

EDUCATION

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

	2001-03 Actual	2003-05 Legislatively Adopted	2003-05 Legislatively Approved	2005-07 Governor's Recommended
General Fund	382,129,816	423,227,826	416,420,326	393,642,264
Lottery Funds	0	49,000	49,000	0
Other Funds	13,908,964	13,152,259	13,542,790	13,557,139
Federal Funds	146,092,209	123,383,620	124,359,335	127,459,844
Federal Funds (NL)	0	2,339,105	2,339,105	12,000,000
Total Funds	\$542,130,989	\$562,151,810	\$556,710,556	\$546,659,247
Positions	48	46	48	50
FTE	47.07	44.70	45.70	48.74

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 \$13.6 million of Other Funds revenue in the 2005-07 biennium. Most of these 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 Adopted	2003-05 Legislatively Approved	2005-07 Governor's Recommended
General Fund	2,188,247	2,011,367	2,011,367	2,969,234
Other Funds	1,599,814	1,779,287	1,779,287	2,041,827
Federal Funds	17,666,539	6,692,585	6,929,515	7,379,181
Total Funds	\$21,454,600	\$10,483,239	\$10,720,169	\$12,390,242
Positions	45	43	45	47
FTE	44.07	41.70	42.70	45.74

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.

Governor's Budget

The Governor's budget increases General Fund support for Office Operations by over 47% above the 2003-05 biennium level. All funds support is increased 16%. The budget also adds two new positions (2.00 FTE), and extends two limited-duration grant-funded positions approved by the Emergency Board this interim.

The only General Fund added above the level needed to fund continuing operations is \$873,400 to develop a 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. This 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, 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 \$100,000 for management costs relating to a new capital construction program for community colleges (see the Community College Capital Construction program description for detail), and \$86,464 to pay one-half of the costs associated with the establishment of a new full-time position to assist with development of Career Pathways programs at community colleges. Career Pathway programs focus on education and training for adults that are aligned for particular occupational requirements. Federal Funds increases include \$86,464 to fund the other half of the Career Pathways program costs, \$36,473 to finance a shift from General Fund and a higher classification for a department position, and \$232,271 (two positions, 2.00 FTE) to fund support staff for the Oregon Workforce Investment Board and the agency's compliance with federal procurement and grant writing regulations. These costs would be paid from federal Workforce

Investment Act funds. If these positions were not added, these Federal Funds would be available for transfer to local service providers.

CCWD – State Support to Community Colleges

	2001-03 Actual	2003-05 Legislatively Adopted	2003-05 Legislatively Approved	2005-07 Governor's Recommended
General Fund	375,240,447	417,900,404	411,092,904	388,414,455
Lottery Funds	0	49,000	49,000	0
Other Funds	1,782,400	316,292	316,292	185,293
Total Funds	\$377,022,847	\$418,265,696	\$411,458,196	\$388,599,748

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.

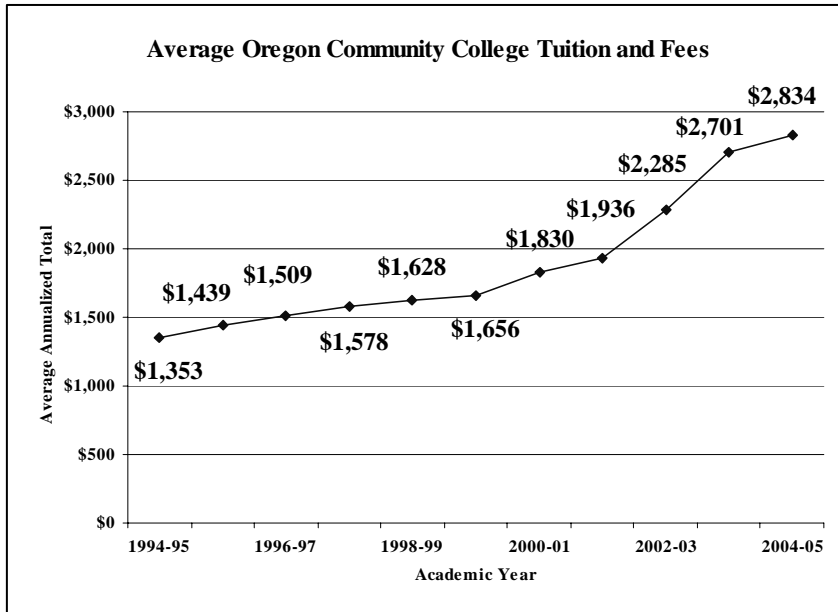
Community colleges also collect property taxes to fund their operations. These taxes do not flow through the agency budget, however, and are not included in any budget figures identified here. Approximately \$201 million of property tax collections are projected for community colleges in the 2003-05 biennium, providing approximately 22% of college operating revenue. Tuition and fees, which are also not included in the state agency budget, are projected to provide \$306 million (or 33%) of college operating revenues. The state General Fund supports the remaining 45% 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 the 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

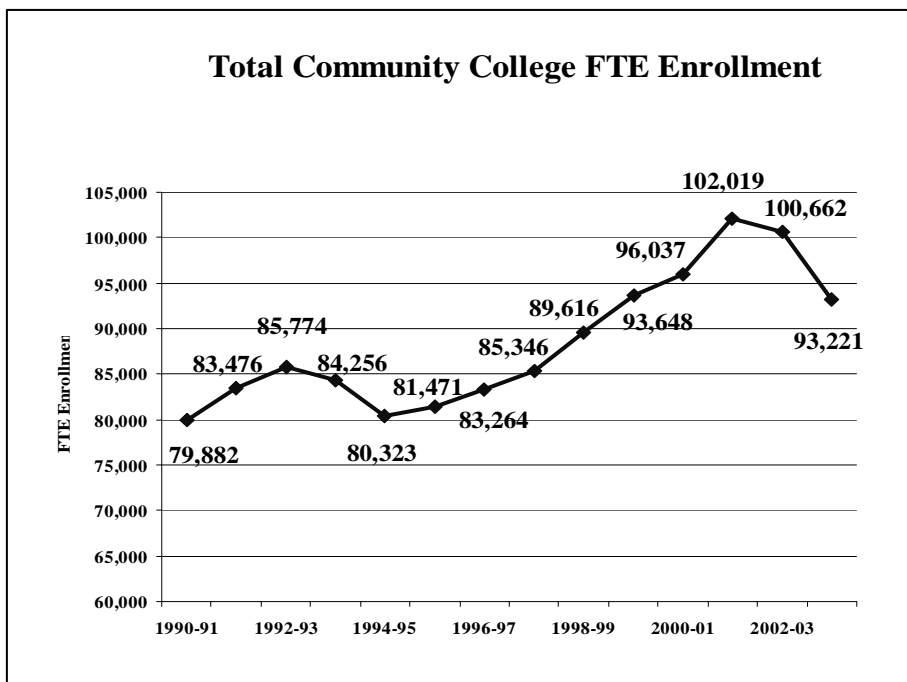
\$6.8 million by the outcome of that vote. To help better manage the funding reduction, the legislatively adopted budget directed community colleges to freeze salary and benefits packages for the 2003-05 biennium. This paralleled a similar action regarding state employees. Community colleges retain their 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 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%.

Governor's Budget

The Governor's budget includes \$388.6 million of state support to community colleges. This represents 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 eliminates Lottery Funds financing distributed outside of the CCSF in support of advanced technology education and training programs.

The funding level is \$18.9 million below the calculated essential budget level. The calculated 2005-07 biennium essential budget level is actually below the 2003-05 biennium funding level, because of increases in local property tax revenues, which are used as an offset to meeting essential budget costs. The Legislative Fiscal Office (LFO) notes that the essential budget level does not accommodate a number of cost increases that community colleges are 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. LFO is attempting to calculate these costs to present a more realistic picture of community colleges' projected expenses for the coming biennium.

CCWD projects that enrollments will continue to decline under the Governor's budget, as colleges further increase tuition and fee rates and eliminate more course section offerings. CCWD projects a further 3% decline in FTE enrollment each year of the 2005-07 biennium. They project headcount to decline by 6% each year. The impacts of the budget on tuition are unclear. CCWD believes that colleges will raise their rates by an average of 6% each year. (Tuition and fee rates are set independently by local community college district boards.)

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 CCWD's projected revenue from tuition and fees are included, total 2005-07 biennium funding would be up by approximately 3% over the 2003-05 biennium level. This projection is subject to error. The rate of increase is not, however, likely to cover increased college costs, so further program cutbacks appear almost certain at the Governor's funding level.

CCWD – Federal/Other Support

	2001-03 Actual	2003-05 Legislatively Adopted	2003-05 Legislatively Approved	2005-07 Governor's Recommended
Other Funds	8,661,473	9,085,542	9,085,542	9,303,595
Federal Funds	128,425,670	116,691,035	117,429,820	120,080,663
Federal Funds (NL)	0	2,339,105	2,339,105	12,000,000
Total Funds	\$137,087,143	\$128,115,682	\$128,854,467	\$141,384,258

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.

Governor's Budget

The Governor's 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 10% over the 2003-05 biennium legislatively adopted budget level. 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. Much of the expenditure growth from the prior biennium level is due to a projected increase in the amount of NEG revenue to be received. Since these grants are received only received on an as-needed basis, revenues are difficult to project. NEG revenue in the 2003-05 biennium, however, has been much greater than originally anticipated. The Governor's budget dedicates \$41,854 of WIA Title IB Federal Funds to expand workforce programs offered in correctional institutions.

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

Governor's Budget

The Governor's 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. Any 2005-07 biennium debt service costs on these bonds would 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 Adopted	2003-05 Legislatively Approved	2005-07 Governor's Recommended
Other Funds	0	0	0	12
Total Funds	\$0	\$0	\$0	\$12

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.

Governor's Budget

The Governor's budget includes, for the first time since the 1979-81 biennium, state support for community college capital projects. The projects will 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 will 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 includes \$91.2 million of Article XI-G bond authority to finance \$182.4 million of capital construction expenditures for six projects. Only \$12 of Other Funds expenditure limitation is actually in the budget for the six projects, however. The Governor expects the Emergency Board to consider final approval of the projects. The Emergency Board would be able to increase the expenditure limitation to a maximum of \$182.4 million if it approves full funding for all of the projects. These projects include 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 finances the SOU portion of the facility in the Department of Higher Education's capital construction budget, which includes \$5.4 million of General Fund and an additional \$5.9 million of Article XI-G bonds.)

The budget includes \$100,000 Other Funds to pay for bond issuance and project administrative costs, but these are included in the Office Operations program area of the budget. The capital projects funded in the CCWD budget do not require General Fund in the 2005-07 biennium. Debt service on the Article XI-G bonds is, however, financed by General Fund. Any debt service costs incurred before the end of the biennium will 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 estimates that General Fund debt service costs will equal approximately \$12.9 million per biennium during the 30-year term of the bonds.

A list of projects is included below:

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

Project List	Project Request	Article XI-G Bonds	Community College Match	Approved Total
(1) Clatsop Community College				
New campus	\$50,000,000	\$1	\$1	\$2
(2) Columbia Gorge Community College				
Health sciences building and classrooms	21,600,000	1	1	2
(3) Klamath Community College				
New permanent campus	50,000,000	1	1	2
(4) Oregon Coast Community College				
New facilities in Lincoln City, South Beach, and Waldport	34,000,000	1	1	2
(5) Rogue Community College				
Medford facility for joint use with SOU	17,000,000	1	1	2
(6) Tillamook Bay Community College				
New campus	9,800,000	1	1	2
Grand Totals	\$182,400,000	\$6	\$6	\$12

CCWD – Oregon Youth Conservation Corps

	2001-03 Actual	2003-05 Legislatively Adopted	2003-05 Legislatively Approved	2005-07 Governor's Recommended
General Fund	356,187	0	0	0
Other Funds	1,865,277	1,971,138	2,361,669	2,026,412
Total Funds	\$2,221,464	\$1,971,138	\$2,361,669	\$2,026,412
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.

Governor's 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 Governor's 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 Adopted	2003-05 Legislatively Approved	2005-07 Governor's Recommended
General Fund	4,043,880,643	4,987,439,072	4,703,298,799	4,941,233,788
Lottery Funds	670,555,680	507,799,698	507,799,698	352,661,954
Other Funds	324,756,410	66,912,964	66,912,964	52,045,043
Federal Funds	694,639,174	687,320,617	698,979,045	800,899,023
Other Funds (NL)	6,010,883	4,743,670	4,743,670	4,856,586
Federal Funds (NL)	0	187,319,482	187,319,482	243,186,904
Total Funds	\$5,739,842,790	\$6,441,535,503	\$6,169,053,658	\$6,394,883,298
Positions	572	486	486	478
FTE	457.14	447.32	447.32	440.00

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 Governor's recommended budget of \$6.4 billion Total Funds is a \$225.8 million – or 3.7% - increase over the 2003-05 legislatively approved budget. Most of the growth (\$154 million) is due to additional federal funds available for grants to local education programs. The balance is primarily due to an increase in State School Fund distributions to school districts and education service districts (ESDs).

- The budget provides \$5.0 billion in state support for K-12 school funding. This is an increase of \$84 million, or 1.7%, over the 2003-05 legislatively approved budget of \$4.916 billion. Local formula revenues, mainly from property taxes, are estimated to be \$211 million higher in 2005-07. Together, state and local support increase by 4.1% from 2003-05 to 2005-07.
- The budget for Department Operations increases from \$85.5 million Total Funds in 2003-05 to \$90.3 million Total Funds in 2005-07. Most of the growth is in federal funding, which increases by \$3.6 million, or 9.2%. General Fund support is \$36.1 million, an increase of 2.1% over the 2003-05 budget of \$35.3 million, but 15.5% below 1999-2001 expenditures of \$42.7 million. The Governor's budget for Operations includes \$1.8 million General Fund for ODE's participation in development of a statewide PreK-16 student data system.
- The budget includes \$184.3 million General Fund for Grant-in-Aid programs that provide support to school districts and other local programs. This amount is 3.1% less than the 2003-05 General Fund budget of \$190.1 million. The Oregon Prekindergarten program, which serves low-income 3- and 4-year-olds, is reduced by \$11 million General Fund. The percentage of eligible children served drops from the current 60% to 53% in 2005-07. Another early childhood program, the Early Intervention/Early Childhood Education (EI/ECSE) Program, is increased by almost \$5 million General Fund for caseload growth.
- State support for two Grant-in-Aid programs – the Frontier Learning Network and Student Leadership Centers – is eliminated.

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

ODE – Operations

	2001-03 Actual	2003-05 Legislatively Adopted	2003-05 Legislatively Approved	2005-07 Governor's Recommended
General Fund	34,814,836	36,620,320	35,320,320	36,060,740
Other Funds	8,264,969	6,611,324	6,611,324	6,912,794
Federal Funds	27,690,596	38,869,643	38,869,643	42,443,548
Other Funds (NL)	6,010,883	4,743,670	4,743,670	4,856,586
Total Funds	\$76,781,284	\$86,844,957	\$85,544,957	\$90,273,668
Positions	275	263	263	258
FTE	269.06	258.26	258.26	254.20

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.

This biennium, the Department has 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 has reorganized and streamlined its office and management structures and moved toward more cross-agency collaboration. Also, the Department has 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, procurement, and school funding distributions. 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 (approximately \$156,000) and a School Lunch Revolving Fund for brokering surplus food for schools (approximately \$5.7 million).

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 has 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. ODE continues to seek efficiencies in the assessment system and will report to the 2005 Legislature on its efforts.

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 has 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.

Governor's Budget

The Governor's budget is a 5.5% increase over the 2003-05 legislatively approved budget and a 3.9% increase over the 2003-05 legislatively adopted budget, which reflects \$1.3 million in special purpose appropriations that

the Department did not request from the 2003-05 Emergency Board. Within the overall increase from the 2003-05 legislatively approved budget, General Fund is increased by 2.1%, Other Funds expenditure limitation is increased by 4.6%, the Nonlimited Other Funds amount is increased by 2.4%, and Federal Funds expenditure limitation is increased by 9.2%.

The main reason for the General Fund increase is a \$1.8 million policy package for a PreK-16 integrated data system. Funding is provided for 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. It 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. The work during 2005-07 would 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 would also include developing and/or analyzing pilot or existing projects to assist in the development of the system. The 2005-07 budgets for the Oregon University System and the DCCWD include \$2.2 million General Fund and \$0.8 million General Fund, respectively, for the project.

The recommended budget includes several reductions, totaling \$2.7 million General Fund, to meet budget targets. The major reductions include: 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 budget shifts \$1 General Fund between budget categories (from personal services to services and supplies) 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. Detailed implementation plans are still under development for the project, known as the Computing and Networking Infrastructure Consolidation (CNIC).

Finally, a package that completes the agency's recent reorganization realigns indirect federal revenue to pay for staff. 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.

ODE – Special Schools

	2001-03 Actual	2003-05 Legislatively Adopted	2003-05 Legislatively Approved	2005-07 Governor's Recommended
General Fund	15,977,168	16,595,302	16,595,302	17,086,756
Other Funds	3,486,620	3,111,039	3,111,039	3,326,083
Federal Funds	987,695	764,938	923,366	721,450
Total Funds	\$20,451,483	\$20,471,279	\$20,629,707	\$21,134,289
Positions	265	192	192	191
FTE	156.08	158.06	158.06	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 for this biennium.

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.

Governor's Budget

The budget is a 2.4% increase over the 2003-05 legislatively approved budget and continues existing operations.

ODE – Youth Corrections Educational Program

	2001-03 Actual	2003-05 Legislatively Adopted	2003-05 Legislatively Approved	2005-07 Governor's Recommended
Other Funds	25,554,206	21,758,832	21,758,832	24,380,130
Federal Funds	2,726,280	2,794,352	2,794,352	2,863,181
Total Funds	\$28,280,486	\$24,553,184	\$24,553,184	\$27,243,311
Positions	32	31	31	29
FTE	32.00	31.00	31.00	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 2004 close custody population forecast projects a 7.6% increase from July 2004 to July 2005 – from 1,071 to 1,152. Growth in 2005-07 is projected to be 4.1%, with the population reaching 1,199 by July 2007. State budget reductions have affected the number of beds available, however. The Governor’s 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. ODE currently projects 64% are 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. Currently, about 325 youth receive educational services at these centers.

Governor’s Budget

The Governor’s budget is an 11% increase over the 2003-05 legislatively approved budget. Other Funds expenditure limitation for the program 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.

ODE – Grant-in-Aid

	2001-03 Actual	2003-05 Legislatively Adopted	2003-05 Legislatively Approved	2005-07 Governor’s Recommended
General Fund	190,978,925	196,615,696	190,115,696	184,269,151
Other Funds	16,269,073	14,386,845	14,386,845	14,744,661
Federal Funds	663,234,603	644,891,684	656,391,684	754,870,844
Federal Funds (NL)	0	187,319,482	187,319,482	243,186,904
Total Funds	\$870,482,601	\$1,043,213,707	\$1,048,213,707	\$1,197,071,560

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, 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. 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 of the General Fund budget for Grant-in-Aid programs (about 49%).

Historically, annual growth had been about 5 to 6%, although it slowed 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 shows growth is recurring, additional federal revenues appear to be more than adequate to cover this growth. The Governor's budget assumes annual growth of 2% in the program.

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 6,500 children are served currently. The number served in 2001-03 was approximately 6,100.

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.

Governor's Budget

The Governor's budget is a 14.2% increase over the 2003-05 legislatively approved budget. Within the overall increase, General Fund support is decreased by 3.1%, Other Funds expenditure limitation increases by 2.5%, and federal resources grow by 18.3%. This latter growth includes an expected increase of 29.8% in reimbursements under the federal nutrition program and an overall 15% increase for other federal programs.

The budget includes the following:

- an increase of \$4.9 million General Fund for EI/ECSE caseload growth and a \$2.8 million fund shift from General Fund to Federal Funds to reflect an increase in available federal resources for the program;

- an \$11 million General Fund reduction for the Oregon Prekindergarten program, representing an 18% decrease from the 2003-05 funding level (and a reduction in the percentage of eligible children served from 60% in 2003-05 to 53% in 2005-07);
- 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;
- a combined \$0.7 million General Fund reduction in hospital, regional, and long-term care and treatment programs;
- elimination of General Fund support (\$0.7 million) 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;
- elimination of General Fund support (\$0.7 million) for Student Leadership Centers; and
- the addition of \$0.1 million General Fund for the SMART (Start Making A Reader Today) reading program, which is designed to increase the literacy of young children.

Reductions in programs that affect the Department’s MOE compliance were held to a level that should allow the agency to meet the federal requirements.

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

2005-07 Governor’s Recommended Budget – Grant-in-Aid Programs (\$ in millions)				
Program Name	General Fund	Other Funds	Federal Funds	Total Funds
Early Intervention/Early Childhood Special Ed	89.6	0.0	38.0	127.6
Oregon Prekindergarten	43.9	0.0	0.0	43.9
Regional Programs	30.8	0.0	11.8	42.6
Long-Term Treatment & Hospital Programs	19.2	11.5	4.5	35.2
Title 1 Low-Income & Migrant Education	0.0	0.0	301.5	301.5
Nutrition Programs	0.0	0.0	243.2	243.2
Local & Other Special Education Programs	0.0	0.0	208.8	208.8
Title II Teacher Quality	0.0	0.0	57.2	57.2
Vocational Education	0.0	0.0	28.3	28.3
Other Programs (primarily under the NCLB Act)	<u>0.8</u>	<u>3.2</u>	<u>104.8</u>	<u>108.8</u>
TOTAL EXPENDITURES	184.3	14.7	998.1	1,197.1

ODE – School Funding

	2001-03 Actual	2003-05 Legislatively Adopted	2003-05 Legislatively Approved *	2005-07 Governor’s Recommended
General Fund	3,802,109,714	4,737,607,754	4,461,267,481	4,703,817,141
Lottery Funds	614,555,682	452,100,536	452,100,536	295,732,859
Other Funds	267,626,128	17,191,710	17,191,710	950,000
Total Funds	\$4,684,291,524	\$5,206,900,000	\$4,930,559,727	\$5,000,500,000

* 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 \$4.916 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 2003 Legislature can be found in SB 550. These changes include the addition of a high-cost disability grant to the school equalization formula and an increase in transportation grants for districts with high transportation costs as defined in the bill.

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 adopted and approved budgets include 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 includes 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, by about 389% from 1992-93 (2.4% of all students) to 2003-04 (11% of all students). 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 2002-03 school year, about 28% of schools in Oregon failed to meet AYP. Title 1 schools [about one-third 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, schools 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 \$25 million increase in other local revenues.

The effects of this biennium’s reductions depend 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 report implementing the reductions over two years to avoid drastic program cuts in 2004-05. However, for a variety of reasons, many districts will have difficulty in maintaining program levels. Budget reductions have come on top of declining enrollment, depleted financial reserves, and/or higher program costs. Districts have reported staff layoffs, reductions in course offerings, and increased class sizes as resulting from this 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.

Governor’s Budget

The 2005-07 Governor’s recommended budget provides \$5.0 billion in state support for K-12 school funding. This is an increase of about \$84 million, or 1.7%, above the 2003-05 legislatively approved budget of \$4.916 billion. General Fund is increased by \$242.5 million, but \$158.4 million of this increase is due to a shift from Lottery and Other Funds to General Fund support in 2005-07. About \$122 million of the shift results from the assumed one-time use of Education Stability Fund resources in 2003-05. The Governor’s budget does not rely on this funding source. The balance of the shift, \$36.4 million, is due to lower levels of net unobligated lottery resources (\$34.4 million) and state timber taxes (\$2 million) available in 2005-07.

Of the total \$5.0 billion budget, \$4.7 billion is from General Fund support, \$295.7 million is from lottery support, and \$950,000 from state timber taxes (expended as Other Funds). As noted earlier, lottery support includes \$4.4 million assumed to be generated from the addition of line games to the video lottery.

The budget also provides \$500,000 General Fund for local option matching grants to eligible districts that have passed local option levies.

To achieve a balanced budget within available state resources, the Governor’s budget makes an unspecified \$318.5 million General Fund reduction in the essential budget level for the State School Fund. 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. 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 assumptions. For purposes of the 2004-05 base year, which is the starting point for the calculation of the essential budget level for 2005-07, the Committee assumed that Measure 30 reductions were implemented by schools over both the 2003-04 and 2004-05 school years, rather than only in 2004-05.

During 2005-07, districts will receive an estimated \$211 million increase in local revenues, which are primarily property taxes. Thus, combined state and local support increases by 4.1% from 2003-05 to 2005-07 (from \$7.236 billion to \$7.531 billion). The statewide average for per-student (weighted) spending in 2005-06 is estimated to be approximately \$5,300. This is about a 1% increase over the 2001-02 per student amount, without any adjustment for inflation.

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

(\$ in millions)											
Fiscal Year	State funding (a)	Local funding	Total	Percent change	State share	Fiscal Year	State funding (a)	Local funding	Total	Percent change	State share
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)	1105	3463	-3.2%	68%
1994-95	1427	1178	2605	5.3%	55%	2003-04 Est	2591	1120	3711	7.2%	70%
1995-96	1750	902	2652	1.8%	66%	2004-05 Est	2325 (g)	1200	3525	-5.0%	66%
1996-97	1760	956	2716	2.4%	65%	2005-06 Grb	2454	1236	3690	4.7%	67%
1997-98	2078 (b)	896	2974	9.5%	70%	2006-07 Grb	2546	1295	3841	4.1%	66%
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

State law requires the Governor to issue, along with his budget, a report on the sufficiency of his recommended funding level to support the quality education goals established in law. As of the writing of this analysis, that report has not been issued.

ODE – Debt Service

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

Note: 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 \$122 million is scheduled for May 2005. Lower interest earnings result in a greater need for general lottery resources since the required debt payments are fixed.

Governor's Budget

The budget provides \$55.9 million Lottery Funds, \$1 million in Education Stability Fund interest earnings (these are reflected as Lottery Funds), and \$1.7 million in other interest income from debt service-related accounts.

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

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

Note: 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

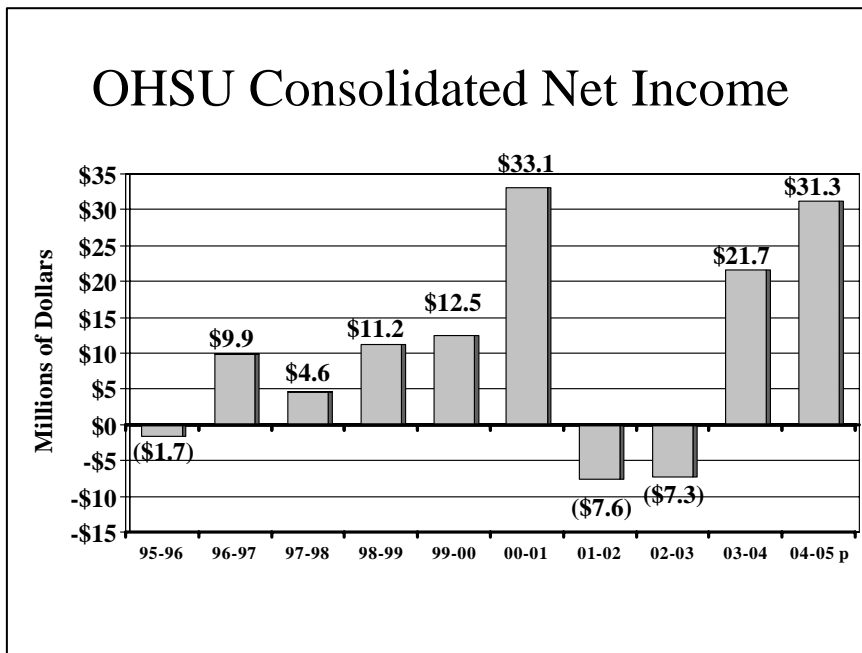
State support for OHSU's education and clinical programs has declined since the institution was reorganized as a public corporation. OHSU received \$125.1 million from the state in 1993-95, the last biennium that it was a part of the Department of Higher Education. This level declined 15% when OHSU was 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 disaggregation shows that the educational programs do not generate sufficient revenue to cover their operating costs, with the net operating loss currently running at about \$43 million per biennium. The university covers more than half of this loss with investment income and Foundation funds, but even with these non-operating funds the educational operations expect a net loss of \$18.7 million in the 2003-05 biennium. OHSU, by generating net income from its hospital and clinical operations of almost \$72 million, is able to finance the educational costs and still realize a \$53 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 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).

Governor's Budget

The total state support in the Governor's budget of \$85 million represents a \$127.8 million (or 60%) 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 will \$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.

Funding for the operations of the university's education and clinical programs is also reduced. These funds are reduced \$32.8 million (or 38%) 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 Adopted	2003-05 Legislatively Approved	2005-07 Governor's Recommended
General Fund	3,058,672	84,379,467	84,379,467	52,986,575
Other Funds	92,919,599	1,400,000	1,400,000	0
Total Funds	\$95,978,271	\$85,779,467	\$85,779,467	\$52,986,575

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.

The 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. State funds cover only 5% of the School of Medicine's budget, but cover 29% of the School of Nursing's budget. The figure for the School of Dentistry is 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.

Governor's Budget

The Governor's budget includes \$53 million in direct state support (all General Fund) for OHSU's education and clinical programs, and for the CDRC. This is a decline of \$32.8 million (or 38.2%) from the prior biennium level. The funding level also represents 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 will determine how this funding reduction will be distributed among its various programs, subject to a restriction that no less than \$2,741,720 of the \$53 million total be used to finance the Oregon Poison Center. The Oregon Poison Center funding will fully fund the Center's budget and eliminate the need for a subsidy from the rest of the Hospital and Clinics budget. In 2003-05, the budget provided \$1.4 million of state funds for the Poison Center, and the university used hospital revenues to finance the remaining costs.

Because the OSHU Board of Directors would need to approve any program changes in response to this reduction in funding, and since they have not determined yet how they would react, it is not possible to indicate what the effects of implementing the Governor's funding level would be. Clearly, however, a 38% reduction from the prior biennium level would require some adjustments. To put this in another perspective, OHSU is projected to realize a consolidated net income of \$53 million in the 2003-05 biennium. A \$32.8 million reduction in state funding would, if the university did nothing to reduce costs or raise other revenues, reduce this net income by over 60%, to about \$20 million. OHSU could continue to operate at this reduced level of net income, but its Board's policy has been that prudent management of the institution requires it to maintain a minimum 3% total margin, to provide sufficient resources to replace equipment, to expand and grow its services and operations, and to flexibly respond to changes in the competitive healthcare market. At OHSU's 2003-05 biennium level of operations, this translates into a biennial net income of approximately \$53.6 million.

Therefore, unless its Board modifies its financial targets for the institution, it will have to take actions to reduce costs and/or raise revenue. The Chair of the OHSU Board of Directors, speaking at a Board meeting held less than a week after the Governor released his budget, indicated that although no final decisions had been made, the Board would consider the following actions:

- Eliminating all state funding for indigent care in the hospital and clinics, reducing care for the poor to the levels provided by community-based hospitals (they currently provide approximately twice the state average).
- Eliminating the seven Child Development and Rehabilitation Center programs that are highly dependent on state funds: Spina Bifida, Genetics, Feeding Disorders, Cranio-Facial Disorders, Developmental Follow-up of High Risk Infants, Special Education, and Social Work.
- Eliminating the statewide undergraduate nursing programs, leaving a reduced undergraduate program at the Portland campus only.
- Raising all tuition in the Dental School to the nonresident level (i.e., operating the School like a private institution).
- Further increasing Medical School tuition.
- Eliminating funding for the majority of statewide rural health education programs, including the Area Health Education Centers.

OHSU will also be affected by a reduction in the state's Medicaid program. This reduction is not included in the \$32.8 million direct state support cut discussed above, but will cause a decline in the university's net patient revenue totals. The Medicaid budget reduces the amount the program will pay for Graduate Medical Education (GME) pass-through payments by \$12 million. OHSU estimates that this provision will reduce its share of GME payments by over \$3 million.

OHSU – Oregon Opportunity Program

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

Governor's Budget

The state cannot issue additional Article XI-L bonds. The Governor's 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 Adopted	2003-05 Legislatively Approved	2005-07 Governor's Recommended
General Fund	0	0	0	0
Other Funds	5,087,785	20,692,900	20,692,900	31,975,150
Total Funds	\$5,087,785	\$20,692,900	\$20,692,900	\$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.

Governor's Budget

The Governor's 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

	2001-03 Actual	2003-05 Legislatively Adopted	2003-05 Legislatively Approved	2005-07 Governor's Recommended
General Fund	746,014,010	678,947,125	671,431,645	685,450,858
Lottery Funds	4,869,745	8,123,462	8,123,462	11,998,734
Other Funds	1,203,343,594	1,478,611,558	1,480,271,558	1,408,386,847
Other Funds (NL)	1,730,045,995	1,986,258,008	2,087,285,908	2,425,619,327
Total Funds	\$3,684,273,344	\$4,151,940,153	\$4,247,112,573	\$4,531,455,766
Positions	13,730	14,812	14,781	13,882
FTE	11,155.90	12,092.26	12,061.26	11,301.52

Note: 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.

Governor's Budget

The Governor's budget provides a 2.6% increase in state support (General Fund plus Lottery Funds) over the 2003-05 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 \$548.9 million is an increase of \$5.7 million (or 1%) over the 2003-05 biennium level. This essentially flat funding level is approximately \$32.6 million (or 5.6%) below the calculated essential budget level. The Legislative Fiscal Office (LFO), however, believes that the \$32.6 million figure overstates the actual funding shortfall. The budget provides General Fund to finance \$4.2 million of program enhancements. The budget also technically reduces General Fund support for existing programs by \$36.8 million, although some of these reductions will not in fact reduce General Fund support for ongoing programs. LFO believes that approximately \$29 million is actually reduced from the level needed to maintain the ongoing programs with the same proportion of General Fund support that the Department is currently using, but that only \$15.5 million is actually reduced from the level needed to maintain ongoing programs at the General Fund proportionate share that the Legislature approved for the 2003-05 biennium.

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 Other Funds sources is the best measure of the resources available to the Department to maintain its education and general programs. Tuition and fee revenues are the primary sources of the limited Other Funds. The budget accommodates tuition and fee increases of 5% each year of the biennium at the projected 2005-07 biennium enrollment levels. Combined limited funds support for the Education and General Services Program is increased \$5.4 million (or 0.4%) 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 are less than were budgeted. Actual Other Funds revenues for 2003-05 are projected to be \$30.6 million below the budgeted level. Projected expenditures of Other Funds is \$44.1 million below what was budgeted. The actual limited Other Funds increase in the Governor's budget for the 2005-07 biennium is therefore closer to \$49.5 million (or 3.3%) above the actual 2003-05 biennium expenditures.

- Agricultural Experiment Station** – General Fund support of \$49.3 million is a decrease of almost \$900,000 (or 1.8%) from the 2003-05 biennium level. This is approximately \$4.1 million (or 7.7%) below the calculated essential budget level. Combined limited funds support is 5.3% below the essential budget level.

- **Extension Service** – General Fund support of \$34.9 million is a decrease of almost \$225,000 (or 0.6%) from the 2003-05 biennium level. This is approximately \$2.8 million (or 7.5%) below the calculated essential budget level. Combined limited funds support is 7% below the essential budget level.
- **Forest Research Laboratory** – General Fund support of \$4.8 million is a decrease of almost \$111,000 (or 2.2%) from the 2003-05 biennium level. This is approximately \$450,000 (or 8.6%) below the calculated essential budget level. Combined limited funds support is 5.7% below the essential budget level.
- **Debt Service** – State-paid debt service payments have increased by \$8.8 million (or 30%) from 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 \$7.1 million (or 24%) from the prior biennium level, to a total \$36.7 million.
- **Capital Construction** – A total capital budget of \$355.4 million is recommended, although this figure is reduced by the fact that a number of projects are included with only \$1 of expenditure limitation pending further Emergency Board review. This figure is down from \$446.1 million in 2003-05. General Fund for capital construction is increased by 49% to \$17.2 million. The budget also supports \$77 million of state-paid bonds for the projects. This is up from \$32.5 million in 2003-05. Most of the state-paid bonds are issued to address deferred maintenance and seismic issues. Debt service on these bonds would total an estimated \$10.9 million General/Lottery Funds per biennium when these costs are fully phased-in.

DHED – Education and General Services

	2001-03 Actual	2003-05 Legislatively Adopted	2003-05 Legislatively Approved	2005-07 Governor’s Recommended
General Fund	617,384,612	550,720,558	543,205,078	548,907,205
Other Funds	706,688,179	990,707,996	990,707,996	1,021,127,987
Other Funds (NL)	919,862,621	1,135,532,703	1,100,746,105	1,282,909,697
Total Funds	\$2,243,935,412	\$2,676,961,257	\$2,634,659,179	\$2,852,944,889
Positions	10,265	11,330	11,299	10,609
FTE	8,356.50	9,290.80	9,259.80	8,612.29

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.

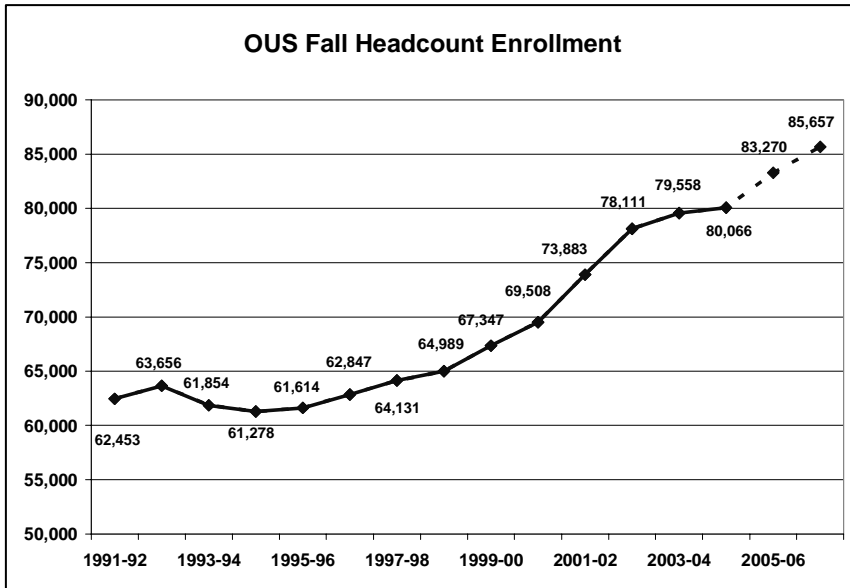
Budget Environment

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.

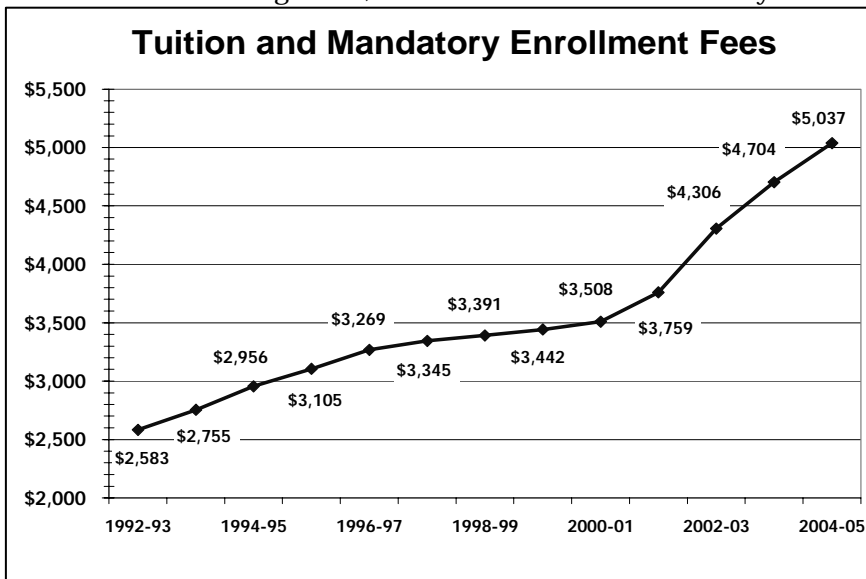


Enrollment in the Oregon University System has been increasing since the 1995-96 academic year. This reverses an earlier decline during the 1990s that occurred when tuition rates were increased rapidly as a response to Measure 5. This year, enrollment is at record levels, exceeding not only the 1990-91 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 below. 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.

Governor's Budget

General Fund support of \$548.9 million is an increase of \$5.7 million (or 1%) over the 2003-05 biennium level. This essentially flat funding level is approximately \$32.6 million (or 5.6%) below the calculated essential budget level. The Legislative Fiscal Office (LFO), however, believes that the \$32.6 million figure overstates the actual funding shortfall. The budget provides General Fund to finance \$4.2 million of program enhancements. The budget also technically reduces General Fund support for existing programs by \$36.8 million, although some of these reductions will not in fact reduce General Fund support for ongoing programs. LFO believes that approximately \$29 million is actually reduced from the level needed to maintain the ongoing programs with the same proportion of General Fund support that the Department is currently using, but that only \$15.5 million is actually reduced from the level needed to maintain ongoing programs at the General Fund proportionate share that the Legislature approved for the 2003-05 biennium.

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 fund 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 fee revenues are the primary sources of the limited Other Funds. The budget accommodates tuition and fee increases of 5% each year of the biennium at the projected 2005-07 biennium enrollment levels. Combined limited funds support for the Education and General Services Program is increased \$5.4 million (or 0.4%) 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 are projected to be \$44.1 million less than were budgeted. (Actual Other Funds revenues for 2003-05 are projected to be \$30.6 million below the budgeted level, but OUS has reduced expenditures by even more than the amount of the shortfall.) The actual limited Other Funds increase in the Governor's budget for the 2005-07 biennium is, therefore, closer to \$49.5 million (or 3.3%) above the actual 2003-05 biennium expenditures. Because expenditures are lower than expected, the cost of funding actual 2003-05 biennium programs in 2005-07 is less than it would have been if OUS had spent all that was expected.

The funding level for Education and General Services incorporates the following principal elements:

- General Fund distributions through the Resource Allocation model are reduced by a total of \$14.8 million. The components of this reduction include:
 - Undergraduate and Graduate "Cell Value" Enrollment Funding (-\$6.95 million)
 - Chancellor's Office (-\$5.5 million, equal to a roll-up of 2003-05 biennium cuts)
 - Engineering Education (ETIC) (-\$663,000)
 - Systemwide expenses (-\$371,000)
 - Research support (-\$390,000)
 - Campus public service programs (-\$222,000)
 - Veterinary College expansion funding (-\$203,000)
 - Remaining reductions of less than \$200,000 each (-\$438,000)
- General Fund is added to support new or expanded activities. The four General Fund enhancements total \$4.2 million. They are:
 - New data system for sharing student data with K-12 and community colleges (\$2.2 million)
 - Faculty recruitment and retention funds (\$1 million)
 - Limited restoration of certain recent Chancellor's Office cuts (\$734,000)
 - 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.

- General Fund to cover state government service charges is reduced \$6.2 million. The charges themselves are not reduced though. Instead, the understanding is that OUS will pay these charges with their Nonlimited Other Funds revenues. It is uncertain how much of the charges could be paid with these Nonlimited funds, however, since much of this money has restrictions on its use. In any event, support provided to OUS to pay the charges is reduced.
- LFO estimates that the Education and General Services Program would 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.
- The budget accommodates the tuition and fee revenues that would be generated at the forecast levels, if average tuition and fee rates are allowed to increase approximately 5% in each of the two years of the biennium. This rate of increase would be slightly lower than recent rates of increase, including the average 7.1% increase imposed this fall.
- 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. The Governor has included them in the Oregon Economic and Community Development Department budget. Funding for this initiative was included in the OUS budget last session, however, when \$1 million was designated for Signature Research Centers that are the central structure of the ONAMI initiative. The Lottery Funds would presumably be primarily distributed to Oregon State University, the University of Oregon, and Portland State University.

The Department reports that Governor's budget will necessitate a combination of program cuts and tuition increases that will vary across the universities. The program cuts could reduce course availability or require increases in average class sizes. Student services outside of the classroom and laboratory would be affected as well. They also state that campuses may need to make further program cuts to invest in increasing faculty compensation levels to more competitive levels.

A tuition increase of 5% each year of the biennium was included within the essential budget level to generate the funds needed to finance calculated 2005-07 biennium costs. The Department has estimated that because of the General Fund reductions to the Education and General program, funds will be approximately \$24 million below the level that is actually needed. This amount of additional revenue could be generated if tuition rates increased by 7% in the first year of the biennium and by 5% in the second. The Governor's budget was not adjusted to accommodate this larger tuition increase.

DHED – Fee Remissions

	2001-03 Actual	2003-05 Legislatively Adopted	2003-05 Legislatively Approved	2005-07 Governor's Recommended
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 is changing yet again (these changes were necessitated by changes in higher education accounting standards). In the 2003-05 budget, Programmatic fee remissions are 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.

Governor's Budget

The Governor's budget raises the fee remission limit from 8% to 10% of tuition revenue in 2005-07. The limitation is eliminated entirely after the 2005-07 biennium.

DHED – Agricultural Experiment Station

	2001-03 Actual	2003-05 Legislatively Adopted	2003-05 Legislatively Approved	2005-07 Governor's Recommended
General Fund	51,146,706	50,238,500	50,238,500	49,345,558
Other Funds	14,331,543	16,390,171	16,390,171	16,387,905
Other Funds (NL)	53,682,535	52,563,479	57,703,059	63,473,365
Total Funds	\$119,160,784	\$119,192,150	\$124,331,730	\$129,206,828
Positions	868	815	815	795
FTE	661.76	610.41	610.41	619.90

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.

Governor’s Budget

The budget’s \$49.3 million of General Fund is a decrease of almost \$900,000 (or 1.8%) from the 2003-05 biennium level. Other Funds revenues are essentially flat at last biennium’s level, so the combined limited funds budget is also down approximately \$900,000 or 1.3%.

The funding level for the Agricultural Experiment Station incorporates the following elements:

- A General Fund reduction of \$2,338,665 and elimination of 11 full-time positions. This is a general, unspecified reduction to funding for agricultural research.
- A General Fund reduction of \$7,556 and an Other Funds reduction of \$151,853 in support of payment of state government service charges. The Station is to pay these charges from its Nonlimited grant and contract revenues instead.
- 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 \$1,755,117 General Fund and an increase of \$552,820 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 and not true reductions.
- LFO estimates that the Agricultural Experiment Station would 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.

The Department reports that the Station would need to eliminate fifteen full-time positions and further increase reliance on part-time faculty in programs supported by Station faculty. The Station may consolidate two branch experiment stations, and the Oregon State University could consolidate two departments. These steps could eliminate an additional 20 to 25 scientist positions and their support staff, resulting in reduced federal grants. 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

	2001-03 Actual	2003-05 Legislatively Adopted	2003-05 Legislatively Approved	2005-07 Governor’s Recommended
General Fund	35,323,279	35,123,305	35,123,305	34,898,665
Other Funds	24,525,111	27,177,395	27,177,395	22,904,908
Other Funds (NL)	8,728,504	16,818,547	7,746,780	7,845,090
Total Funds	\$68,576,894	\$79,119,247	\$70,047,480	\$65,648,663
Positions	670	682	682	578
FTE	469.99	464.28	464.28	407.46

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.

Governor's Budget

The budget's \$34.9 million of General Fund is a decrease of approximately \$225,000 (or 0.6%) from the 2003-05 biennium level. Other Funds expenditures, however, are reduced 15.7% from last biennium's level, so the combined limited funds budget is down approximately \$4.5 million, or 7.2%. Other Funds revenues are \$2.2 million short of what is necessary to support the essential budget level.

The funding level for the Extension Service incorporates the following elements:

- There is no broad unspecified General Fund reduction. This is unlike the case for Education and General Services or for the other two statewide public service program.
- A General Fund increase of \$26,627 and an Other Funds reduction of \$114,659 in support of payment of state government service charges. The Extension Service is to pay the net difference from its Nonlimited grant and contract revenues instead.
- 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 \$2,863,248 General Fund and an increase of \$837,846 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 and not true reductions.
- LFO estimates that the Extension Service would 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.

The Department reports that Oregon State University would have to eliminate some faculty positions that are partly supported with Extension Service funds. Reductions would 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

	2001-03 Actual	2003-05 Legislatively Adopted	2003-05 Legislatively Approved	2005-07 Governor's Recommended
General Fund	5,025,056	4,938,639	4,938,639	4,827,897
Other Funds	7,891,903	9,757,876	9,757,876	9,791,989
Other Funds (NL)	22,568,480	24,112,272	21,833,249	20,941,905
Total Funds	\$35,485,439	\$38,808,787	\$36,529,764	\$35,561,791
Positions	266	246	246	251
FTE	206.92	196.77	196.77	199.16

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.

Governor's Budget

The budget's \$4.8 million of General Fund is a decrease of almost \$111,000 (or 2.2%) from the 2003-05 biennium level. Other Funds revenues are essentially flat at last biennium's level, so the combined limited funds budget is down approximately \$77,000 or 0.5%. The level of Other Funds expenditures is dependent on approval of an extension of the sunset of the Forest Products Harvest Tax. This tax is scheduled to sunset during the 2003-05 biennium, and the Legislature historically extends the tax for a two-year period each biennium.

The funding level for the Forest Research Laboratory incorporates the following elements:

- A General Fund reduction of \$250,934 and elimination of one full-time position. This reduction is to funding for graduate research assistants and information technology support.
- A General Fund reduction of \$26,378 and an Other Funds reduction of \$23,689 in support of payment of state government service charges. The Laboratory is to pay these charges from its Nonlimited grant and contract revenues instead.
- 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 approximately \$176,000 General Fund and \$402,000 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 and not true reductions.
- LFO estimates that the Laboratory would 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.

The Department reports that the Laboratory would need to eliminate five full-time positions through layoff or hiring freeze. This would reduce its ability to conduct basic and applied research on forests and work products. This impact is not entirely the result of funding levels in the limited budget. Grant and contract funds show a decline in the budget. Declines in this restricted funding will contribute to the expected staff reductions.

DHED – Sports Action Lottery

	2001-03 Actual	2003-05 Legislatively Adopted	2003-05 Legislatively Approved	2005-07 Governor's Recommended
Lottery Funds	4,400,753	4,902,324	4,902,324	5,561,871
Total Funds	\$4,400,753	\$4,902,324	\$4,902,324	\$5,561,871

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 game.

Budget Environment

The expectations, during the 2001 session, of a large increase in Sports Action lottery 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.

Governor's Budget

The expenditure limitation for the Sports Action lottery is typically set equal to the projected revenue. This time, however, the budget includes the expenditure of \$542,479 in fund balance that has built up when revenues exceeded projections in prior biennium. This drawdown on the fund balance represents a one-time expenditure increase. The \$5.56 million of Lottery Funds expenditures would leave a \$0 fund balance at the end of the biennium. Including this one-time expenditure increase, total expenditures will exceed the prior biennium level by 13.5%.

DHED – Debt Service

	2001-03 Actual	2003-05 Legislatively Adopted	2003-05 Legislatively Approved	2005-07 Governor's Recommended
General Fund	21,217,880	26,406,270	26,406,270	30,275,204
Lottery Funds	468,992	3,221,138	3,221,138	6,436,863
Other Funds (NL)	76,992,312	88,757,475	89,444,226	104,441,450
Total Funds	\$98,679,184	\$118,384,883	\$119,071,634	\$141,153,517

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.

Governor's 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 actually \$38.4 million, up 30% from the prior biennium. The budget substitutes \$1.7 million of Nonlimited Other Funds 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 COPs 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

	2001-03 Actual	2003-05 Legislatively Adopted	2003-05 Legislatively Approved	2005-07 Governor's Recommended
General Fund	15,916,477	11,519,853	11,519,853	17,196,329
Other Funds	449,906,858	434,578,120	436,238,120	338,174,058
Total Funds	\$465,823,335	\$446,097,973	\$447,757,973	\$355,370,387

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.

Governor's Budget

The Governor's budget supports 37 specified capital construction projects plus general support for deferred maintenance and small projects. Seven of the 37 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.

Expenditures approved for capital construction projects total \$355.4 million. The budget includes \$77 million of state-paid bonds – a 137% increase over the prior biennium level, but lower than the \$103 million approved in 2001-03. The remainder is financed by donations, grants, or by Article XI-F(1) bonds. Debt service on the state-

paid bonds would total an estimated \$10.9 million General/Lottery Funds per biennium when these costs are fully phased-in. The \$77 million of state-paid bonds includes \$29.7 million of Article XI-G bonds and \$19.4 million of Lottery Bonds. State Energy Loan Program (SELP) bonds are also used as a finance mechanism for the first time. A total of \$27.9 million of SELP bonds are included in the \$77 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.

The bonds approved for higher education capital construction projects can be broadly 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 \$32.5 million of state-supported debt. The remaining \$243.2 million of debt is self-supported debt paid by student building fees and Oregon University System auxiliary enterprise income.

DHED – Other Services (Nonlimited)

	2001-03 Actual	2003-05 Legislatively Adopted	2003-05 Legislatively Approved	2005-07 Governor's Recommended
Other Funds (NL)	648,211,543	668,473,532	809,812,489	946,007,820
Total Funds	\$648,211,543	\$668,473,532	\$809,812,489	\$946,007,820
Positions	1,661	1,739	1,739	1,649
FTE	1,460.73	1,530.00	1,530.00	1,462.71

Note: 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.

Governor's Budget

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

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 can be categorized into four broad but quite distinct functions. The agency: 1) administers state-funded student aid programs; 2) administers 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.

OSAC is in the process of withdrawing from administration of the federal student loan guarantee (FFELP) program. The agency has been unable to financially compete with other guarantor services, and is 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 alternate 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 support the FFELP program. OSAC's withdrawal from that program will require the agency to be reorganized and drastically downsized. The Commission's remaining functions will be 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. Many of the details relating to the agency's withdrawal from the federal student loan guarantee program remain uncertain as of this writing. There remain approximately \$4 million of program liabilities being claimed by the Federal government. The state is continuing to negotiate these liability issues.

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 two 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 is received under the federal loan guarantee program. The Commission receives 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) and for financial transactions in the loan guarantee program 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 the 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.

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.

Governor's Budget

The Governor's budget proposes major changes to the Commission's budget. Most of these changes result from a major 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 more than doubles state support for the Opportunity Grant program from the 2003-05 biennium level. State funding of Opportunity Grants is increased to \$92.3 million, an increase of \$48.3 million (or 110%) from the 2003-05 biennium level. Although this greatly increases Opportunity Grant activity, the award process is very automated for the agency, and the budget does not provide any increased funding for administration of the Opportunity Grant program.

Withdrawal from Loan Guarantee Program – the budget eliminates expenditure of approximately \$12.2 million Other Funds, and 61 agency positions (61.00 FTE, or 70%, 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 loan 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 61-position cut. Approximately \$1.5 million of General Fund is added to finance expenditures previously financed by the loan program. This reduces the net reduction in administrative reductions to \$10.7 million on an ongoing basis, and almost triples General Fund support for agency administrative costs (180% increase). The budget also includes approximately \$100,000 General Fund to finance one-time transition costs relating to the withdrawal from the program (including unemployment benefits for laid off employees).

The Legislative Assembly will review the impact of the agency's withdrawal from the loan guarantee program on its appropriate organization structure and funding needs.

Other Adjustments – ASPIRE program expenditures are expanded by almost \$600,000 Other Funds, and one full-time position is added. 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 GRB</u>	<u>Change</u>
Opportunity Grant	\$44,031,287	\$92,332,121	109.7%
Rural Health Services Program	434,208	444,629	2.4%
Nursing Services Program	156,372	358,650	129.4%
Former Foster Youth Scholarship	0	0	0.0%
Agency Operations	871,707	2,438,168	179.7%
Total State Support	\$45,493,574	\$95,573,568	110.1%

OSAC – Administration Division

	2001-03 Actual	2003-05 Legislatively Adopted	2003-05 Legislatively Approved	2005-07 Governor's Recommended
General Fund	214,950	163,569	163,569	977,194
Other Funds	1,538,127	1,797,196	1,797,196	0
Total Funds	\$1,753,077	\$1,960,765	\$1,960,765	\$977,194
Positions	9	11	11	4
FTE	9.00	11.00	11.00	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 uses 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 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 as charges for administering Private Award programs.

Governor's Budget

The budget reduces total Administration Division expenditures by \$852,196 (or 47%) from the level necessary to continue all existing services, and eliminates seven of the Division's eleven positions.

Opportunity Grant Funding Increase – the increase in Opportunity Grant Funding has no impact on the Administration Division program area budget.

Withdrawal from Loan Guarantee Program – the budget eliminates \$1,656,820 of Other Funds expenditures that had been supported with loan program proceeds. Offsetting this reduction is a \$779,906 fund shift to (i.e., increase in) General Fund, resulting in a net budget reduction of \$876,975. Seven of the Division’s eleven employee positions, including the vacant deputy director position, are 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 service and supply costs. The Division budget also includes \$30,000 General Fund for unemployment benefits for employees affected by the agency layoffs.

The agency also faces potential liabilities to the federal government, that total approximately \$4 million, relating to its participation in the FFELP program. The amount of these liabilities is still under negotiation. It is also unknown at this time whether the disposing of the agency’s loan portfolio will produce any revenue to help meet any remaining liabilities. The budget does not include funds to pay for any of these potential liabilities.

Other Adjustments – There are no other adjustments to the level necessary to continue all existing services in the Administration Division program area budget.

OSAC – Grants and Scholarships

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

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 20,000 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 new Nursing Services program, which repays the student loans of nurses who serve in designated rural areas with nursing shortages.

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 state support for the Opportunity Grant has not been maintained during the current General Fund shortfall, Federal

Funds are projected to equal \$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. 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 \$45.5 million for Opportunity Grants, a level that exceeded the 2001-03 level (after reductions) by 21%, and that even exceeded the original 2001-03 level by 3.3%.

Governor's Budget

The budget increases total Grants and Scholarships Division expenditures by \$48.6 million (or 81%) over the essential budget level, and increases state General Fund and Lottery Funds support by \$47.3 million (or 102%).

Opportunity Grant Funding Increase – the budget adds \$47.2 million to the essential budget level of General Fund support 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 \$92.3 million, a 110% increase over the 2003-05 level. Adding in available Federal Funds yields total Opportunity Grant funding of \$94.4 million, which is double the essential budget level of funding.

The Legislative Fiscal Office (LFO) projects that the additional funds will therefore support a doubling of the size of the program. The budget does not support increases in the size of individual awards. Rather, the funds are to be used to increase the number of awards. The Governor's budget will support approximately 40,000 Opportunity Grant awards per year, up from the current 20,000 per year. The total could be higher if a disproportionate number of new awardees are community college students, since these students receive smaller award amounts. The agency is estimating that 50,000 students will receive awards each year, but LFO believes this number is unlikely.

The additional funding will allow the agency to award Opportunity Grants to all student who meet current eligibility requirements. It will also allow it to relax some requirements and expand the number of eligible students. Dependent students currently cannot receive a grant if they earn more than 55% of the median family income level for a family of their size. The increased funding will allow the Commission to grant awards to dependent students earning up to 75% of median family income. For single independent students, the income cutoff would be increased from 30% to 35% of median income for singles.

Withdrawal from Loan Guarantee Program – the budget eliminates \$153,612 of Other Funds expenditures that had been supported with loan program proceeds. Offsetting this reduction is a \$153,854 fund shift to (i.e., increase in) General Fund, resulting in no net budget reduction. This will shift funding for a financial aid analyst from loan program funds to General Fund. One vacant position is also eliminated.

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. 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. Because program administrative costs are financed from fees charged to donors, it is likely that the withdrawal of the primary donor will also significantly reduce the amount of funds available for administration. The budget does not appear to include such a decrease, however. The budget also includes \$597,052 Other Funds and adds one full-time permanent position to expand the ASPIRE program. This program provides assistance to high schools that train volunteers to advise students on their academic options. Funding would accrue from donation and the federal AmeriCorps program.

OSAC – Loan Division

	2001-03 Actual	2003-05 Legislatively Adopted	2003-05 Legislatively Approved	2005-07 Governor's Recommended
Other Funds	9,541,710	8,793,727	8,793,727	0
Other Funds (NL)	40,939,442	33,259,980	33,259,980	0
Total Funds	\$50,481,152	\$42,053,707	\$42,053,707	\$0
Positions	57	45	45	0
FTE	56.00	45.00	45.00	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 is 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 cannot be made financially viable without an ongoing General Fund subsidy. The agency will withdraw from FFELP before the close of the 2003-05 biennium. More detail on the withdrawal will be available early in the legislative session.

Governor's Budget

The Loan Division is eliminated in the Governor's budget.

Opportunity Grant Funding Increase – the increase in Opportunity Grant Funding has no impact on the Loan Division program area budget.

Withdrawal from Loan Guarantee Program – the Governor's budget eliminates all funding and position authority in the Loan Division. OSAC will withdraw 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).

Other Adjustments – There are no other adjustments in the Loan Division program area budget.

OSAC – Information Services Division

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

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. However, the agency does see a need for a database administrator as it moves more of its information services in house.

Governor's Budget

The budget reduces total Information Services Division expenditures by \$343,806 (or 33%) from the essential budget level, and eliminates half of the Division's six positions.

Opportunity Grant Funding Increase – the increase in Opportunity Grant Funding has no impact on the Information Services Division program area budget.

Withdrawal from Loan Guarantee Program – the budget eliminates \$934,666 of Other Funds expenditures that had been supported with loan program proceeds. Offsetting this reduction is a \$500,459 fund shift to (i.e., increase in) General Fund, resulting in a net budget reduction of \$434,207. 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.

Other Adjustments – The budget 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 Adopted	2003-05 Legislatively Approved	2005-07 Governor’s Recommended
General Fund	214,663	195,802	195,802	264,258
Other Funds	652,760	776,612	776,612	323,225
Total Funds	\$867,423	\$972,414	\$972,414	\$587,483
Positions	4	7	7	2
FTE	4.00	7.00	7.00	2.00

Program Description

The Office of Degree Authorization (ODA) is charged by 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.

Governor's Budget

The budget reduces total Office of Degree Authorization/Policy Research expenditures by \$238,088 (or 29%) from the essential budget level, and eliminates five of the program area's seven positions.

Opportunity Grant Funding Increase – the increase in Opportunity Grant Funding has no impact on the Office of Degree Authorization/Policy Research program area budget.

Withdrawal from Loan Guarantee Program – the budget eliminates \$363,992 of Other Funds expenditures that had been supported with loan program proceeds. Offsetting this reduction is a \$119,467 fund shift to (i.e., increase in) General Fund, resulting in a net budget reduction of \$244,525. Five of the Division's seven employee positions are eliminated as a consequence of the withdrawal from the loan program and from an inability to generate the fee revenues supported in the 2003-05 budget. The additional General Fund will allow two employees to continue, including the Administrator, and will finance ongoing service and supply costs.

Other Adjustments – There are no other adjustments to the essential budget level in the Office of Degree Authorization/Policy Research program area budget.

Teacher Standards and Practices Commission – Agency Totals

	2001-03 Actual	2003-05 Legislatively Adopted	2003-05 Legislatively Approved	2005-07 Governor's Recommended
Other Funds	3,320,018	3,574,664	3,574,664	3,820,753
Total Funds	\$3,320,018	\$3,574,664	\$3,574,664	\$3,820,753
Positions	19	21	21	22
FTE	17.75	20.00	20.00	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 holding 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.

The 2005-07 Governor's recommended budget depends upon an increase in fees for in-state applicants and renewals to \$100 as of July 2005. In addition, to achieve equity for licensees, the agency plans to move all permanent renewals onto a five-year cycle. For applicants currently on a five-year renewal cycle, the changes will result in an annual increase of \$5 (from \$15 per year to \$20 per year for five years). For applicants currently on a three-year renewal cycle, the changes will result in an annual decrease of \$5 (from \$25 per year for three years to \$20 per year for five years).

Other fees include \$42 for fingerprinting, \$50 for registration of certain 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, 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.

Total revenues for 2005-07 are estimated at \$3.9 million, approximately a 22% increase over 2003-05. The ending balance for 2005-07 represents about six months of expenditures.

Because moving all licensees to a five-year cycle delays some revenues that otherwise would have been received in 2007-09 until 2009-11, it is possible another fee increase will be needed in 2007-09 to sustain the budget and provide an adequate ending balance for that biennium.

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 for 2003-05 indicated approximately 36,500 licenses would be issued, that number now has been revised downward - to 35,000. For 2005-07, TSPC estimates it will issue 34,500 new and renewed licenses. However, although the number of licenses issued is expected to decrease, 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. Positions added by the 2003 Legislative Assembly have helped, but two of these positions are of a limited duration nature and do not continue beyond the end of the 2003-05 biennium.

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 approximately 3,000 teacher credentials to determine if individual teachers are "highly qualified." The majority of the reviews are done, but 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 254 in 2001-03, a 65% increase. For the first 16 months of the 2003-05 biennium, 183 cases have been filed.

Governor's Budget

The Governor's budget is a 7% increase over the 2003-05 legislatively approved 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 \$235,408 Other Funds expenditure limitation for 3 permanent positions (3.00 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; and
- the addition of \$28,500 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.