennium level, and broadly expands the number of students who will receive Opportunity Grant awards. State funding of Opportunity Grants is increased to \$75.7 million, an increase of \$31.7 million (or 72%) from the 2003-05 biennium level. Although this greatly increases Opportunity Grant activity, the award process incurs little administrative cost to the agency, and the budget does not provide any increased funding

for administration of the Opportunity Grant program. The increased support will allow all eligible students to be funded, and will expand eligibility to part-time students for the first time.

Withdrawal from Loan Guarantee Program – The budget eliminates expenditure of approximately \$12.2 million Other Funds, and 64 agency positions (64.65 FTE, or 74%, of the agency’s existing approved positions) for administration of the loan guarantee program, and the expenditure of \$41 million of Nonlimited Other Funds representing the non-administrative expenditures of the loan program (such as the purchases of defaulted loans from lenders, transfer of loan recoveries to the federal government, etc.). The budget shifts some expenditures formerly financed by FFELP program (Other Funds) proceeds to the General Fund. This lowers the reduction in administrative expenditures below the \$12.2 million level, and prevents additional reductions in staff levels beyond the 64-position cut. Approximately \$0.7 million of General Fund is added to finance expenditures previously financed by the loan program. This reduces the net reduction in administrative reductions to \$11.5 million on an ongoing basis, and increases General Fund support for agency administrative costs by 89% over the prior biennium level.

Other Adjustments – ASPIRE program expenditures are expanded by \$313,000 Other Funds to adjust to current program activity levels. The Private Awards program is reduced by \$11.8 million Nonlimited Other Funds to reflect the withdrawal of the primary donor from that program. Numerous essential budget level adjustments are included as well.

A summary of General Fund and Lottery Funds in the agency budget appears below:

State Support (General Fund + Lottery Funds)			
	<u>2003-05 LAB</u>	<u>2005-07 LAB</u>	<u>Change</u>
Opportunity Grant	\$44,031,287	\$75,732,121	72.0%
Rural Health Services Program	434,208	444,629	2.4%
Nursing Services Program	156,372	358,650	129.4%
Oregon Troops to Teachers	0	165,000	N/A
Agency Operations	871,707	1,651,857	89.5%
Total State Support	\$45,493,574	\$78,352,257	72.2%

OSAC – Administration Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor’s Recommended	2005-07 Legislatively Adopted
General Fund	214,950	163,569	977,194	763,263
Other Funds	1,538,127	1,797,196	0	0
Total Funds	\$1,753,077	\$1,960,765	\$977,194	\$763,263
Positions	9	11	4	4
FTE	9.00	11.00	4.00	4.00

Program Description

The Administration Division is responsible for overall administration of the agency, including policy planning, budgeting, fiscal control, and personnel management. The Division’s responsibilities also include evaluating agency functions, providing public information and education concerning student financial aid programs, and administering the Oregon Scholars Program, which recognizes outstanding scholastic achievement of high school students. Not all of the agency’s administrative costs are funded in this division. Administrative costs appear in all of the agency’s program areas.

Revenue Sources and Relationships

The Commission used Other Funds to pay for the portion of the Administration Division’s costs that are allocated to support the Other Funds-funded programs. These Other Funds included monies the Commission received in the Loan Program from borrowers and the federal government, as well as interest earnings from the FFELP Fund. Other Funds were also collected as charges for administering Private Award programs.

Legislatively Adopted Budget

The legislatively adopted budget reduces total Administration Division expenditures by \$1.2 million (or 61%) from the prior biennium level, and eliminates seven of the Division's eleven positions.

After a review of the fiscal impact of the withdrawal from FFELP on Administration Division expenditures, the Legislature reduced General Fund by \$204,988 from the level in the Governor's budget. The budget eliminates \$1,656,820 of Other Funds expenditures that had been supported with loan program proceeds in the prior biennium. Offsetting this reduction is a \$574,918 fund shift to (i.e., increase in) General Fund, resulting in a net budget reduction of \$1,081,902. Seven of the Division's eleven employee positions, including the vacant deputy director position, were eliminated. The additional General Fund will allow four employees to continue – the agency director, and executive assistant, a fiscal analyst, and an accounting technician – and will finance services and supplies costs.

The agency also faced potential liabilities to the federal government, that totaled approximately \$4 million, relating to its participation in the FFELP program. The State was able, through negotiations with the Federal government, to get these liabilities dismissed. The budget therefore does not include funds to pay for any of the potential liabilities.

OSAC – Grants and Scholarships

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	35,129,839	44,341,268	92,906,428	75,612,213
Lottery Funds	1,648,271	647,977	761,190	1,527,619
Other Funds	2,775,807	3,014,258	3,467,649	2,963,211
Federal Funds	1,097,891	1,239,605	2,103,860	2,103,860
Other Funds (NL)	17,532,196	20,914,770	9,014,812	9,014,812
Total Funds	\$58,184,004	\$70,157,878	\$108,253,939	\$91,221,715
Positions	15	18	17	14
FTE	14.72	18.00	17.00	13.35

Program Description

The Grants and Scholarships Division administers a number of programs. The largest of these is the state-funded (and federally supplemented) Opportunity Grant. The Opportunity Grant is a program that awards need-based grants to assist students attending Oregon public and private non-profit colleges and universities, and Oregon community colleges. Approximately 19,000 students received an Opportunity Grant each year during the 2003-05 biennium.

The Division administers two small state-funded grant programs as well. These are: a) the Rural Health Services Program, which pays the education loans of health care professionals who practice in qualifying rural health care shortage areas; and b) the Nursing Services program, which repays the student loans of nurses who serve in designated rural areas with nursing shortages. In 2005, the Legislature established an additional state-funded grant program – the Oregon Troops to Teachers program. This program pays all resident tuition charges at a public post-secondary institution for Oregon veterans who, after discharge from the Armed Forces, agree to teach for at least three years in a school district or charter school serving a high poverty area, or who agree to teach mathematics, science, or special education for at least four years.

The Division also operates the Private Award program. The Commission acts as a clearinghouse for the administration of over 250 privately funded scholarship programs. This program had been highly successful and rapidly growing. The largest donor in the program has withdrawn, however. The Private Award program assumes administrative responsibilities for donors awarding scholarships, and enables students to submit a single application for consideration in up to twelve programs.

Revenue Sources and Relationships

The largest source of Other Funds is donations received in the Private Award program. The budget does not limit the disbursements of Private Award grants, although total charges for administering these programs are subject to limitation.

Federal Funds are from the Leveraging Educational Assistance Partnership (LEAP) and Special Leveraging Educational Assistance Partnership (SLEAP) programs. LEAP and SLEAP funds are combined with the much larger state contribution to fund the Opportunity Grant. These programs require the state to provide matching funds and not reduce support levels for the Opportunity Grant to receive maximum funding. Because maintenance of effort requirements for state support for the Opportunity Grant were not met during the recent General Fund shortfall, Federal Funds equaled \$1.2 million during the 2003-05 biennium – about \$650,000 less than what would be received if the state maintained Opportunity Grant funding at 2001-02 fiscal year levels.

In 1997, the Legislature made a major change in Opportunity Grant funding when it dedicated 25% of the earnings of the Education Endowment Fund to the Opportunity Grant program. The Education Endowment Fund (now named the Education Stability Fund) is constitutionally funded by 18% of net lottery proceeds. The 1999-2001 biennium was the first where funds from this source were available to the Commission. All Lottery Funds in the budget are from this source.

Budget Environment

In recent years, significant numbers of students who have been eligible to receive an Opportunity Grant have not been awarded any funds. The Commission has approved eligibility standards and award levels that cannot be financed given the amount of Opportunity Grant funds available. Because of this, the Commission sets an application cutoff date each year. Students who do not finalize their plans until later, or who do not apply by the cutoff date for other reasons, do not receive an Opportunity Grant award. Approximately 66-70% of eligible students have received awards recently before funding is cut off. This practice had most severely affected community college students who often do not register for classes until shortly before the term begins. Most of the unserved students were community college students. In 1999, the Legislature directed the Commission to revise its administration of the Opportunity Grant so that community college students would not be disproportionately affected by fund limitations. The Commission responded by setting a separate cutoff date for community college applicants that was later than the cutoff date for students at four-year institutions.

The Legislature increased funding for the Opportunity Grant by 19% (to \$44.1 million) in the 2001 session to address these issues. Funding needed to be reduced during the interim, however, to help address the state's General Fund shortfall. The Legislature avoided any General Fund reduction in Opportunity Grant funding at first, although Lottery Funds for the program were reduced \$2.2 million because of a fall in earnings from the Education Endowment Fund as interest rates declined. As the state's budget situation further deteriorated, the Legislature eventually reduced General Fund support for the program in the 2002 fifth special session. These actions, along with a further allotment reduction by the Governor to prevent a deficit, reduced Opportunity Grant support by \$5.4 million (or 12.8%) from the level originally approved during the 2001 regular session. The Legislature protected Opportunity Grant support, even as it struggled with a large potential General Fund budget deficit in the 2003-05 biennium. The 2003-05 biennium budget included \$44 million for Opportunity Grants, a level that exceeded the 2001-03 level (after reductions) by 21%, and that basically matched the original 2001-03 biennium funding level.

Legislatively Adopted Budget

The budget increases total Grants and Scholarships Division expenditures by \$21.1 million (or 30%) over the prior biennium level, and increases General Fund support by \$31.3 million (or 70.5%) over the same period. Four positions (4.65 FTE) are eliminated. These changes represent the combined impacts of expanding the Opportunity Grant, withdrawing from FFELP, and other adjustments, as detailed below:

Opportunity Grant Funding Increase – The budget adds \$31.4 million of General Fund support above the essential budget level for the Opportunity Grant. All available Lottery Funds from Education Stability Fund earnings are also allocated to the program, as well as all available Federal Funds support from the LEAP and SLEAP programs. State support (General Fund plus Lottery Funds) for Opportunity Grants totals \$75.7 million, a 72% increase over the 2003-05 level. Adding in available Federal and Other Funds yields total Opportunity Grant funding of \$78.1 million, which is also a 72% increase over the prior biennium level of funding.

The additional funding finances a two-stage expansion of the Opportunity Grant in each of the two years of the biennium. The expansions are:

- 2005-06 fiscal year – The Opportunity Grant program is expanded to serve all eligible students attending qualified public institutions, i.e., Oregon University System campuses, Oregon community colleges, and the

Oregon Health and Science University. Approximately 70% (the 2003-05 biennium rate) of eligible students at private colleges will be served in this year.

- **2006-07 fiscal year** – The Opportunity Grant program is further expanded to serve all eligible students attending qualified private institutions. The program is also extended to part-time students for the first time. The part-time student award amounts will be one-half of the amounts available to full-time students enrolled at the same institution, and will be available to eligible students enrolled for a minimum of six credit hours. Income eligibility criteria will be identical for full-time and part-time students, and all eligible part-time students will be served.

The budget instructs the Commission to retain the income eligibility requirements in place at the close of the 2003-05 biennium, and to calculate awards levels using the same methodology applied in 2003-05. This methodology, which will result in award level increases in both of the years of the biennium, sets awards at a calculated 11% of the cost of attendance, and establishes a common award amount for all Oregon University System campuses, and a common award amount for all community colleges.

The \$78.1 million available for Opportunity Grants is projected to be sufficient to finance all of the approved program expansions. These expansions will increase Opportunity Grant awards significantly, from an estimated 38,400 students in the 2003-05 biennium, to 63,000 students in 2005-07. The 24,600 increase in the number of students served represents a growth of 64% over the prior biennium level. The projection of the number of part-time students included in this total is, however, subject to a fair amount of uncertainty, since there is no history of serving these students upon which to base a projection. If the Commission determines that funding is insufficient to serve all eligible students, it is instructed to restrict awards to part-time students, to allow as many eligible full-time students as possible to be awarded grants at the described award levels. The Commission is not to seek additional funding from the Emergency Board if funding is found to be insufficient. Rather, it is to restrict funding of the part-time program to support the expanded full-time program.

Withdrawal from Loan Guarantee Program – After a review of the fiscal impact of the withdrawal from FFELP on Grants and Scholarships Division expenditures, the Legislature reduced General Fund by \$86,537, and Other Funds by \$195,952, from the levels in the Governor’s budget. The budget eliminates \$349,564 of Other Funds expenditures that had been supported with loan program proceeds in the prior biennium. Offsetting this reduction is a \$67,317 fund shift to (i.e., increase in) General Fund, resulting in a \$282,247 net budget reduction from prior biennium levels. Four positions and 4.65 FTE are eliminated as a result of the agency consolidation.

Other Adjustments – The budget restores approximately \$200,000 General Fund to the Nursing Services program, to allow for continuing the current number of annual awards, after \$200,000 had been removed, last session, in a one-time fund shift. The budget also includes \$165,000 for the new Oregon Troops to Teachers grant program. Expenditures are reduced by \$11.8 million Nonlimited Other Funds to reflect the withdrawal of the primary donor from the Private Awards program. This reflects the decline in scholarship awards. The budget also includes \$313,320 Other Funds to reflect expansion of the ASPIRE program to existing levels. This program provides assistance to high schools that train volunteers to advise students on their academic options. Funding accrues from donations and the federal AmeriCorps program.

OSAC – Loan Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor’s Recommended	2005-07 Legislatively Adopted
Other Funds	9,541,710	8,793,727	0	0
Other Funds (NL)	40,939,442	33,259,980	0	0
Total Funds	\$50,481,152	\$42,053,707	\$0	\$0
Positions	57	45	0	0
FTE	56.00	45.00	0.00	0.00

Program Description

The Loan Division administers the Federal Family Education Loan Programs (FFELP), formerly called the Guaranteed Student Loan Program. The FFELP include the following:

- Federal Stafford Loan Program – Need-based, subsidized and non-need-based, unsubsidized student loans with annual and aggregate limits based on grade level.
- Federal PLUS Program – Low-interest loans for parents of dependent undergraduate students.
- Federal SLS Program – Loans for independent undergraduate, graduate, and professional students.

The Commission’s responsibilities in FFELP are to guarantee qualifying loans made by private lending institutions. This program allows the lending institutions to make student loans that might otherwise be too risky or require a much higher interest rate for the loan to be offered. Loans are guaranteed for Oregon students who study both in-state and out-of-state, and for out-of-state students attending Oregon institutions. The Division works with borrowers who are in danger of defaulting on their loans. When a loan actually goes into default, the Commission pays off the loan to the lender (i.e., buys the loan from the lender) and then is mostly reimbursed for this cost (98%) by the federal government. The Commission must then attempt to collect on the defaulted loan.

Revenue Sources and Relationships

The Loan Division receives no state funds. Most of the Commission’s Other Funds revenue is received under the federal loan guarantee program. The Commission receives Other Funds when it collects (“recovers”) on defaulted student loans that it has guaranteed. The agency also receives payments for loans that it has reinsured with the federal government, and from fees it charges in the loan guarantee program. Revenue accrues from loan processing fees (1% of loan volume), and an administrative cost allowance paid by the federal government (0.65% of loan volume). The Commission also receives interest earnings on FFELP funds, but these earnings have declined as the federal government has increased the proportion of interest earnings that it retains. For loans that do default, the Commission receives a reinsurance payment from the federal government for buying the loan from the lender. The Commission also retains a portion of any subsequent recoveries on the defaulted loans and forwards the remainder to the federal government.

Budget Environment

The budget limits the Commission’s expenditures for administering the loan program but does not limit what the Commission can pay to assume the loans it has guaranteed, or the payments made back to the federal government for their portion of the loan recoveries.

OSAC has been unable to cover costs of participating in the FFELP program. FFELP revenues are largely generated by the level of loan volume, and OSAC has been unable to maintain sufficiently large loan volumes as the federal government reduced reimbursement rates and the loan guarantee industry consolidated. The program could not be made financially viable without an ongoing General Fund subsidy. As a result, and with the agreement of the Federal government, OSAC ceased operation as a loan guarantor agency on December 31, 2004.

Legislatively Adopted Budget

The Loan Division is eliminated in the legislatively adopted budget. OSAC withdrew from the FFELP program prior to the start of the 2005-07 biennium. The budget eliminates \$9,175,279 of Other Funds expenditures for the Division’s personal services and services and supplies costs, and abolishes 45 positions (45.00 FTE). The budget also eliminates all Nonlimited Other Funds expenditures associated with FFELP.

OSAC – Information Services Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor’s Recommended	2005-07 Legislatively Adopted
General Fund	253,539	144,958	664,498	333,887
Other Funds	1,172,730	961,470	98,124	308,705
Total Funds	\$1,426,269	\$1,106,428	\$762,622	\$642,592
Positions	8	6	3	3
FTE	8.00	6.00	3.00	3.00

Program Description

The Information Services Division is responsible for the agency’s computer systems. The Division maintains the computer hardware, software, and databases necessary to provide financial aid information to Commission staff, outside institutions, and individuals. The Commission contracts for services for its loan processing

software. Since 2001, the Division has been reduced from eight to only three employees. In future biennia, the Information Services Division will be merged into the Administration Division program area.

Revenue Sources and Relationships

The Commission uses Other Funds to pay for the portion of the Information Services Division's costs that are allocated to support the Other Funds-funded programs. These Other Funds include monies the Commission receives in the Loan Program from borrowers and the federal government, as well as interest earnings from the FFELP Fund. Other Funds are also collected from charges for administering private award programs.

Budget Environment

In 1997, the Legislature significantly expanded the Information Services Division to allow the Commission to upgrade its main AS/400 computer system and to increase the services it offers through the Internet. The Division's employment was expanded 50%. These upgrades have allowed the agency, generally, to meet its technology needs. The agency's withdrawal from FFELP has greatly reduced its information services needs, and Division employment has been reduced to three full-time positions.

Legislatively Adopted Budget

The legislatively adopted budget reduces total Information Services Division expenditures by \$463,836 (or 42%) from the prior biennium level, and eliminates half of the Division's six positions. The increase in Opportunity Grant Funding had no impact on the Information Services Division program area budget. After a review of the fiscal impact of the withdrawal from FFELP on Information Services Division expenditures, the Legislature reduced General Fund by \$325,826 from the level in the Governor's budget. The budget eliminates \$721,499 of Other Funds expenditures that had been supported with loan program proceeds in the prior biennium. Offsetting this reduction is a \$174,633 fund shift to (i.e., increase in) General Fund, resulting in a net budget reduction of \$546,866 from the withdrawal from FFELP. Three of the Division's six employee positions, including the division manager, are eliminated. The additional General Fund will allow three employees to continue, and will finance service and supply costs, including software contract costs.

The budget also adds \$37,244 Other Funds to maintain the Oregon Financial Aid Exchange (OFAX). OFAX is a system allowing colleges to share student data of co-enrolled students. Oregon State University, and Central Oregon and Linn-Benton Community Colleges have been participating for three years. Other institutions are now joining this system. The expenditures would be financed from contributions by participating institutions.

OSAC – Office of Degree Authorization/Policy Research

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	214,663	195,802	264,258	115,275
Other Funds	652,760	776,612	323,225	290,565
Total Funds	\$867,423	\$972,414	\$587,483	\$405,840
Positions	4	7	2	2
FTE	4.00	7.00	2.00	2.00

Program Description

The Office of Degree Authorization (ODA) is charged in statute "to provide for the protection of the citizens of Oregon and their post-secondary schools by ensuring the quality of higher education and preserving the integrity of an academic degree as a public credential." To this end, ODA enforces certain regulations related to post-secondary education. The purpose of these ODA regulations is to protect consumers from diploma mills and other forms of diploma fraud, and to protect taxpayers by preventing detrimental duplication of publicly funded post-secondary programs. ODA's primary responsibility relating to private institutions is to review their degree programs for academic soundness. ODA's primary responsibility relating to public institutions is to ensure that their programs do not waste taxpayer funds by duplicating programs that already exist and that are already sufficient to meet the public's needs.

ODA also maintains information on post-secondary education in Oregon, including data on enrollments, graduations, finances, staffing, and program descriptions on all public and private degree-granting institutions in Oregon. The Office authorizes and regulates 57 private institutions that offer degree programs in Oregon, and 25 public institutions with respect to detrimental duplication issues. The program conducts approximately 24

degree authorizations in a biennium, and also responds to inquiries and complaints about substandard and fraudulent educational practices.

The agency has also created a Policy and Research Division to provide data collection, statistical analysis, lender and schools reviews, and general research support. This Division was created by transferring existing employees from other divisions of the agency.

Budget Environment

ODA charges fees for reviewing private institutions' proposed degrees. These fees are received as Other Funds, and are projected to total approximately \$160,000 in the 2003-05 biennium. Because of unanticipated growth in the number of institutions seeking to offer degree programs in Oregon, fee collections were 53% higher than projected in the 2001-03 biennium. The budget projects that revenue will continue, in the 2003-05 biennium, at this increased level. These fees are collected to cover the cost of the ODA's degree authorization functions. General Fund is appropriated to support the ODA's other functions: reviewing public programs on detrimental duplication issues, and collecting data for the federal Integrated Post-secondary Education Data System (IPEDS). In 2003, the Legislature further expanded the Office's authority to raise fees, and shifted \$200,000 of General Fund expenditures to Other Funds to allow these costs to be covered by new fees for degree validations and general information services. Revenue from these fees have fallen far short of \$200,000, however, and this shortfall has prevented the Office from being fully staffed.

Legislatively Adopted Budget

The legislatively adopted budget reduces total Office of Degree Authorization/Policy Research expenditures by \$566,574 (or 58%) from the prior biennium level, and eliminates most of the program area's seven positions. After a review of the fiscal impact of the withdrawal from FFELP on this program area's expenditures, the Legislature reduced General Fund \$148,747 from the level in the Governor's budget.

The budget eliminates \$392,067 of Other Funds expenditures that had been supported with loan program proceeds in the prior biennium. There is an additional \$29,280 General Fund reduction, resulting in a total budget reduction of \$421,347. Five of the Division's seven employee positions are eliminated as a consequence of the withdrawal from the loan program and from the inability to generate the fee revenues as supported in the 2003-05 budget. The remaining funds will support two employees, including the Administrator, and will finance ongoing services and supplies costs.

Teacher Standards and Practices Commission – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	3,320,018	3,639,664	3,820,753	3,915,455
Total Funds	\$3,320,018	\$3,639,664	\$3,820,753	\$3,915,455
Positions	19	21	22	22
FTE	17.75	20.00	21.50	21.50

Agency Overview

The Teacher Standards and Practices Commission (TSPC), composed of 17 members who are appointed by the Governor and confirmed by the Senate, has three primary areas of responsibility:

- establish rules for licensure and registration and issue licenses and registrations to teachers, administrators, school nurses, school counselors, and school psychologists;
- maintain and enforce professional standards of competent and ethical performance and proper assignment of licensed educators; and
- adopt standards for college and university teacher education programs and approve programs that meet such standards.

There are approximately 60,000 educators in Oregon who hold 68,000 current licenses. Slightly over one-half of these licensees were employed in Oregon's public schools in 2003-04. All new applicants for licensure, as well as all former licensees who allow their licenses to lapse for more than three years, are required to pass a criminal history and fingerprint check.

Revenue Sources and Relationships

TSPC's responsibility to ensure that students are taught by competent and ethical teachers is entirely supported by Other Funds from licensing and other fees paid by the regulated professionals.

HB 2095 (1999) increased the limit on fees charged for in-state applicants and renewals from \$60 to \$100. This legislation took effect July 1, 2001. The 2001-03 legislatively adopted budget assumed an increase in these fees as of January 1, 2002. However, revenues in 2001-03 were sufficient enough to delay the increase until January 2003, when fees for in-state applicants and renewals increased from \$60 to \$75. The 2003 Legislature ratified the increase (in HB 5055), the first since 1994. Because the life of a license ranges from three to five years, the annual increases ranged from \$3 to \$5.

Other fees include \$62 for fingerprinting, \$75 for registration of charter school educators, \$90 for applicants graduating from other than an approved Oregon educational program, \$100 for an expedited license, \$150 for reinstatement of a revoked license (in addition to the \$75 application fee), and an alternative assessment fee of up to \$200. The alternative assessment is a process to determine professional eligibility of applicants without traditional educational backgrounds. The fee for a duplicate license is \$10 and late fees are \$15 per month to a maximum of \$75.

The 2005-07 Governor's recommended budget assumed an increase in fees for in-state applicants and renewals – from \$75 to \$100 – as of July 2005. Although the 2005 Legislature did not specifically approve this increase, the 2005-07 budget for TSPC was adopted by the Legislature with the acknowledgment that the Commission quite likely would need to administratively increase certain fees up to their statutory limits to balance the budget.

Without a fee increase, total revenues for 2005-07 are estimated at \$3.2 million. Based up this level of revenues and budgeted expenditures for this biennium, the 2005-07 ending balance represents less than one month's worth of expenditures. Reportedly, in the near future the Commission plans to examine the need to administratively increase certain fees.

Budget Environment

Retirements of "baby-boomer" teachers were expected to start in 2001-03 and, in fact, data indicate school district retirements were about 44% higher in 2001-02 compared to 2000-01. Retirements were 61% higher in 2002-03 compared to 2001-02, but changes to the Public Employees Retirement System as well as budget reductions contributed to the overall increase. Unlike previous years, new entries into the teaching profession

may not offset retirements and other attrition given the current budget environment in K-12 education. While earlier forecasts indicated approximately 36,500 licenses would be issued in 2003-05, that number now has been revised downward – to approximately 34,400. TSPC estimates it will issue the same number of new and renewed licenses in 2005-07 as it did in 2003-05. However, although the number of licenses issued has decreased, the overall workload of the agency is growing.

Contacts from educators are increasing. The agency has made good use of technology in addressing this issue, such as allowing potential licensees to submit forms on-line, linking the database and e-mail systems to send automatic notifications of licensure status to customers, providing more information on the agency's website to decrease the number of phone calls, and using scanning to create electronic documents that are easily accessible by all staff. Even with these and other improvements, however, TSPC has been challenged in responding to customers in a timely manner and eliminating work backlog. Thus, in both the 2003 and 2005 sessions, the Legislature added limited duration positions to help address the backlog.

The federal No Child Left Behind Act of 2001 has increased the workload of the agency. This law mandates that all teachers be "highly qualified." TSPC has been working closely with the Oregon Department of Education to determine the requirements for elementary, middle, and high school teachers. Over the last couple of years, TSPC staff have reviewed thousands of teacher credentials to determine if individual teachers are "highly qualified." The work will continue until the spring of 2006, when all teachers must meet the requirements. In addition to these reviews, the Act has created other workload for staff.

The number and complexity of discipline cases and investigations continue to increase. This is due in part to a greater propensity by parents to file complaints over disputes with educators and school districts as well as a greater public awareness of child abuse issues. The increase is also a result of checking criminal history records through Oregon State Police and FBI fingerprints. The discipline caseload grew from 154 cases in 1997-99 to 282 in 2003-05, an 83% increase.

Legislatively Adopted Budget

The legislatively adopted budget is a 7.6% increase over the 2003-05 legislatively approved level and a 2.5% increase over the Governor's recommended budget. The budget includes:

- A phase-out of \$86,321 Other Funds expenditure limitation for one-time costs in 2003-05, primarily for the agency's scanning project.
- The addition of \$234,147 Other Funds expenditure limitation primarily for 2 limited duration positions (2.00 FTE) and a permanent position (1.00 FTE) to continue improvements in the customer service area, address clerical and disciplinary workload demands, and provide administrative support to other staff and the Commission.
- The addition of \$136,000 Other Funds expenditure limitation to cover an increase in the costs of fingerprinting applicants for licensure.
- The addition of \$23,708 Other Funds expenditure limitation to replace 15 obsolete computers, 5 laser printers, and a server. This will replace about 65% of the agency's existing computers, which have limited memory and technological capabilities. Additionally, the new server will allow the agency to have an internal back-up plan to adequately protect its data. The Legislature adjusted this package by \$4,792 for estimated savings from the SmartBuy program, which is a bulk purchasing program for certain types of services and supplies.

The Legislature adjusted the recommended budget for a lower PERS employer contribution rate, a reduced Attorney General hourly rate, and reductions in various interagency service charges. It also supplemented the agency's 2003-05 budget with \$65,000 Other Funds expenditure limitation for additional costs resulting from an increase in fingerprinting fees charged by the Oregon State Police. This fee increase – from \$12 to \$28 – became effective March 1, 2005.