Analysis of the

2007-09

Governor's Budget

Legislative
Fiscal
Office

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TABLE OF CONTENTS

PROGRAM AREAS

EDUCATION

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

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	416,402,144	433,067,380	433,770,398	508,038,707
Lottery Funds	49,000	0	0	0
Other Funds	11,789,583	90,488,832	90,688,831	178,621,379
Federal Funds	126,274,221	131,173,928	131,173,928	123,791,748
Federal Funds (NL)	9,321,985	12,000,000	12,000,000	5,968,831
Total Funds	**$563,836,933**	**$666,730,140**	**$667,633,157**	**$816,420,665**
Positions	47	50	50	65
FTE	45.70	49.70	49.70	64.20

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, and it 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 receipts of $130 million of Federal Funds revenue in the 2007-09 biennium. These include $112 million for regular WIA Title IB programs, $11 million for Adult Education and Family Literacy (WIA Title II) programs, and $6 million for the National Emergency Grant program. Federal Funds from these three programs are projected to decrease approximately 12% from the level that the Legislature approved for the prior biennium. However, the revenues will represent only a 0.6% reduction from now estimated 2005-07 biennium Federal Funds revenue amounts. Estimated 2005-07 biennium Federal Funds revenues are close to 12% below budget, primarily due to reduced Congressional appropriations for these programs. Because of the timing of the funding reduction, the Department anticipates that 2007-09 biennium funding will be sufficient to support these programs at current operating levels.

National Emergency Grant funds are received in a different manner than are other Federal Funds in the agency budget. CCWD must apply to the federal government for any NEG funds, and expenditures of these funds are Nonlimited in the state budget. The state is now anticipated to receive far fewer NEG funds in 2005-07 than were budgeted, due primarily to Oregon's improving economy and the allocation of a greater portion of the NEG funds to other states. NEG funds are currently projected to total $3.9 million in 2005-07 rather than the projected $12 million in the 2005-07 legislatively adopted budget. In 2007-09, NEG funds are projected to increase to $6 million. The final source of Federal Funds, the federal Incentive Grant, will provide $750,000 in 2007-09. This grant will expire one year into the biennium, and the 2007-09 biennium funding is approximately half the prior biennium level.

The Governor's budget also projects $178.6 million of Other Funds revenue in the 2007-09 biennium. Most of this ($174.3 million) consists of Article XI-G bond proceeds and community college matching funds that would finance the capital construction projects that the Governor is recommending. Excluding these funds, Other Funds for agency operations are projected to total $4.3 million in 2007-09, which is a 66% decline from the amount in the 2005-07 legislatively adopted budget. The largest single source of Other Funds are the revenues of the Oregon Youth Conservation Corps. At $2.3 million, OYCC Other Funds revenues are up 2.7% over the 2005-07 budget. Most of the remaining 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 Oregon Department of Education (ODE). Carl D. Perkins revenues, which are projected to total $1.4 million Other Funds, are used by the Department and community colleges to support development of Professional/Technical programs. The $1.4 million of revenue represents an 86% decline from the amount approved last session. This major decline reflects a realignment in the state budget of Perkins funds from CCWD to the Oregon Department of Education. The Perkins funds that are distributed to community colleges no longer pass through the CCWD budget as in the past. Instead, ODE now sends the funds directly to the colleges.

The remaining Other Funds include $0.7 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.

CCWD – Office Operations

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	1,993,185	2,034,350	2,737,368	6,711,912
Other Funds	1,375,402	1,976,965	2,176,964	1,789,891
Federal Funds	8,219,784	7,558,482	7,558,482	7,821,480
Total Funds	**$11,588,371**	**$11,569,797**	**$12,472,814**	**$16,323,283**
Positions	44	47	47	62
FTE	42.70	46.70	46.70	61.20

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, course approvals, and oversight of state-supported community college capital construction projects.

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 Oregon 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.

Governor's Budget

The Governor's recommended budget finances a substantial increase in the agency's Office Operations program. The budget increases General Fund support for Office Operations by 149% over the 2005-07 biennium level. Total funds support is increased 31%, and the proposed net addition of 15 positions (15.00 FTE) represents a 31% increase over current staffing levels. However these figures understate the expansion of Office Operations, since the increases are net of offsetting reductions for programs that are ending or shifted elsewhere. After taking these phase-outs into consideration, General Fund support is increased 210%, total funds are increased 38%, and positions/FTE are increased 35% over the essential budget level.

A number of programs are phased out of Office Operations, based on specific revenue reductions. The $664,400 General Fund appropriated in the 2005-07 biennium for the Integrated Data Transfer System (IDTS) is phased-out, consistent with legislative expectations that this appropriation represented one-time funding. In addition, $539,605 Other Funds are phased-out to reflect the reassignment of portions of the Carl Perkins program to ODE, and $63,333 Federal Funds is phased-out for the expiration of a federal Incentive Grant that was not renewed. There are no additional program cuts beyond those phased-out for these reasons.

Budget enhancements total $4.5 million General Fund, $4.9 million total funds, and 16 positions (16.00 FTE). The enhancements are for the following initiatives. Most of the enhancements include funds in both the Office Operations and the State Support to Community Colleges program areas, with the funds in Office Operations spent at the state level and the funds in the State Support to Community Colleges program spent at the community colleges. Two of the initiatives relate entirely to the state office and do not have funding impacts on community colleges. The first of these two includes $91,000 of Other Funds and Federal Funds to finance reclassifications of nine of the agency's 46 existing positions. The second such initiative, called Accountability and Education Alignment and Support, provides $1.1 million General Fund ($1.4 million total funds) to add nine positions (9.00 FTE) to agency staffing levels. These include three positions to support the agency's accounting and financial management functions, as well the agency's role in the community college capital construction program; and six positions relating to research, program development, and performance evaluation; plus $100,000 for additional professional services.

All of the remaining budget enhancements to Office Operations also include funds that are transferred to community colleges in the State Support to Community Colleges program. The titles of the enhancements, and their funding impact to Office Operations follow immediately. Descriptions of the enhancements, however, are provided in the State Support to Community Colleges program in the next section of this document. Funding for Office Operations is as follows: Statewide OFAX – $161,760 General Fund; Healthcare Workforce Initiative – $5,000 General Fund; Integrated Management Information System (IMIS) – $1.45 million General Fund; Workforce & Career Readiness Certification – $724,075 General Fund and three positions (3.00 FTE); Skill-up Oregon – $1.1 million General Fund and four positions (4.00 FTE).

CCWD – State Support to Community Colleges

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	411,092,904	428,774,455	428,774,455	496,154,050
Lottery Funds	49,000	0	0	0
Other Funds	213,377	185,293	185,293	18,000
Total Funds	**$411,355,281**	**$428,959,748**	**$428,959,748**	**$496,172,050**

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

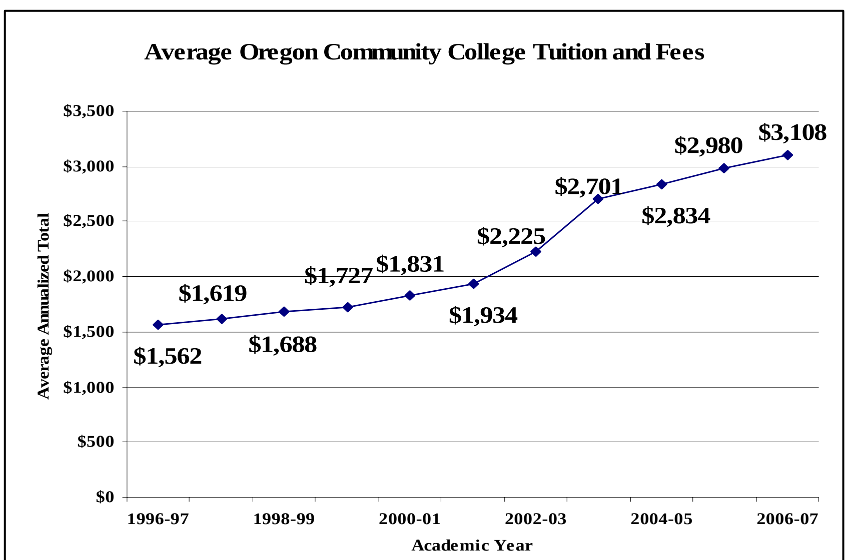
State support to community colleges is almost exclusively provided by the General Fund. In 1999, however, the Legislature changed the state's system of timber taxation. The new law eliminated the timber privilege tax distribution to community colleges and made this revenue a state resource. The law also 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.

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 $242 million of property tax collections are projected for community colleges in the 2007-09 biennium, providing approximately 23% of college operating revenue. Tuition and fee revenues, which are also not included in the state agency budget, are the third of the three principal fund sources for community college operations. Currently, state General Fund provides approximately 45% of the revenues from these three sources. In 1990, before the Measure 5 property tax limit was adopted, the state had provided only 29% of total funding. That percentage increased to as high as 55% in the late 1990s, but has fallen back to 45% since then as state appropriations to community colleges were cut. Local property taxes, which provided 50% of college funding before Measure 5, have provided only about 23% since Measure 5 reductions fully phased-in in 1995. The remaining funding is from tuition and fee revenues. The state replaced lost property taxes after Measure 5 to such an extent that the tuition and fee share of funding remained fairly constant in the 21-24% range through the 1990s. Since then, however, colleges significantly increased tuition rates to maintain programs as state support was being reduced in the early 2000s. Tuition and fee revenues now provide approximately 32% of the total revenue from these three major 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 essentially at 1999-2001 biennium levels.

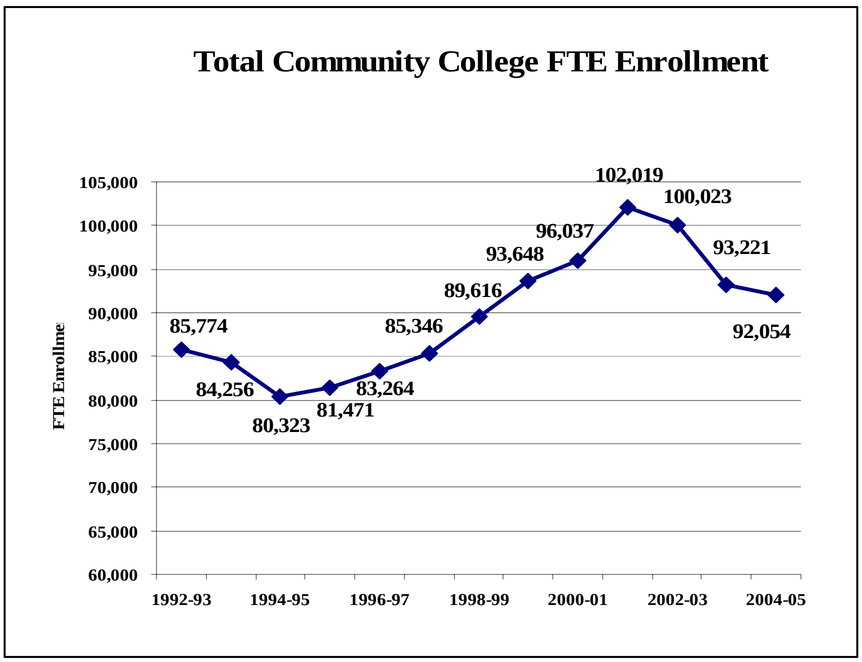
Funding was reduced further in the 2003-05 biennium. After adjusting for the one-time $56 million funding reduction for the payment shift, the 2003-05 legislatively adopted budget provided $14.8 million (or 3.4%) less than what the colleges effectively received for 2001-03 after all of the special session reductions. This reduction increased to $21.6 million (or 5%) when, in Measure 30, voters rejected temporary income tax increases that had been approved to balance the legislatively adopted budget. General Fund was reduced $6.8 million by the outcome of that vote. The Legislature also directed that state dollars not be used to support self-improvement courses that are not health-, safety-, or workforce-related. Funding reductions ended with the 2005-07 budget. In that biennium, the state increased General Fund support by $17 million (or 4.1%) over the prior biennium level. Nonetheless, total state support remained below the 1999-2001 biennium level.



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 30% of the Oregon class of 2005 high school graduates went on to attend an Oregon community college in 2006. This was higher than the 22% who enrolled in the Oregon University System. Also, approximately 3,700 students transferred from community colleges to the Oregon University System in the 2005-06 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 27% of community college students (on a headcount basis) are in the traditional college age category of 18 to 24. Approximately 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.

Enrollments declined as community colleges increased tuition and fee rates after the passage of Measure 5. For three years, tuition and fee rates increased at annual rates of 15% or higher. After that, however, tuition and fee 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 15% in the 2002-03 academic year, and by an additional 21% in the 2003-04 academic year. Although tuition and fee rate increases have moderated since then, exhibiting 4-5% annual increases, the average cost of tuition and fees at community colleges has still risen more than 60% in the last five years.



Enrollment growth at first accelerated in the late-1990s. 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 21,000 net course sections, or 23% of the total, were eliminated), enrollment began to decline. By the 2004-05 academic year, the last year for which full year data is available, enrollment had fallen to 92,054 FTE, an 9.8% decline from the peak, and was below the level it had been five years earlier. Unduplicated headcounts have declined even more rapidly. The 2004-05 unduplicated headcount of 346,206 represents a 15% drop from the peak level of two years earlier. Headcounts are falling more rapidly than FTE enrollment as average course load has fallen. Finally, since the 23% drop in course sections over the 2001-02 to 2003-04 period, most of the course sections have been restored, but the total is still 7% below the 2001-02 peak.

Governor's Budget

The Governor's recommended budget includes $496.2 million of state support to community colleges. This is equal to a $67.4 million (or 15.7%) increase from the 2005-07 biennium level, and a $84.7 million (or 20.6%) increase over the level two biennia ago. The preponderance of state support would be distributed to community college districts as unrestricted funds through the Community College Support Fund (CCSF). The Governor's budget includes CCSF funding of $483 million. The remaining $13.2 million is allocated to community colleges outside of the CCSF and is designated for specific programs. The unrestricted portion, allocated through the CCSF, is an increase of $54.9 million (or 12.8%) over the 2005-07 biennium level. The $13.2 million for specified programs all represent new enhancements above the essential budget level. None of these specified programs were funded by the state last biennium.

A summary of Governor's budget for the State Support for Community Colleges program area is included below:

- **Community College Support Fund (CCSF) – $483 million General Fund** (all but $18,000 of timber tax revenues in this total being General Fund), an increase of $54.9 million (or 12.8%) above the prior biennium level. Because of increases in property taxes that are projected for community colleges in the 2007-09 biennium, the essential budget level for state funding was essentially flat at the prior biennium level (i.e., increases in property taxes should be sufficient in themselves to fund cost increases associated with the essential budget level on a systemwide basis). Therefore, the CCSF funding level is also equal to $55 million above the essential budget level.

- **Career Pathways – $985,000 General Fund**, a new funding initiative above the essential budget level. These funds will support half the cost of establishing a Pathways to Advancement coordinator at each of the 17 community colleges. The colleges are expected to pay for the other half of the cost from other funds available to them. Pathways to Advancement is an initiative to revise college curriculums to enable students to more quickly attain skills needed for certain identified high-demand occupations, and to expedite professional and technical certificate and degree programs.

- **Statewide OFAX – $276,240 General Fund**, a new funding initiative above the essential budget level. The total amount added in the agency budget for Statewide OFAX is **$438,000 General Fund**, with the rest of the addition in the Office Operations program. Statewide OFAX (Oregon Financial Aid Data Exchange System) would finance expansion of an existing student financial aid data system to all community colleges, OUS institutions, and OHSU, thereby facilitating the awarding of financial aid to students enrolled in more than one institution. Currently, OFAX only covers five OUS campuses and five community colleges. CCWD would transfer approximately $54,000 to OHSU and the Department of Higher Education to fund their institutions' participation in OFAX.

- **Healthcare Workforce Initiative – $2.2 million General Fund**, a new funding initiative above the essential budget level. The total amount added in the agency budget for the Healthcare Workforce Initiative is **$2,205,000 General Fund**, with the rest of the addition in the Office Operations program. These funds represent the portion of a $15.2 million General Fund program in the Governor's budget to expand healthcare workforce programs that is allocated for community colleges. The Governor's budget also allocates $7.4 million to the Department of Higher Education and $5.6 million to the Oregon Health and Science University School of Nursing. (The Governor's budget also has funds to expand capacity in OHSU's Medicine and Dentistry Schools, but the Legislative Fiscal Office is not including these in its analysis of the Healthcare Workforce Initiative.) The community college funding will be used to convert programs and courses to distance learning format and expand distance learning technical infrastructures, purchase simulation equipment used in healthcare training programs, add onsite courses, expand student advising services, and train faculty in distance learning techniques.

- **Integrated Management Information System (IMIS) – $255,000 General Fund**, a new funding initiative above the essential budget level. The total amount added in the agency budget for IMIS is **$1.7 million General Fund**, with the rest of the addition in the Office Operations program. IMIS is the proposed consolidation of the Department's five existing data systems to develop a central system that collects required financial data in a standard format from all 17 community colleges.

- **Virtual Learning – $150,000 General Fund,** a new funding initiative above the essential budget level. This funding package is proposed in connection with a similar package in the Oregon Department of Education budget to expand the access of virtual (distance) learning opportunities for high school students by financing an expansion of community college virtual course offerings.

- **Workforce & Career Readiness Certification – $420,238 General Fund**, a new funding initiative above the essential budget level. The total amount added in the agency budget for the Workforce & Career Readiness Certification is **$1,144,313 General Fund**, with the rest of the addition in the Office Operations program.

These funds would be used to develop a credential for career and workforce readiness that employees could earn in support of their employment efforts.

- **Skill-up Oregon – $8.9 million General Fund**, a new funding initiative above the essential budget level. The total amount added in the agency budget for the Workforce & Career Readiness Certification is **$10 million General Fund**, with the rest of the addition in the Office Operations program. These funds would be used to provide training services to workers who are unemployed, on public assistance, or who are deficient in certain basic job skills. The Governor has indicated that under the December 2006 state revenue forecast, his support for funding this program is contingent upon approval of the increase he has proposed in the minimum corporate tax.

CCWD – Federal/Other Support

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	8,277,047	9,303,595	9,303,595	396,074
Federal Funds	118,054,437	123,615,446	123,615,446	115,970,268
Federal Funds (NL)	9,321,985	12,000,000	12,000,000	5,968,831
Total Funds	**$135,653,469**	**$144,919,041**	**$144,919,041**	**$122,335,173**

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 28,000 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 (more than 50) 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 32,000 clients are served by these funds each year.

Budget Environment

Federal support for these programs is expected to decline from the levels supported in the 2005-07 biennium budget. 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 declined though as a result of the economic recovery from recession earlier this decade. The Department has successfully obtained additional funds through the 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 recommended budget supports these programs at the projected Federal Funds and Other Funds revenue levels, including 2007-09 biennium expenditures of grant funds received in 2005-07. The budget projects that Federal Funds will decline by approximately 15% from the 2005-07 biennium legislatively approved budget level. This includes a 12% reduction in the Federal Funds expenditure limitation, and a 50% decline in Nonlimited NEG grant funds. It is difficult to know now, however, what the eventual biennial funding for these programs will be. In the 2005-07 biennium, actual Federal Fund revenues were 16% below the level budgeted. The Governor's budget is therefore projecting Federal Fund revenues of approximately 1% more than were actually received in 2005-07, even though this same projection is 15% below the legislatively approved budget for 2005-07.

The Other Funds decline from the prior biennium budget is due almost entirely to a reduction in the expenditures under the Carl D. Perkins program that are accounted for in the CCWD budget. These expenditures are projected to decline 86% from the amount approved last session. This major decline reflects a realignment in the state budget of Perkins funds from CCWD to the Oregon Department of Education. The Perkins funds that are distributed to community colleges no longer pass through the CCWD budget as in the past. Instead, ODE now sends the funds directly to the colleges.

CCWD – Debt Service

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	3,316,055	2,258,575	2,258,575	5,172,745
Total Funds	**$3,316,055**	**$2,258,575**	**$2,258,575**	**$5,172,745**

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 in the period between the 1979 session and the 2005 session. Debt service requirements were declining until the 2005-07 biennium, as the existing bonds were paid off. Debt service payments on bonds issued through the 1979 session will be completed in the 2007-09 biennium.

Debt service for pre-2005 bonds will equal approximately $705,000 in 2007-09. The 2007-09 biennium will be the first biennium when General Fund will be appropriated to pay debt service on community college capital construction project Article XI-G bonds authorized after the 1979 session. The debt service on bonds issued for all projects approved in the 2005-07 biennium would be approximately $5.6 million. The combined total debt service of $6.3 million is almost triple (2.8 times) the prior biennium level of $2.26 million. Actual 2007-09 biennium debt service requirements will be lower than $6.3 million, because not all of the authorized bonds are actually being issued at this time.

Governor's Budget

The Governor's recommended budget over-funds 2007-09 biennium debt service costs by an unknown amount. The amount in the budget finances debt service to cover the bonds approved for all of the capital construction projects approved last session, with the exception of the Klamath Community College project. Klamath Community College is not proceeding with its approved project at this time. It now turns out, however, that Tillamook Bay, along with Klamath, will not participate in the March 2007 bond sale. The Governor's budget includes $709,400 General Fund for debt service on Article XI-G bonds for the Tillamook Bay project. None of these funds will be needed if Tillamook Bay does not proceed with its project before the Spring 2009 bond sale. Only a portion of these funds will be needed if bonds are issued for Tillamook Bay before Spring 2009. The amount needed will depend on the timing of the bond sale.

There are no funds included for debt service on the $81,150,000 million of Article XI-G bonds that that the Governor's budget authorizes for twelve new community college capital construction projects in 2007-09. This additional debt service is projected to total $12.7 million per biennium when fully phased in. Any 2007-09 biennium debt service costs on these new bonds will be financed from bond sale proceeds. General Fund would be first required to pay debt service on the new bonds beginning in the 2007-09 biennium. General Fund debt service costs in the 2009-11 biennium would increase by an estimated 250% over the 2007-09 biennium level.

CCWD – Community College Capital Construction

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	0	77,000,000	77,000,000	174,300,000
Total Funds	**$0**	**$77,000,000**	**$77,000,000**	**$174,300,000**

Program Description

This program finances state support for the construction, acquisition, and major renovations of community college properties. The state had 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.

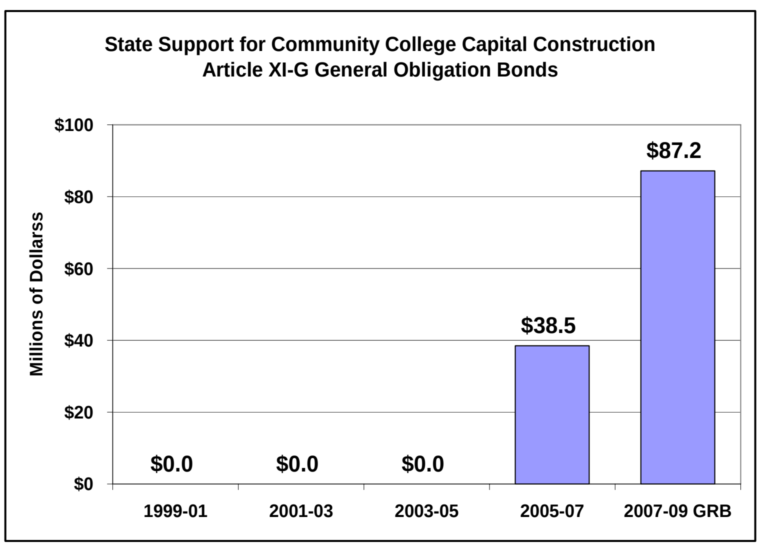
The 2005-07 biennium legislatively adopted budget included, for the first time since the 1979-81 biennium, state support for community college capital projects. The 2005-07 biennium budget authorized $38.5 million of Article XI-G bonds for community college capital construction projects at seven community colleges: Clatsop, Columbia Gorge, Klamath, Oregon Coast, Rogue, Southwestern Oregon, and Tillamook Bay. The projects were to be financed by Article XI-G bonds matched by an equal contribution of local college dollars. Article XI-G bonds are a constitutionally-authorized general obligation debt of the state. The state is required to match the bonds with at least an equal amount of General Fund. In lieu of regular General Fund, the colleges were required to transfer the 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 2005-07 budget did not include General Fund to pay debt service on the Article XI-G bonds. The bond issue will be delayed until March 2007 to postpone any debt service costs until the 2007-09 biennium. The sale will include $25.9 million of the $38.5 million authorized. Bonds will not be issued for the Klamath or Tillamook Bay projects, because these campuses have not raised the required matching funds. The authorization for the capital construction projects extends through the 2009-11 biennium, however. The campuses can still proceed with their projects until then, if the Legislature reauthorizes authority for the $12.6 million of Article XI-G bonds in the bond limitation bill in the 2007-09 budget.

The 2005-07 budget included a budget policy that total debt service costs on all outstanding Article XI-G bonds, issued on or after July 1, 2005 for community college capital construction projects, not exceed $6.5 million per biennium. Debt service on the 2005-07 biennium approved projects was projected to equal $5.45 million per biennium at the time the policy was adopted, leaving remaining capacity of $1.05 million in debt service per biennium for allocation to additional projects. Given current projection for interest rates, this leaves remaining capacity for an additional $6.2 million of bonds under this budget policy.

Governor's Budget

The Governor's recommended budget includes $87,150,000 of Article XI-G bonds to finance $174.3 million of capital construction projects in 12 community college districts. The 12 districts include three that received capital construction funds in the 2005-07 biennium budget, and nine additional districts that did not. If this budget is approved, every community college district except Mt. Hood Community College will receive capital construction financing from the state over the two-biennia period beginning in 2005-07. The recommendation is a 126% increase over the level of Article XI-G bonds approved for community college capital construction projects in the 2005-07 biennium.



The Governor's budget does not conform to the budget policy that the Legislature adopted in the 2005 Session, i.e., that total debt service costs on all outstanding Article XI-G bonds, issued on or after July 1, 2005 for community college capital construction projects, not exceed $6.5 million per biennium. That policy limits new Article XI-G bond authorizations to no more than $6.2 million. The $87.15 million of Article XI-G bonds in the Governor's budget alone will generate projected biennial General Fund debt service costs, beginning in the 2009-11 biennium, of approximately $12.7 million. This debt service, added to the debt service on bonds approved in the 2005 session, will yield total General Fund debt service costs of $18.3 million per biennium, or almost triple (2.8 times) the approved budget policy limit.

A list of the recommended projects is included below:

Department of Community Colleges and Workforce Development
2007-09 Governor's Recommended Capital Construction Budget

Project List	Article XI-G Bonds	Community College Match	Approved Total
(1) Blue Mountain Community College			
Hermiston University Center	$4,000,000	$4,000,000	$8,000,000
(2) Central Oregon Community College			
Science & Allied Health Instructional Building	7,500,000	7,500,000	15,000,000
(3) Chemeketa Community College			
Classroom & Health Sciences facility	7,500,000	7,500,000	15,000,000
(4) Clackamas Community College			
Allied Healthcare Center of Excellence	7,500,000	7,500,000	15,000,000
(5) Clatsop Community College			
New campus	17,500,000	17,500,000	35,000,000
(6) Columbia Gorge Community College			
Workforce building	7,500,000	7,500,000	15,000,000
(7) Lane Community College			
Health & Wellness Building	7,500,000	7,500,000	15,000,000
(8) Linn-Benton Community College			
Library and Student Services Renovation	3,500,000	3,500,000	7,000,000
(9) Oregon Coast Community College			
Expansion of Aquarium Building, South County Campus & Central Campus Land	7,500,000	7,500,000	15,000,000
(10) Portland Community College			
Washington County Educational Center	7,500,000	7,500,000	15,000,000
(11) Treasure Valley Community College			
Community College/University Center	2,150,000	2,150,000	4,300,000
(12) Umpqua Community College			
Regional Health Occupational Training Center	7,500,000	7,500,000	15,000,000
Grand Total	**$87,150,000**	**$87,150,000**	**$174,300,000**

CCWD – Oregon Youth Conservation Corps

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	1,923,757	2,022,979	2,022,979	2,117,414
Total Funds	**$1,923,757**	**$2,022,979**	**$2,022,979**	**$2,117,414**
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 – involves approximately 600 youths (ages 13-24) each year, and operates during the summer supporting at least one youth crew in every county who work on natural resource and conservation projects. The second program – the Community Service Corps – offers alternative education programs to approximately 500 at-risk youths during the school year through hands-on environmental projects.

Revenue Sources and Relationships

The OYCC last received General Fund in the 2001-03 biennium. Since then, it has operated entirely on Other Funds. 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 other state agencies (Marine Board and the Parks and Recreation Department), and Workforce Investment Act funds, as Other Funds for contract work.

Governor's Budget

The Governor's recommended budget supports the OYCC at the essential budget level, equal to a 4.7% increase over 2005-07 biennium expenditures.

Department of Education (ODE) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended *
General Fund	4,703,675,734	5,075,292,291	5,110,244,131	5,852,600,672
Lottery Funds	507,799,698	461,524,403	503,769,403	590,557,320
Other Funds	44,697,469	55,116,367	57,730,244	58,463,871
Federal Funds	653,913,539	733,271,172	755,474,273	755,067,301
Other Funds (NL)	98,086,244	94,756,586	94,756,586	77,701,142
Federal Funds (NL)	228,129,649	227,855,675	227,855,675	235,556,640
Total Funds	**$6,236,302,333**	**$6,647,816,494**	**$6,749,830,312**	**$7,569,946,946**
Positions	486	480	483	494
FTE	445.39	441.05	442.89	452.86

** The distribution formula that funds school districts and education school districts also utilizes local revenues. The Governor's recommended budget anticipates an additional $2.8 billion in local revenues that will be distributed but are not included in the numbers shown.*

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 re-elected in May 2006.

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 2007-09 Governor's budget of $7.57 billion total funds is an $820.1 million, or 12.2%, increase over the 2005-07 legislatively approved budget. Over $750 million of this increase is due to an increase in State School Fund distributions to school districts and education service districts (ESDs). The balance is due primarily to the inclusion of several policy packages and an increase in federal funding available for grants to local programs.

- The budget provides $6.06 billion in state support for K-12 school funding. This is an increase of $754.4 million, or 14.2%, over the 2005-07 legislatively approved budget of $5,305.6 billion. Local formula revenues, mainly from property taxes, are estimated to be $201 million higher in 2007-09. Together, state and local support increase by $975 million, or 12.1%, from 2005-07 to 2007-09.
- The budget for Department Operations increases from $95.6 million total funds in 2005-07 to $106.9 million total funds in 2007-09. General Fund support is $45.5 million, an increase of 32.5% from the 2005-07 budget of $34.3 million. The largest portion of the increase is a package to continue the data integration project between school districts.
- The budget includes $263.1 million General Fund for Grant-in-Aid programs that provide support to school districts and other local programs. This amount is 31.6% more than the 2005-07 General Fund budget of $200 million. The majority of the increase is a proposal to fund the Oregon Pre-Kindergarten program at 80% of all eligible children. The Governor is proposing that the increase be funded with an increase in the minimum payment under the corporate income tax.

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

ODE – Operations

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	34,405,543	31,798,657	34,324,012	45,467,639
Other Funds	6,527,151	9,409,227	11,692,324	11,912,236
Federal Funds	32,149,820	41,992,817	44,753,089	44,570,831
Other Funds (NL)	4,015,245	4,856,586	4,856,586	5,007,142
Total Funds	**$77,097,759**	**$88,057,287**	**$95,626,011**	**$106,957,848**
Positions	266	260	263	274
FTE	259.68	255.25	257.09	267.44

Program Description

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

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

Last biennium, the Department reorganized in response to budget reductions and to focus the agency on the Superintendent's priorities, which include leadership, school improvement, and accountability. To achieve results in these areas, the agency streamlined its office and management structures and moved toward more cross-agency collaboration.

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

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

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

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

The *Office of Analysis and Reporting* coordinates the development of education policies at the state, local, and federal levels. The Office is also responsible for coordinating the operations of the agency with those policies and has primary responsibility for developing a comprehensive system that assures the agency and local school districts are accountable for their results.

Revenue Sources and Relationships

Other Funds revenues include indirect cost recovery from federal programs; fees for fingerprinting and background checks; funds from the Department of Human Services for health-related and other programs;

funds from the Department of Community Colleges and Workforce Development (DCCWD) for professional/technical education services and administration; fees for licensing private vocational schools; tuition protection fees from private vocational schools to reimburse students in case of closure of these schools; textbook review fees; and miscellaneous fees, contracts, and grants.

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

The agency took a new approach to the budget building process in the creation of their proposed operations budget for 2007-09. They contracted with Public Strategies Group and used the "Budgeting to Results" method for budget development. They formed groups around their three agency goals and created "buying" teams that had to decide what would be included in the budget from "selling" teams. The agency estimates that more than half of the staff were involved in the project in some capacity. The staff believes that it helped break down the traditional work area biases and allowed the budget to be developed in a more collaborative way across the entire Department. It also allowed them to create a budget that more closely aligns with their business goals.

Governor's Budget

The Governor's recommended budget is an 11.9% increase over the 2005-07 legislatively approved budget. The General Fund is increased by 32.5%, Other Funds expenditure limitation is increased by 2.2%, and Federal Funds expenditure limitation is decreased by 0.4%. The budget funds all current services as well as three new projects and the continuation/enhancement of two projects that are funded in the current biennium.

The Governor's budget includes:

- A package to implement Phase III of the Pre-K-12 Integrated Data Systems (KIDS) project. This project allows school districts to electronically transfer comparable data and is helping to meet NCLB and Adequate Yearly Progress reporting requirements. Phase II is currently piloting this project. Phase III is expected to roll-out the project on a statewide basis. The cost of Phase III is $8,440,894 General Fund and includes 11 positions (9.00 FTE).
- The continuation of the Oregon Virtual School District (OVSD). In the 2005-07 legislatively approved budget, $2 million was transferred from the State School Fund to fund the implementation of the OVSD. The Governor proposes continuing the program with the same funding mechanism. While this program is funded with $1,800,598 Other Funds expenditure limitation, the source of the funds would be the State School Fund.
- The development and implementation strategies needed for the creation of a growth model for assessing academic achievement at the student, school, and district levels. This will allow the agency to measure student learning growth over time. Currently, Adequate Yearly Progress reporting looks at the percentage of students in certain categories without tracking their progress. The total cost is $1,830,787 General Fund and includes two positions (1.25 FTE).
- Providing support to teachers and administrators in the use of statewide and local assessment data (assessment literacy). The cost is $1,652,562 General Fund and includes 2 positions (2.00 FTE).
- Implementation of a cross-office data management system. The project is designed to streamline data flow in the agency. The cost is $493,877 General Fund and includes 4 positions (3.58 FTE).

ODE – Special Schools

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	16,796,984	16,988,568	17,712,390	18,369,944
Other Funds	2,750,736	3,310,184	3,457,300	3,508,939
Federal Funds	855,637	368,197	514,867	382,848
Total Funds	**$20,403,357**	**$20,666,949**	**$21,684,557**	**$22,261,731**
Positions	191	191	191	191
FTE	156.71	156.80	156.80	156.54

Program Description

The School for the Blind (OSB), with 11 structures on a 7-acre campus, annually serves approximately 33 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; donations; Medicaid reimbursements; transfers from the Commission for the Blind; fees from local school districts for services provided to their students; nutrition reimbursements; and other miscellaneous sources. Federal Funds are from the Individuals with Disabilities Education Act.

Budget Environment

Enrollment at OSB has dropped over the last few years. It had ranged from 41 to 48 students, but current enrollment is 33 students. Over the same period, annual enrollment at OSD has ranged from 121 to 129 students.

Currently the agency is completing a cost-benefit analysis of moving the OSB program to the OSD campus. This began at the direction of a budget note that was put in the agency's budget during the last legislative session. Completion of the study is expected in February 2007 and will probably have an effect on the budget. The Governor's budget does not address the issue.

Governor's Budget

The Governor's recommended budget is a 2.7% increase over the 2005-07 legislatively approved level and essentially continues existing operations.

ODE – Youth Corrections Educational Program

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	19,307,304	24,358,569	24,542,233	25,350,608
Federal Funds	2,372,943	2,462,874	2,915,939	2,546,002
Total Funds	**$21,680,247**	**$26,821,443**	**$27,458,172**	**$27,896,610**
Positions	29	29	29	29
FTE	29.00	29.00	29.00	28.88

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. The program now is treated as a separate school district with per student revenues distributed through the formula. Concerns were raised during the 2005 legislative session about using the State School Fund to pay for the program when there a number of students who have already received a diploma.

Federal funding is from the Title 1 Neglected and Delinquent Program, the Individuals with Disabilities Education Act, Title II support of professional development, 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 2006 close custody population forecast projects the demand for beds to remain stable from July 2006 to July 2007 at about 1,120. The population is projected to drop slightly to 1,085 by July 2009. The Governor's budget funds about 90% of the demand with 995 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. Recently, ODE projected 64% were eligible for these services. The educational needs of the youths must be met for the most part in intensive, individualized services in small group settings. Students in county detention centers are assigned a weight of 1.5.

Governor's Budget

The Governor's recommended budget is a 1.6% increase over the 2005-07 legislatively approved budget and essentially retains current services with increases for standard inflation.

ODE – Grant-in-Aid

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	190,114,745	192,112,725	200,015,388	263,147,320
Other Funds	10,910,649	14,894,661	14,894,661	15,201,745
Federal Funds	618,535,139	688,447,284	707,290,378	707,567,620
Federal Funds (NL)	228,129,649	227,855,675	227,855,675	235,556,640
Total Funds	**$1,047,690,182**	**$1,123,310,345**	**$1,150,056,102**	**$1,221,473,325**

Program Description

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

Revenue Sources and Relationships

The Department receives substantial federal funding for this program unit, mainly from the U.S. Departments of Education and Agriculture. Most of the funding is passed through to local school districts or contractors. The major federal sources for Grant-in-Aid programs are from the U.S. Department of Agriculture for nutrition programs and from the U.S. Department of Education for compensatory programs under the No Child Left Behind Act, special education, and teacher quality programs.

Other Funds revenues represent County School Fund receipts for special education billings, state tobacco tax funds from the Public Health Division of the Department of Human Services for tobacco education programs, federal funds from the Oregon Employment Department for the Teen Parent program, and miscellaneous grants.

Budget Environment

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

The Oregon Pre-Kindergarten 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. Currently, approximately 60% of eligible children are served.

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

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

Governor's Budget

The Governor's recommended budget is a 6.2% increase over the 2005-07 legislatively approved budget. Within this overall increase, General Fund support is increased by 31.6%, Other Funds expenditure limitation increases by 2.1%, and federal resources grow by 0.9%. The General Fund increases are mostly in policy packages and include the following:

- Funding the Oregon Pre-Kindergarten program at 80% (up from 60% in the 2005-07 biennium) of eligible children and families living at or below the federal poverty level. It is expected that this funding level would serve 100% of those that choose to participate. The cost is $39 million General Fund and the Governor is proposing raising the minimum payment under the corporate income tax to fund the enhancement of the program.
- Mandated caseload increases in the Early Intervention / Early Childhood Special Education program. This program serves children from birth to the start of Kindergarten that have developmental and other disabilities. New caseload projections have added $11.9 million in General Fund.
- Initiation of a program to provide mentors for new teachers and principals during the first three years of employment. This is based on a program that is used in California. The cost is $5 million General Fund.
- Continuing improvements in classroom technology and school connectivity ($2.6 million General Fund).
- Pass-through funding to the Commission on Children and Families for the partial funding of a position and grants for Community Schools ($500,000 General Fund).
- Grants for faculty professional training on civics ($175,000 General Fund) and a grant to the Chess for Success Program ($75,000 General Fund).

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

2007-09 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	105.5	0	29.5	135.0
Oregon Prekindergarten	96.1	0	0	96.1
Regional Programs	31.8	0	23.8	55.6
Long-Term Treatment & Hospital Programs	19.8	11.7	2.2	33.7
Title 1 Low-Income & Migrant Education	0	0	281.7	281.7
Nutrition Programs	0.2	0	235.6	235.8
Local & Other Special Education Programs	0	0	189.8	189.8
Title II Teacher Quality	0	0	56.1	56.1
Vocational Education	0	0	29.5	29.5
Comp Teacher/Admin Quality Programs (Mentoring)	5			5.0
Connectivity	3.2			3.2
Other Programs (primarily under the NCLB Act)	1.5	3.5	95.0	100.0
TOTAL EXPENDITURES	263.1	15.2	943.2	1,221.5

ODE – School Funding

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	4,462,358,462	4,834,392,341	4,858,192,341	5,525,615,769
Lottery Funds	452,100,536	405,057,659	447,302,659	534,142,231
Other Funds	1,570,220	950,000	950,000	242,000
Total Funds	**$4,916,029,218**	**$5,240,400,000**	**$5,306,445,000**	**$6,060,000,000**

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 began in 2005-06.

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

Revenue Sources and Relationships

General Fund represents the primary source of support for the State School Fund. The Governor's 2007-09 budget includes General Fund of $5,525.6 million and net unobligated lottery resources of $534.1 million. State timber tax revenues are estimated to be $242,000.

Budget Environment

Currently, there are 198 elementary and secondary school districts and 20 education service districts, serving about 535,000 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, but just slightly, in 2007-09.

There has been a significant change in student demographics over the last decade. 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 67% in 2005-06. 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 NCLB 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. Title 1 schools (about one-quarter of the AYP-deficient schools) are eligible for federal school improvement funds. Although the U.S. Congress appropriated additional federal funding to implement NCLB requirements, states have expressed serious concerns that the funding may be inadequate to carry out the federal mandates.

Governor's Budget

The Governor's recommended budget provides $6.06 billion in state support for K-12 school funding. This is an increase of about $754.4 million, or 14.2%, above the 2005-07 legislatively approved budget of $5.3 billion. Of the total budget, $5,525.6 billion is from General Fund support, $534.1 million is from lottery support, and $242,000 is from state timber taxes (expended as Other Funds). General Fund is increased by $668 million and Lottery Funds are increased by $86.8 million from the 2005-07 legislatively approved budget.

Currently, the 2007-09 essential budget level for the state-supported portion of the State School Fund is estimated at $5,806.1 million. The essential budget level 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 2007-09 essential budget level include, among other factors, a 17.66% PERS rate; increases of 9% annually in health benefits costs; about a 2% annual increase in teacher salaries; and growth in student counts of 0.64% for 2005-06 and 0.56% for 2006-07.

The Governor's budget is about $254 million above the essential budget level and is comprised of two components. The first $194 million brings the state-supported funding level to $6.0 billion. The Governor is also proposing an additional $60 million to be used as an investment fund. Currently, he is proposing distributing the funds through the process defined in statute for the School Improvement Fund. The funds are distributed as grants that school districts may apply for, from the Department of Education. The grants are designed to improve student achievement and the criteria include class size reductions, increases in instructional time, professional development and others. The budget would earmark $10 million of the $60 million for implementation of Oregon's new high school diploma requirements.

The proposed State School Fund budget includes $400,000 General Fund for local option matching grants to eligible districts that have passed local option levies. Given the estimated need of $1 million for local option matching grants, approximately $600,000 will be needed to fully fund the program.

During 2007-09, local revenues, which are primarily property taxes, are expected to be $2.8 billion or about $200 million more than estimated for 2005-07. Combined state and local support would be increased by 12.4% from 2005-07 to 2007-09 (from $7.885 billion to $8.860 billion).

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

($ in millions)

Fiscal Year	State funding	Local funding	Total	Percent change	State share	Fiscal Year	State funding	Local funding	Total	Percent change	State share
1990-91	626	1598	2224	-	28%	2000-01	2437	995	3432	4.2%	71%
1991-92	818	1561	2379	7.0%	34%	2001-02	2537	1040	3577	4.2%	71%
1992-93	1100	1490	2590	8.9%	42%	2002-03	2358	1112	3470	-3.0%	68%
1993-94	1132	1343	2475	-4.4%	46%	2003-04	2591	1134	3725	7.3%	70%
1994-95	1427	1178	2605	5.3%	55%	2004-05	2326	1202	3536	-5.1%	66%
1995-96	1750	902	2652	1.8%	66%	2005-06 Est	2566	1278	3844	8.7%	67%
1996-97	1760	956	2716	2.4%	65%	2006-07 Est	2739	1331	4070	5.9%	67%
1997-98	2078	896	2974	9.5%	70%	2007-08 GRB	2970	1381	4351	6.9%	68%
1998-99	2250	889	3139	5.5%	72%	2008-09 GRB	3090	1418	4508	3.6%	69%
1999-2000	2326	967	3293	4.9%	71%						

ODE – Debt Service

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Lottery Funds	55,699,162	56,466,744	56,466,744	56,415,089
Other Funds	3,631,409	2,193,726	2,193,726	2,248,343
Other Funds (NL)	94,070,999	0	0	0
Total Funds	**$153,401,570**	**$58,660,470**	**$58,660,470**	**$58,663,432**

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).

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

Budget Environment

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

Governor's Budget

The Governor's recommended budget provides $56.4 million Lottery Funds and $2.2 million in other interest income from debt service-related accounts.

ODE – Common School Fund Distributions

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds (NL)	0	89,900,000	89,900,000	72,694,000
Total Funds	**$0**	**$89,900,000**	**$89,900,000**	**$72,694,000**

Program Description

This program reflects the transfers of Common School Fund distributions from the Department of State Lands to the Department of Education for distribution to K-12 school districts.

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

Budget Environment

As of January 2006, fund growth is determined on the basis of a 3-year rolling average. If the growth is 5% or less, a minimum distribution of 2% of the fund's fair market value is made. If the fund grows between five and 11%, the distribution percentage grows incrementally, up to a maximum distribution percentage of 5% if the fund grows by 11% or more.

The maximum amount of 5% has been distributed each year from 2003 through 2006. However, more conservative long-term fund growth projections combined with the new 3-year rolling average policy have created an estimated distribution of $72.7 million in 2007-09, a decrease for K-12 schools of about $17.2 million over the 2005-07 amount of $89.9 million.

Governor's Budget

The Governor's recommended budget includes $72.7 million in Other Funds for distributions to K-12 schools in 2007-09.

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

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	84,379,467	73,337,168	73,337,168	94,235,981
Other Funds	124,669,705	31,975,150	31,975,150	31,978,666
Total Funds	**$209,049,172**	**$105,312,318**	**$105,312,318**	**$126,214,647**

The tables for OHSU only show expenditures of state funds in the OHSU budget. Total OHSU expenditures for operations in the 2007-09 biennium are projected to exceed $2.7 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 had operated at two main sites: its main campus on Marquam Hill in downtown Portland, and on the site of the Oregon Primate Research Center and the Oregon Graduate Institute (West Campus) in Washington County. The university recently expanded to a third major site in Portland's North Macadam Urban Renewal Area (the emerging South Waterfront Campus). 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 three main sites, OHSU also has clinical facilities throughout the Portland metropolitan area, and teaching programs in various locations throughout the state, including nursing degree programs on the campuses of Eastern Oregon University, Southern Oregon University, and the Oregon Institute of Technology.

OHSU has been organized as a public corporation since 1995. Prior to that, the university was one of eight academic institutions 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 $73.3 million in the 2005-07 biennium. The state also provided $32 million of Tobacco Master Settlement Agreement funds for debt service on $200 million of bonds the state issued in the 2001-03 and 2003-05 bienniums to finance the Oregon Opportunity Program – OHSU's expansion of its research programs in genetics and biotechnology. Total state support in the 2005-07 biennium therefore equaled $105.3 million.

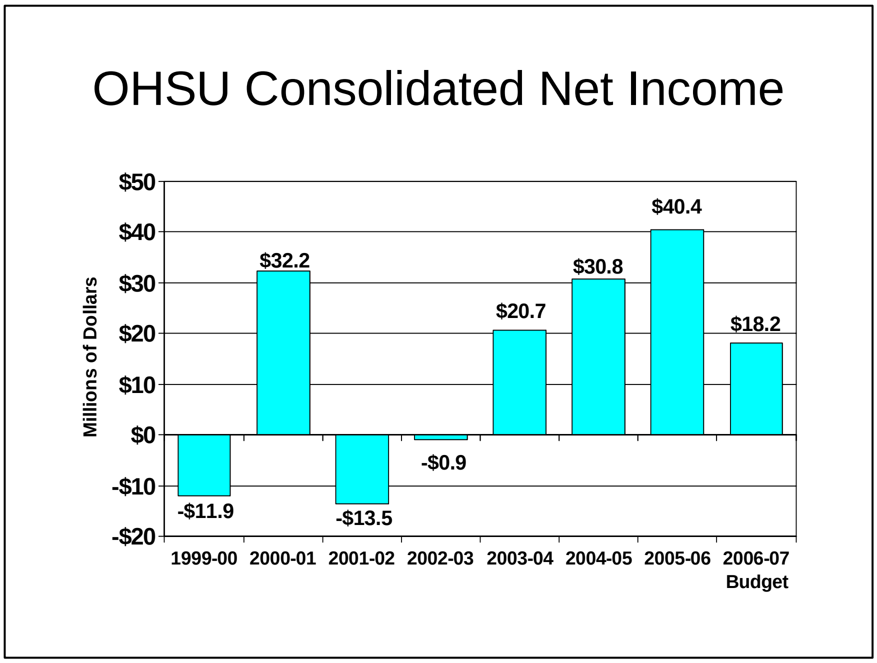
Budget Environment

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 was again about 16% below the 1993-95 biennium level in 2005-07. The state transfers General Fund to OHSU to support the institution's operating budget, and uses Tobacco Master Settlement Agreement funds to pay debt service on the state bonds that were issued to support the Oregon Opportunity Program (these latter funds are not transferred to OSHU but instead paid directly to bondholders by the state).

For the 2005-07 biennium, the largest source of revenue in the OHSU operating budget is the net patient service fee revenue generated by its hospitals and clinics, projected to total almost $1.4 billion per biennium and to contribute over 54% of total operating revenue. Another 35% of operating revenue comes from gifts, grants, and contracts. State support is projected to fall to only 3% of total operating revenue, student tuition and fees will contribute 3%, and the sales and services of education departments will contribute another 1.4%. The remainder is divided among various miscellaneous revenue sources.

Outside of its operating budget, the university is also significantly expanding and upgrading its capital plant. In addition to its $2.5 billion of biennial operating expenditures, OHSU is spending about $338 million this biennium on capital projects. The institution finances approximately $140 million of capital expenditures per biennium out of its operating cash. The remainder is financed from a combination of OHSU-issued revenue bonds, and gifts and grants. The major capital projects recently completed include: a new $113 million, 274,000 sq. ft. Biomedical Research Building, on the main campus and opened in Spring 2006, primarily financed by Article XI-L bonds; a new $216 million, 11-story, 335,000 sq. ft. patient care facility, the Peter O. Kohler Pavilion, on the main campus that will eventually include 120 beds and was opened in Summer 2006; and a new $145 million, 400,000 sq. ft. OHSU Center for Health and Healing, opened in Fall 2006, as the first phase in the development of a new South Waterfront 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 was 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, excluding the earnings of the OHSU Foundation. 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. State support dollars are also included in the figure, with the effect that if state support for the 2005-06 fiscal year were reduced by $40.4 million, and the university did not change its expenditures, it would show a 2005-06 fiscal year net income of zero. (In reality, the institution would reduce some expenditures if state support were lowered, so that the impact on net income would not be as great.)

The consolidated figures shown in the chart do not disaggregate between OHSU's educational and clinical programs. Such a disaggregating shows that the educational programs do not generate sufficient revenue to cover their operating costs, with the net operating loss currently running at about $53 million per biennium. In the 2005-07 biennium, the university should cover $33 million of this loss with investment and other non-operating income. Including these non-operating incomes, the educational operations are projected to post a net loss of $20 million in the 2005-07 biennium, an improvement over the $26 million loss in 2003-05. OHSU, by generating net income from its hospital and clinical operations and investments forecasted at almost $79 million in 2005-07, should be able to finance the educational costs, and still realize a $59 million consolidated net income during the 2005-07 biennium. The downturn in consolidated net income in 2006-07 largely reflects increases in operating costs relating to the completion of the university's three major capital projects discussed earlier. In particular, the new patient care facility increases hospital capacity at OHSU at a time when other Portland area hospitals are also expanding. This increase in regional hospital capacity will make it more difficult for OHSU to maintain the high occupancy rates necessary to generate high net incomes.

OHSU had earlier planned to eliminate any net loss in educational operations by the 2004-05 fiscal year, but the university no longer maintains this as a financial target. The operating margin on educational operations is budgeted to be -8.3% in 2006-07, and the university now projects ongoing negative margins to continue indefinitely. Operating margins for hospital and clinical operations, which reached 6% in 2005-06, are projected to fall to only 2.1% in 2006-07, and then to recover to about 3% by the end of the current five-year budget plan.

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 did not report targets for these performance measures, but it did report on changes to them. The 2005 Legislative Assembly formally approved a set of performance measures and directed the university to establish targets for them. The Joint Legislative Audit Committee in 2006 recommended reducing the number of performance measures.

The university's research performance measures track total dollar awards and national rankings. Total research awards reached $273.5 million in the 2004-05 fiscal year, an increase of 6.5% over the fiscal year two years earlier, and more than triple the 1995 level when OHSU assumed its public corporation status. In 2004, the School of Medicine ranked 23rd in terms of National Institutes of Health support to medical schools, an improvement over its 32nd rank the year earlier. 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 Governor's budget recommends substantial increases of approximately 40% over the 2005-07 biennium level in state support for the OHSU School of Medicine, School of Nursing, and the Area Health Education Centers (AHEC) / Office of Rural Health programs. The budget has a smaller (5.5%) increase in funding for the School of Dentistry, and increases state support for other programs supported in 2005-07 – the Child Development and Rehabilitation Center and the Oregon Poison Center – by 3.1% for inflation. Debt service is fully funded at essentially the same level as the prior biennium. As in 2005-07, no direct state support is provided for the hospital and clinics budget outside of the Oregon Poison Center.

OHSU – Education and General/Hospitals and Clinics/CDRC

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	84,379,467	73,337,168	73,337,168	94,235,981
Other Funds	1,400,000	0	0	0
Total Funds	**$85,779,467**	**$73,337,168**	**$73,337,168**	**$94,235,981**

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 2005 of 2,511 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 443 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 25,000 patient discharges, about 44,000 emergency room visits, and about 2,800 births each 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.

The Area Health Education Centers (AHEC) program works to improve the education, training, and distribution of health care professionals in Oregon. There are five regional AHECs statewide, each of which works with local health care facilities and providers and community leaders to identify and meet local needs. AHECs also provide all OHSU MD students with a required 3rd year clinical experience in a rural area, and support Family Medicine residency rural training programs. All five AHECs also have programs to encourage youths to consider a health career.

Revenue Sources and Relationships

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

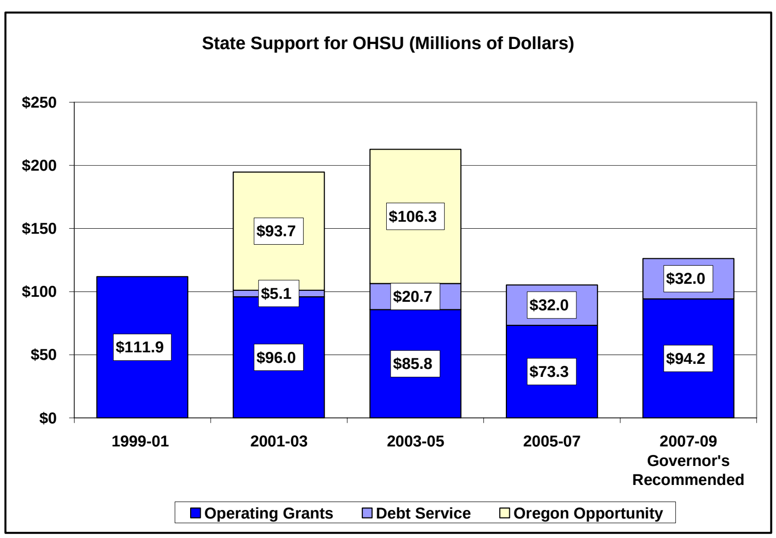
Other Funds in the Hospital and Clinics program were never limited by the Legislature. The primary source of these funds are payments for services by patients and third party payers. These revenues have not been included in the state budget since OHSU became a public corporation.

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

Note that none of the Other Funds discussed here appear in the table above, since none of these funds enter into the state budget as shown for OHSU. The $1.4 million shown as Other Funds in the 2003-05 biennium reflects the use of Other Funds from the Criminal Fines and Assessments Account to fund a portion of state support to the institution that biennium.

Budget Environment

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



Governor's Budget

The Governor's recommended budget sharply expands state General Fund support to the Schools of Medicine and Nursing, and the Area Health Education Centers (AHEC) / Office of Rural Health program. Compared to the funding levels provided in both the 2003-05 and 2005-07 biennia, state General Fund support to the School of Medicine is increased 42%, support to the School of Nursing is increased 40%, and support for the (AHEC) / Office of Rural Health program is increased 39%. A smaller 5.5% increase is supported for the School of Dentistry.

The Governor's budget continues the policy that the Legislature adopted last session of not providing any direct state support for OHSU Hospital and Clinic programs, outside of the Oregon Poison Center. Funding for the Oregon Poison Center and for the Child Development and Rehabilitation Center (CDRC) are both increased 3.1%, which is the increase allowed in the essential budget level calculation of inflation on special payments. OHSU would be expected to maintain its current services in both program areas at 2005-07 biennium levels.

State General Fund Support for OHSU Operations

	2005-07 LAB	2007-09 Gov Rec	Increase	New Initiatives
School of Medicine	$28.9 million	$41.0 million	41.9%	$11,214,000
School of Nursing	$15.3 million	$21.4 million	39.6%	$5,598,000
School of Dentistry	$12.5 million	$13.2 million	5.5%	$300,000
Child Development and Rehabilitation Center (CDRC)	$9.7 million	$10.0 million	3.1%	$0
Area Health Education Centers (AHEC)/Office of Rural Health	$4.2 million	$5.8 million	39.2%	$1,513,361
Oregon Poison Center	$2.7 million	$2.8 million	3.1%	$0
Hospital and Clinics	$0.0 million	$0.0 million	0.0%	$0
OGI School of Science & Engineering	$0.0 million	$0.0 million	0.0%	$0
Total General Fund Support	**$73.3 million**	**$94.2 million**	**28.5%**	**$18,625,361**

The increases to the Schools of Medicine and Nursing, and the AHEC increase, are designated for specified new program initiatives. The increase for the School of Dentistry is not. Specifics of these increases are described below. The Governor's budget would fund the following initiatives:

School of Medicine – $11,214,000 General Fund Total (42% increase over 2005-07 biennium funding)

- **Increase in MD program class size from 108 to 120 students ($4.12 million General Fund) –** These funds would compensate OHSU for costs incurred when it expanded the class size (cohort) in its MD program from 108 to 120 students during the 2005-07 biennium. OHSU would use these one-time funds to reimburse both operating and capital costs associated with that expansion. Because the MD is a four-year program, the 12-student per class expansion will phase in to a 48 student enrollment increase in four years. Beginning in the 2009-11 biennium, the incremental costs associated with the expansion cost would be entirely financed by the incremental tuition and fee revenue generated from expanding the program.

- **Develop School of Medicine hub sites in Eugene, Corvallis, Bend, and in Eastern and Southern Oregon ($7.09 million General Fund) –** The funds would allow OHSU to establish five regional off-campus sites for training MD students. MD students would then be sited off-campus for part of their curriculum. The regional sites would allow OHSU to expand its capacity in the MD program to 160 students per class while reducing the need to expand physical capacity at its Portland campus. At least some of the MD students would take their first-year basic science classes at the University of Oregon beginning in Fall 2008, and at Oregon State University beginning in Fall 2009. Third- and fourth-year MD students would complete part of their studies at these two sites plus three additional sites in Bend, Eastern, and Southern Oregon, beginning in Fall 2007. Capital expenses would be funded from other sources. OHSU projects that the cost of this expansion would decline to $6.07 million in 2009-11 biennium as the program expansion phases-in and it receives more tuition and fee revenue.

School of Nursing – $5,598,000 General Fund Total (40% increase over 2005-07 biennium funding)

- **Oregon Consortium for Nursing Education (OCNE) Program ($1.72 million General Fund) –** These funds support OHSU participation in the Governor's proposed Healthcare Workforce Initiative – a $15.2 million General Fund effort to expand healthcare workforce programs. The OCNE funding supports OHSU efforts to partner with community colleges and universities to increase the number of Nursing B.S. graduates by 100 per year. OCNE will support students who wish to obtain a Bachelor's degree in nursing at OHSU while taking their initial course work at a community college or OUS institution. The funds will be used to support articulation between nursing programs at OHSU and community colleges and Oregon University System schools, thereby increasing access to and the speed of progression in nursing education. OCNE will also work to standardize and upgrade the quality of the various nursing programs throughout the state. OHSU has indicated that this program will have significant roll-up costs if approved. The cost of maintaining this program will increase by 50% in the 2009-11 biennium.

- **B.S. Nursing Basic Capacity Expansion ($1.47 million General Fund) –** The funds would allow OHSU to increase capacity at its four nursing program sites: Portland, Ashland (SOU), La Grande (EOU), and Klamath Falls (OIT). The total capacity at the four campuses combined would expand the number of B.S. Nursing graduates by 50 students per year. The program covers the sophomore, junior, and senior years, so the 50-student per class expansion will phase in to a 150 student enrollment increase in three years. Because the expansion will be phased-in during the 2007-09 biennium, there will be significant roll-up costs in 2009-11. The cost of continuing this expansion at the 150 student level will double in the 2009-11 biennium.

- **Master's Nursing Program Expansions ($1.01 million General Fund) –** Increases capacity of the OHSU M.S. Nursing program by an additional 20 students per year. Community college nursing programs generally require their faculty to have a Master's degree, so this program will expand the pool of individuals qualified to teach in community college nursing programs. The program covers two years, so the 20-student per class expansion will phase in to a 40 student enrollment increase in two years. Because the expansion will be phased-in during the 2007-09 biennium, there will be roll-up costs in 2009-11. The cost of continuing this expansion at the 40 student level will increase 33% in the 2009-11 biennium.

<u>School of Dentistry – $300,000 General Fund Total (5.5% increase over 2005-07 biennium funding)</u>

- **Unspecified increase in School of Dentistry support ($300,000 General Fund) –** The Governor's budget includes $300,000 of additional General Fund for the School of Dentistry without tying this to any specific initiative. The university's top priority for additional funds is to expand required clinical rotations for DMD students to underserved rural and urban practice communities. As their top priority, they had proposed a project to serve 15 underserved sites at a cost of $523,000 General Fund.

<u>Area Health Education Centers (AHEC)/Office of Rural Health – $1,513,361 General Fund Total (39% increase over 2005-07 biennium funding)</u>

- **Funding restoration to the 1993 level ($400,000 General Fund) –** These funds would provide general unrestricted funding to restore funding for four main regional centers and new Clackamas mini-center AHECs to the 1993 level of $250,000 per center per year.

- **Increased funding for videoconferencing and on-line education ($901,000 General Fund)** – Supports upgrades to the technical infrastructure that is used to provide healthcare training and education services to remote sites in the AHEC program.

- **AHEC program office Education Director ($132,361 General Fund) –** Supports establishment of a statewide education director for the AHEC program.

- **K-12 Programs ($80,000 General Fund) –** Increases funding for heath services career programs targeting K-12 students.

OHSU – Oregon Opportunity Program

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	0	0	0	0
Other Funds	106,298,400	0	0	0
Total Funds	**$106,298,400**	**$0**	**$0**	**$0**

Program Description

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

The combined state and private funds support the construction of a 274,000 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. The university has now hired an additional 80 principal investigators, exceeding its revised goal of 71 planned additional scientists. As of 2004-05, OHSU had increased its sponsored research award level to $273.5 million, and the number of Oregon companies in which OHSU holds equity had increased to 12.

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 are paid from TMSA funds. In the 2007-09 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 2007-09 biennium.

OHSU – Bond-related Costs

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	0	0	0	0
Other Funds	20,692,900	31,975,150	31,975,150	31,978,666
Total Funds	**$20,692,900**	**$31,975,150**	**$31,975,150**	**$31,978,666**

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 2007-09 biennium debt service costs with $32 million of TMSA Other Funds moneys.

Department of Higher Education (DHED) – Agency Totals

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

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

Agency Overview

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

Governor's Budget

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

- *Education and General Services Program* – General Fund support is increased 13.3% above the 2005-07 biennium level. In the Education and General Services program, the universities and centralized operations combine General Fund with their limited Other Funds to finance program costs. This combination of limited expenditures from both the General Fund and limited Other Funds sources is the best measure of the resources that the Department has in this budget to maintain its education and general programs. Tuition and resource fee revenues are the primary sources of the limited Other Funds. The budget accommodates tuition and resource fee rate increases averaging 3.4% in each year of the biennium. Combined limited funds support for the Education and General Services program is increased $176 million (or 10.5%) over the amount in the 2005-07 biennium. This funding level is also $109.4 million (or 6.3%) above the essential budget level.

- *Agricultural Experiment Station* – General Fund support of $59.9 million is a $5.2 million (or 9.5%) increase over the 2005-07 biennium level. Combined limited funding of $74.1 million is a $5.5 million (or 8%) increase over the 2005-07 biennium level.

- *Extension Service* – General Fund support of $43.1 million is a $3.7 million (or 9.5%) increase over the 2005-07 biennium level. Combined limited funding of $67.8 million is a $4.6 million (or 7.3%) increase over the 2005-07 biennium level.

- *Forest Research Laboratory* – General Fund support of $6.6 million is a $1.1 million (or 19.4%) increase over the 2005-07 biennium level. Combined limited funding of $14.6 million is a $570,000 (or 4.1%) increase over the 2005-07 biennium level.

- *Debt Service* – State-paid (General Fund plus Lottery Funds) debt service costs are budgeted for a total $64 million, a $28 million (or 78%) increase over the 2005-07 biennium level. This includes $8.5 million for the new capital construction projects in the budget. Although the proposed 2007-09 biennium capital construction projects would generate $8.5 million in debt service costs in 2007-09, this represents only a small portion of the debt service costs associated with the Governor's budget for higher education capital construction projects. The proposed projects would, if they are all approved, generate $57.1 million of biennial debt service costs, beginning in the 2009-11 biennium, that would need to be paid by General Fund or Lottery Funds. This would be a $48.6 million (or 76%) increase over the 2007-09 biennium level.

- *Capital Construction* – The Governor's capital construction budget includes a large increase in state-support for construction costs, compared to prior biennia. The budget includes $313.8 million of state-supported debt (Article XI-G bonds, Lottery bonds, and SELP bonds) for OUS capital construction projects. State-supported debt is repaid with state discretionary funds – General Fund and Lottery Funds. The amount of state-supported debt in the Governor's budget is almost triple (2.8 times) the level authorized in the 2005-07 biennium, and approximately 10 times the amount authorized the biennium before that.

DHED – Education and General Services

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

Program Description

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

Revenue Sources and Relationships

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

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

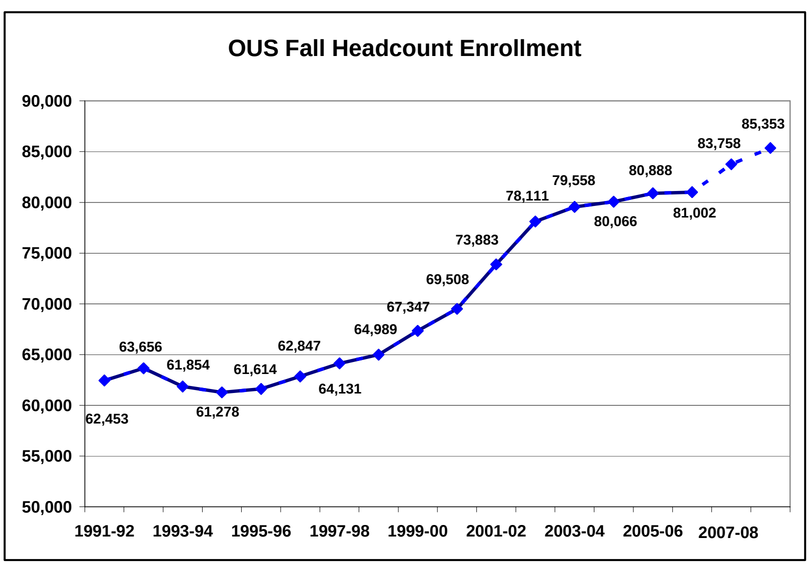
Nonlimited funds include gifts and sponsored research financed by the federal government, private industry, and other private groups. These Nonlimited funds, the major source of support for research, also directly benefit and enhance the instruction and research programs supported by the General Fund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

Budget Environment

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

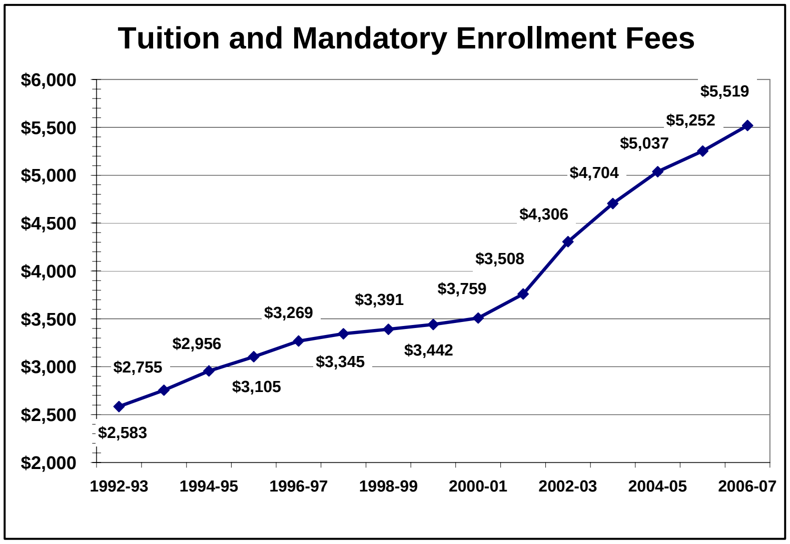
In 1999, the Legislature increased General Fund support of the Education and General Services Program by 22%. This included $106.8 million of General Fund enhancements. Of this total, $15.3 million resulted in no additional revenue for the budget, since it was used to freeze tuition rates for resident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

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



The RAM was designed to promote institutional effectiveness and entrepreneurship by tying financial resources more directly to the number of students served. Under the prior system, where most tuition revenues were pooled, an institution that successfully attracted additional students retained little additional revenue. In the RAM, the school retains all of this tuition, thereby increasing the financial reward of attracting students. The RAM was also to have made each campus' General Fund support level more sensitive to enrollment than had previously been the case, thereby amplifying the financial rewards associated with attracting students even more. However, enrollment funding has been frozen at 2002-03 levels, so that enrollment changes since then have not affected the amount of General Fund that campuses receive.

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



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

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

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

Tuition and resource fee increases were capped to an average increase of 3% each year in the 2005-07 biennium. Increases in other mandatory fees, however, pushed the average increase for full-time resident undergraduates to 4.3% in 2005-06 and to 5.1% in 2006-07. These figures somewhat overstate the average rate increases for resident undergraduates, however, because in some cases part-time students had lower rates of increase, and the increases reported here do not weight campus rate hikes by enrollment levels when calculating the systemwide increase.

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

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

Governor's Budget

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

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

Governor's Recommended Budget: Education and General Combined Limited Budget

	General Fund	Limited Other Funds	Combined Limited Funds
EDUCATION & GENERAL			
General Support Enhancements	$40.7 million	$26.0 million	$66.7 million
Specific Program Enhancements	$28.6 million	$19.1 million	$47.7 million
Total Program Enhancements	$69.2 million	$45.1 million	$114.3 million
Program Reductions	-$4.9 million	$0.0 million	-$4.9 million
Net Funding Changes	$64.3 million	$45.1 million	$109.4 million

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

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

- **Enrollment Growth ($14.6 million General Fund/$26 million Other Funds) –** Enrollment calculated on a full-time equivalent (FTE) basis is projected to grow 3.7% in the budget. Tuition revenue tracks FTE enrollment, and this growth is expecting to generate $26 million in tuition and fee revenue. The Governor's budget adds $26 million to the Other Funds expenditure limitation to allow all of these additional revenues to be spent. In addition, the budget provides $14.6 million in General Fund to provide state support for the additional students at the same per FTE rate as the support for the number of students served in the 2006-07 academic year. The additional tuition dollars would remain with the campuses where the enrollment growth occurred. The General Fund would be distributed to the campuses where the enrollment growth occurred. The package also adds 393 positions (393.00 FTE) to serve the additional students.

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

- **Regional Support ($9 million General Fund) –** The Department distributes additional General Fund to its smaller institutions through targeted programs in the Resource Allocation Model to compensate for higher costs per student at smaller institutions. Smaller institutions are unable to realize the degrees of scale that large enrollments create. Larger institutions have lower costs per student because they can allocate fixed costs across a larger student base, and because they typically enroll graduate students who can aid in undergraduate teaching at a lower cost than is needed to hire a faculty member. In the 2005-07 biennium, targeted programs for Small School Funding provided an additional $31.1 million General Fund to EOU, OIT, the OSU Cascades Campus, SOU, and WOU. The Governor's budget would increase Small School Funding by an additional $9 million (or 28%) to help secure the financial stability of these institutions. The package also adds 36 positions (36.00 FTE) at the five institutions.

- **Faculty Salary Catch-up ($8 million General Fund) –** Average faculty salaries in the Oregon University System remain below the average faculty salaries at peer institutions. The budget provides $8 million to support salary increases to help OUS remain competitive in compensation with peer institutions. The funds will be in addition to funds that the Department will be eligible for out of any money set aside for statewide 2007-09 biennium compensation cost increases. The Governor's budget appropriates $130 million to the Emergency Board to finance compensation cost increases. How much of these funds the Department would receive is uncertain. However, if the Department received the same proportion of the funds designated for compensation cost increases in the 2007-09 biennium as it did from the 2005-07 biennium statewide distribution of compensation cost increase funds, it would receive $34 million General Fund. The funds that the Emergency Board would distribute would be calculated to support both faculty and non-faculty positions in the OUS that are supported by General Fund. The additional $8 million for Faculty Salary Catch-up would bring total funding for salary increases up to $42 million General Fund, but the Faculty Salary Catch-up portion is designated for faculty personnel only. The agency had requested $29 million General Fund as part of a plan to achieve faculty salary parity with peer institutions in ten years.

- **Reduce Student-Faculty Ratio ($6.86 million General Fund) –** The current student-faculty ratio in the Oregon University System is approximately 27:1. The Oregon State Board of Higher Education has approved reducing this to 24:1 (the national average is 22:1). These funds support filling an additional 90 faculty positions (90.00 FTE) in those OUS institutions with student-faculty ratios that exceed the national average. This would include all of the OUS institutions with the exceptions of the Oregon Institute of Technology and Southern Oregon University.

- **Utility Costs ($2.2 million General Fund) –** The Governor's budget adds these funds to help campuses address recent utility cost increases that have exceeded the rate of inflation.

<u>Specific Program Enhancements ($28.6 million General Fund/$19.1 million Other Funds)</u>

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

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

- **Healthcare Initiative ($7.4 million General Fund) –** These funds represent the Department's portion of a $15.2 million General Fund program in the Governor's budget to expand healthcare workforce programs that is allocated to the Oregon University System. The Governor's budget also allocates $2.2 million to the Department of Community Colleges and Workforce Development and $5.6 million to the Oregon Health and Science University School of Nursing. The OUS portion of this initiative includes two components. There is $4.6 million to expand the sonography, clinical lab technician and technology, and dental hygiene programs at OIT. The remaining $2.8 million is to expand the offering of nursing pre-requisite courses throughout the OUS as part of the Oregon Consortium for Nursing Education's initiative to increase the number of nursing degrees in the state. The package adds 26 positions (25.00 FTE).

- **Rural Access Initiative ($1.6 million General Fund) –** These funds support an Eastern Oregon University initiative to increase college attendance in Eastern Oregon, where attendance rates lag the rest of the state. EOU would use the funds to expand outreach efforts to high school students and their parents in the region, and to offer courses on regional high school campuses. Funds may also be used to support scholarship support. The package adds 18 positions (18.00 FTE).

- **Oregon Solutions ($1.5 million General Fund) –** These funds support the Oregon Solutions program at Portland State University. Oregon Solutions is a program in the PSU School of Government Policy Consensus Center, which focuses on developing collaborative processes involving public issues. These funds were not requested by the Department, but were added to the budget by the Governor.

- **Information Systems ($837,000 General Fund) –** This finances expanding the Integrated Data Transfer System (IDTS), which was funded in 2005-07 and is designed to support data integration allowing student information to be shared electronically between high schools, community colleges, and OUS institutions. The funds also support expansion of the Articulated Transfer Linked Audit System (ATLAS), an online program that assists transfer students in determining which courses are required to complete their degree requirements. The package adds three positions (2.70 FTE). The Department received $2.1 million of General Fund in the 2005-07 biennium for the IDTS.

- **Institute for Natural Resources ($250,000 General Fund) –** This would double General Fund support for the Institute for Natural Resources at OSU from $250,000 in 2005-07 to $500,000 in 2007-09. The Legislative Fiscal Office believes that the Legislature intended the 2005-07 biennium appropriation to be one-time funding. This funding for the 2007-09 biennium was not requested by the Department, but was added to the budget by the Governor.

- **Certificates of Participation ($7.2 million Other Funds)** – The budget authorizes $7.2 million of COPs for information technology purchases. General Fund is not authorized for debt service. Debt service on the COPs will be paid by campus Other Funds that are Nonlimited in the state budget. (Note above that the budget supports an additional $11.8 million of COPs for ETIC-related equipment purchases.

- **Debt Structure Changes ($0.2 million Other Funds) –** Supports one position (1.00 FTE) to administer the Article XI-F(1) bond program. This item supports a proposal to allow the Department to use variable rate and synthetic fixed rate finance on Article XI-F(1) bonds. The Department forecasts debt service savings of $2 million per biennium of Nonlimited Other Funds if this proposal is approved, however, the increased complexity of the bond financing would generate the added administrative costs included here.

Program Reductions ($4.9 million General Fund)

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

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

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

DHED – Agricultural Experiment Station

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

Program Description

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

Revenue Sources and Relationships

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

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

Budget Environment

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

Governor's Budget

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

- Limited Other Funds are reduced by $3.2 million from the level approved last session. This adjustment corrects the budget to reflect the fact that Other Funds revenues have not been sufficient to fund the Other Funds expenditure limitation for several years. The Emergency Board recognized this in June 2006 when it adjusted the Agricultural Experiment Station's budget to finance 2005-07 biennium compensation cost increases. The Emergency Board reduced the 2005-07 biennium Other Funds expenditure limitation by $2.5 million to reflect actual 2005-07 biennium revenues. The Governor's action to reduce the Other Funds expenditure limit by $3.2 million represents a comparable adjustment for the 2007-09 biennium. The two adjustments are not cumulative. They both represent reductions from the Other Funds expenditure limit adopted for the 2005-07 biennium in the 2005 session.

- An increase of $2.86 million General Fund to support enhancements to Agricultural Experiment Station programs. This includes $1.21 million General Fund and seven positions (5.50 FTE) to enhance programs in viticulture and enology, with focuses on research into sustainable production of high quality wine grapes; and $1.65 million General Fund, and five positions (6.50 FTE) for unspecified program enhancements. The enhanced funding includes support for twelve positions (12.00 FTE) in total.

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

DHED – Extension Service

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

Program Description

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

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

Revenue Sources and Relationships

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

Budget Environment

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

Governor's Budget

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

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

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

DHED – Forest Research Laboratory

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

Program Description

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

Revenue Sources and Relationships

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

Budget Environment

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

Governor's Budget

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

- Limited Other Funds are reduced by $2.7 million from the level approved last session. This adjustment corrects the budget to reflect the fact that Other Funds revenues have not been sufficient to fund the Other Funds expenditure limitation for several years. The Emergency Board recognized this in June 2006 when it adjusted the Forest Research Laboratory's budget to finance 2005-07 biennium compensation cost increases. The Emergency Board reduced the 2005-07 biennium Other Funds expenditure limitation by $1.3 million to reflect actual 2005-07 biennium revenues. The Governor's action to reduce the Other Funds expenditure limit by $2.7 million represents a comparable adjustment for the 2007-09 biennium. The two adjustments are not cumulative. They both represent reductions from the Other Funds expenditure limit adopted for the 2005-07 biennium in the 2005 session.

- An increase of $1.83 million General Fund to support unspecified enhancements to Forest Research Laboratory programs. The enhanced funding includes support for three positions (3.00 FTE).

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

DHED – Sports Action Lottery

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

Program Description

The Sports Action lottery game was authorized by the 1989 Legislature. Eighty-eight percent of the proceeds from the game, not to exceed $8 million annually, are used to finance intercollegiate athletics. The remaining 12% are for graduate student scholarships that are not awarded on the basis of athletics. Of the athletic funds, 70% must be used for non-revenue producing sports, and at least 50% must be used for women's athletics.

The 2005 Legislative Assembly abolished the Sports Action lottery game, and dedicated 1% of net lottery receipts to the Department of Higher Education Sports Action Lottery program area. Both actions are effective beginning July 1, 2007.

Revenue Sources and Relationships

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

Budget Environment

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

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

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

Governor's Budget

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

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

DHED – Debt Service

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

Program Description

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

In 2005, the Legislature approved the use of Small-Scale Energy Loan Program (SELP) bonds to finance campus capital projects for the first time. SELP bonds are general obligation bonds that may be authorized for deferred maintenance capital construction project expenses that generate energy savings. The debt service on SELP bonds is paid with a combination of General Fund and campus operating funds (the latter are included in Other Funds [NL]). General Fund for SELP bond debt service is only appropriated to the extent that the debt service charges exceed the energy cost savings resulting from the deferred maintenance capital project. This is calculated on a project-by-project basis. For example: if the biennial debt service costs on the SELP bonds issued for a capital construction project total $400,000 per biennium, and the campus's biennial energy savings generated by the project only total $300,000 per biennium, then the state would appropriate $100,000 General Fund for SELP bond debt service for a capital project. The remaining $300,000 of debt service would be paid by the campus with Other Funds that are not limited in the state budget, and the campus would essentially finance the payment with its utility cost savings.

Budget Environment

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

Governor's Budget

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

- **$55.5 million (General Fund plus Lottery Funds) for debt service on bonds issued for capital construction projects authorized in prior legislative sessions**. This amount exceeds 2005-07 biennium amounts by $19.6 million (or 55%). The very large rate of growth results from the high level of state-supported debt approved in the 2005-07 biennium capital construction budget. Only in 2007-09 is the state beginning to pay debt service for projects approved in the 2005 session. Historically, debt service costs on capital construction projects have always initiated in the biennium subsequent to the biennium of the project approval.

- **$8.5 million Lottery Funds for debt service on bonds for capital projects that the Governor proposes for the 2007-09 biennium.** In a break with prior practice, the Governor's budget is recommending $174.9 million of Lottery Bonds for 16 capital construction projects that would generate debt service costs in the same biennium for which they are approved. In the past, the state did not issue Lottery Bonds for higher education capital construction projects until shortly before the end of the biennium, thereby delaying debt service costs until the following biennium. The need for this $8.5 million of Lottery Funds is contingent upon legislative approval of the proposed projects in the Department's capital construction budget. The full amount would not be needed unless all of the proposed projects are approved. Also, the Legislature could eliminate these costs from the 2007-09 biennium budget by directing the Department to continue the practice of delaying the issue of the Lottery Bonds until close to the end of the biennium.

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

DHED – Capital Construction

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

Program Description

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

Revenue Sources and Relationships

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

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

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

Budget Environment

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

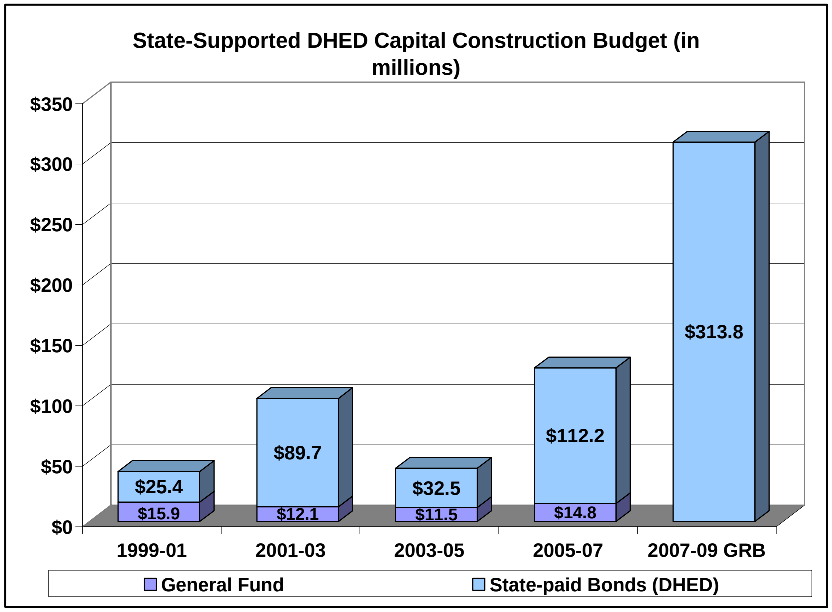
The 2001 Legislature also approved over $90 million of state-paid bonds (Article XI-G and Lottery Bonds) to finance new capital projects on a number of campuses, more than triple the prior biennium level. Lottery Bonds were approved for Department capital projects for the first time.

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

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

Governor's Budget

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



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

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

The budget also discontinues the practice of financing ongoing capital repair with a combination of General Fund and Article XI-G bonds. This represents a $12.2 million General Fund cut. Instead, as indicated above, Lottery bonds would be used to fund these activities. The budget also authorizes $280.7 million in non-state-supported expenditures for capital construction projects. This amount is reduced 36% from the prior biennium level. Non-state-supported expenditures include self-supported debt (Article XI-F(1) bonds) paid by student building fees and Oregon University System auxiliary enterprise income, and expenditures financed by donations, grants, or other cash.

DHED – Other Services (Nonlimited)

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

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

Program Description

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

Revenue Sources and Relationships

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

Budget Environment

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

Governor's Budget

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

Oregon Student Assistance Commission (OSAC) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	45,126,877	76,824,638	76,824,638	104,808,822
Lottery Funds	0	1,527,619	1,527,619	9,507,036
Other Funds	11,716,223	3,562,481	3,860,450	6,308,215
Federal Funds	1,480,969	2,103,860	2,103,860	2,104,655
Other Funds (NL)	40,603,425	9,014,812	9,014,812	10,285,788
Total Funds	**$98,927,494**	**$93,033,410**	**$93,331,379**	**$133,014,516**
Positions	84	23	23	36
FTE	84.00	22.35	22.35	33.83

Agency Overview

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

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

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

The Commission also operates the Private Award program. This program had centrally administered over 320 privately funded scholarship programs, with awards projected to total $7.5 million in the 2007-09 biennium. 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) are 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 revenues were received under the federal loan guarantee program. The Commission received Other Funds revenue from loan processing fees; federal reimbursements for defaulted loans that the Commission purchases from lenders; retained receipts from collections on defaulted loans; federal reimbursements for certain operating expenses; and interest on accumulated loan program revenues. The Commission now receives Other Funds from 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. Most Other Funds payments for student aid (e.g., Private Award payments, JOBS Plus payments) are Nonlimited.

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 of recent large increases in state support for the Opportunity Grant, the matching funds requirements have been met and the state is maximizing the amount of Federal Funds available from these programs.

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 (since renamed the Education Stability 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. Revenue from this source was affected when the state used the corpus of the Education Stability Fund (ESF) to offset General Fund reductions during the recession that hit after the 2001 session. Since then, however, the corpus of the ESF has been recovering. The Fund provided $1.5 million of Lottery Funds earnings for Opportunity Grants in the 2005-07 biennium. The amount of Lottery Funds forecast to be available for the 2007-09 biennium budget, from both 2007-09 biennium ESF earnings and from carry forward of earlier earnings not yet spent, is $9.5 million.

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

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

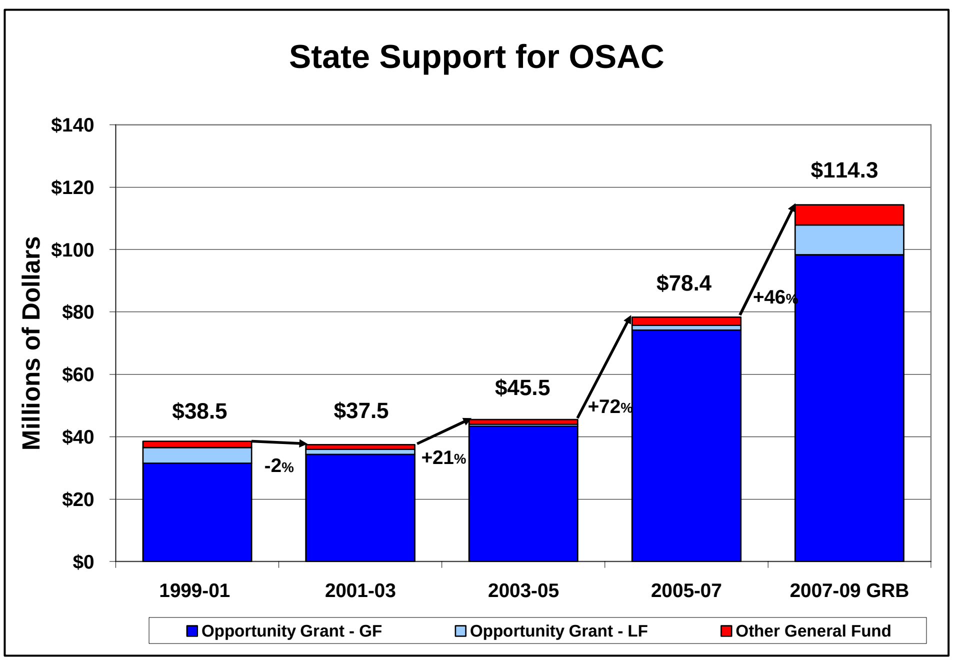
The Legislature addressed this issue in the 2005 session, and substantially increased Opportunity Grant funding to allow all eligible students to receive awards independent of their application date. State funding of Opportunity Grants was increased to $75.7 million, an increase of $31.7 million (or 72%) from the 2003-05 biennium level. The Legislature directed the agency to use this additional funding to award Opportunity Grants to all qualified full-time students at community colleges or Oregon University System institutions beginning with the 2005-06 academic year, and to expand this to all qualified full-time students at private institutions the following year. The funding also expanded the Opportunity Grant program to part-time students beginning with the 2006-07 academic year.

Total Opportunity Grant funding for the 2005-07 biennium, including Federal Funds and Other Funds from expired JOBS Plus Individual Education Accounts, was $78.1 million. Program usage though has fallen far short of projection, and a significant portion of the appropriated funds will not be spent. In the first year of the biennium, Opportunity Grant awards were made to 24,299 students and totaled $29.3 million. Second-year award totals will not be known until next Spring, but the number of full-time students receiving awards in Fall 2006 fell by more than 12% from the prior year, even though the program was expanded that term to cover all eligible student at private institutions for the first time. Because of this, second-year payments would only total $30.5 million if Fall Term awards represent the same proportion of all term awards that they did last year. This would be despite the fact that award amounts have increased since the prior year, and the part-time award program is just starting this year. Opportunity Grant awards would total only $60 million (23% below the cost projected last session).

The primary reason for the lower than expected costs is that program participation is much lower than expected. The expansion of Opportunity Grant funding does not appear to have increased enrollment of lower income Oregonians in post-secondary education. The 2005-07 biennium budget for the Opportunity Grant was funded on the assumption that 63,000 awards would be made during the two academic years of the biennium. The Legislative Fiscal Office now projects that the actual number of awards in the 2005-07 biennium will only total approximately 50,400 (20% below the number projected last session). This number would still be a 31% increase over the number of Opportunity Grants awarded in 2003-05. This is less, however, than the 42% increase that should have occurred when the program was expanded, if the number of eligible applicants did not change from the prior biennium level.

Governor's Budget

The Governor's recommended budget increases state support (General Fund plus Lottery Funds) to OSAC to $114.3 million (a 45.9% increase over the 2005-07 legislatively approved budget). This follows large increases in the previous two biennia, and would result in a more than tripling of state support since 2001-03. The increase in dollar terms is primarily due to a 42% increase in the Opportunity Grant program. The Governor's budget proposes to significantly expand eligibility for Opportunity Grants and to increase average award amounts. The structure of the award program would be changed as well, and award amounts would be made dependent on income. Currently, students must have incomes lower than a certain level to qualify for the Opportunity Grant. If they meet this income requirement, however, their grant amount does not depend on their income level. That is, a student with a very low income receives the same grant amount as a wealthier student who also qualifies for the grant. The Governor is proposing to change this so that as a student's income increases the award amount drops. The basic structure of the proposal, which the Governor has labeled the "Shared Responsibility Model," is based on Minnesota's student financial aid program.



The proposed Opportunity Grant changes would cost more than the funding in the Governor's budget allows, if they were adopted for both years of the coming biennium. Instead, the Governor's budget would begin the Opportunity Grant program changes in the second year of the biennium. This reduces the program cost and would allow OSAC to prepare the administrative changes needed to adopt the Shared Responsibility Model, which would be considerably more complex to administer than the existing Opportunity Grant program. Note that Opportunity Grant expenditures in the 2005-07 biennium are now expected to be $18.1 million below the level in the legislatively approved budget. The increase to $107.9 million, therefore, represents a $47.9 million (or 80%) increase in the actual cost of the Opportunity Grant this biennium.

Because the Opportunity Grant changes would be effective for only the second year of the 2007-09 biennium, there would be a roll-up cost of approximately $45 million in 2009-11, when the changes would be fully phased in. The Governor's support for this Opportunity Grant increase is contingent upon a proposed increase in the minimum payment in the corporate income tax. The Governor supports reducing Opportunity Grant support from the level in his budget by $35 million General Fund if the minimum corporate tax increase is not enacted.

The Governor's budget also increases state support for a number of other agency activities, including a more than doubling of state support for the agency's administrative operations. The budget also supports a 57% increase in employment at the agency, adding 13 positions for a total of 36. The increase when measured on a full-time equivalent basis is slightly less at 51%. The budget support a 138% increase in the Rural Health Services Program, and would provide General Fund for the ASPIRE program for the first time. The budget also transfers the Student Childcare Program from the Department of Human Services to OSAC. Finally, the budget ends General Fund support for the Oregon Troops to Teachers program.

A summary of General Fund and Lottery Funds in the Governor's budget appears below:

State Support (General Fund + Lottery Funds)

	2005-07 LAB	2007-09 GRB	Change
Opportunity Grant	$75,732,121	$107,879,103	42.4%
Rural Health Services Program	444,629	1,058,412	138.0%
Nursing Services Program	358,650	369,768	3.1%
Oregon Troops to Teachers	165,000	0	-100.0%
ASPIRE (portion to schools only)	0	671,061	N/A
Student Child Care	0	895,820	N/A
Agency Operations	1,651,857	3,441,694	108.4%
Total State Support	$78,352,257	$114,315,858	45.9%

OSAC – Office Operations

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	992,252	1,536,582	1,536,582	3,143,885
Other Funds	3,616,998	2,735,305	2,992,570	2,978,558
Total Funds	**$4,609,250**	**$4,271,887**	**$4,529,152**	**$6,122,443**
Positions	34	21	21	34
FTE	34.00	20.35	20.35	31.58

Program Description

All of the agency's current administrative costs are funded in the Office Operations program, except for administrative costs of the Office of Degree Authorization. Note the table above does not include most of the agency's historic administrative costs or employees in the FFELP program. Those administrative costs (for the 2003-05 biennium only) are included in the Loan Division numbers.

Office Operations finances the cost of the agency, including personnel costs and services and supplies. Student aid payments are included in either the Opportunity Grant or Other Programs areas.

Revenue Sources and Relationships

The Commission uses Other Funds to pay for the portion of the Office Operations expenditures that are allocated to support the Other Funds-funded programs. The two primary sources of these Other Funds are charges for administering Private Award programs, and grant funds to operate the ASPIRE program.

Budget Environment

Office Operations are funded from a combination of General Fund and Other Funds. The administrative costs associated with General Fund-supported programs (including the Opportunity Grant) are paid by the General Fund. Administrative costs associated with Other Funds-funded programs are paid by the Other Funds sources. Employees with responsibilities in both General Fund and Other Fund programs are typically paid from a combination of both fund sources.

Office Operations were reduced significantly in the 2005-07 biennium, after OSAC withdrew from FFELP. In addition to the position reductions shown in the table above, another 44 positions were eliminated in the Loan Division. The 13 positions eliminated in Office Operations were positions that had been financed from a combination of General Fund and FFELP revenues. The 2005-07 budget increased General Fund for Office

Operations by 55% to avoid additional position cuts that would have threatened the agency's ability to perform its remaining statutory functions.

ASPIRE program expenditures equal approximately $1.5 million Other Funds per biennium. Five of the agency's 23 positions (5.00 FTE) are allocated to ASPIRE. Funding for ASPIRE will decline by $314,000 Other Funds in the 2007-09 biennium, due to the expiration of an AmeriCorps grant that had supported the program.

Governor's Budget

The Governor's recommended budget more than doubles General Fund for Office Operations, increasing it by $1.6 million (or 105%) over the prior biennium level. Total funds are also increased by $1.6 million (or 35%) over the prior biennium level. The Governor's budget also adds a total of 13 positions and 11.23 FTE, increases of 62% and 55%, respectively.

The following initiatives are funded in the Governor's budget:

- **Opportunity Grant: Shared Responsibility Model ($650,000 General Fund, three positions, 3.40 FTE) –** The Governor's budget supports changing the award structure in the Opportunity Grant program to adjust award levels by income. This will make administration of the program more complex. The budget would also significantly increase the number of awardees by over 60% above current levels. In Office Operations, the budget adds three positions and 3.40 FTE to address added workload associated with the expanded and more complex program. This funding also includes $250,000 to develop a model to project Shared Responsibility Model costs and outcomes.

- **ASPIRE Program expansion ($680,000 General Fund, -$210,000 Other Funds, five positions, 3.33 FTE) –** The Governor's budget appropriates General Fund for the ASPIRE program for the first time. The additional funds will finance expansion for the program from 83 to 150 high schools in the state (out of a total 317 schools). The budget shifts $210,000 of existing costs from Other Funds to the General Fund, primarily by allocating General Fund to pay portions of the salaries of employees now funded entirely by Other Funds. This will maintain employment given the expiration of grants that had supported these positions. The Governor's budget adds an additional $470,000 of General Fund to expand the program in Office Operations. The program enhancements include five added positions to service the expanded program, including four funded by General Fund. The new General Fund positions include a third seasonal Regional Coordinator, a Resource and Training Specialist, and two Training Consultants. (Note the budget also adds $670,000 of General Fund for payments to high schools. This $670,000 is not included here, but is instead in the Other Programs area. **The total General Fund proposed for ASPIRE is $1.35 million**.)

- **Scholarship Services Marketing and Support ($15,000 General Fund, $430,000 total funds, three positions, 3.25 FTE) –** The Governor's budget adds three positions to support administration of the Private Awards program and administration of a federal Gear Up grant. It establishes a Donor Development and Marketing Specialist to work with private scholarship donors, a Gear Up Scholarship Portfolio Manager to coordinate awarding of Gear Up scholarships with the Oregon Community Foundation, and an Application Processing Coordinator to assist students in filling out applications for financial aid. These personnel costs, along with associated services and supplies costs of $130,000, will be financed by Other Funds grants and contracts. The General Fund component will fund expanding a part-time accounting position to a full-time position.

- **JOBS Plus Scholarship ($28,000 Other Funds, one position, 0.25 FTE) –** Funds one part-time position to administer a proposed new scholarship for JOBS Plus clients. The proposed scholarship would require legislative approval in a substantive bill to allow JOBS Plus Individual Education Account (IEA) moneys to be transferred immediately from the Department of Human Services to OSAC to fund scholarships for JOBS Plus clients. Under current law, JOBS Plus IEA benefits are underutilized, and the proposal is designed to increase usage of the available scholarship funds.

- **Technology Lifecycle Replacement ($39,000 General Fund, $39,000 Other Funds) –** Adds permanent funding in the agency budget for replacing desktop computers and servers.

- **Agency Facilities and Internal Audit ($70,000 General Fund, $90,000 total funds, one position, 0.50 FTE) –** Establishes a part-time internal auditor position. The agency requested this position to comply with a

Department of Administrative Services policy requiring all agencies with expenditures in excess of $100 million to maintain internal audit capability.

- **Rural Health Services Program expansion ($23,000 General Fund, zero positions, 0.25 FTE) –** The Governor's budget expands the Rural Health Services Program. The total cost of this expansion is $623,000 General Fund. Most of these dollars ($600,000) would be used for payments to health care professionals, and their expenditure, along with a description of the Governor's proposal, is discussed in the Other Programs area below. The $23,000 in Office Operations would expand a new position that is proposed in the JOBS Plus Scholarship initiative from 0.25 to 0.50 FTE. Half of this person's time would be dedicated toward administering the expanded Rural Health Services program.

- **Student Child Care (33,000 General Fund, zero positions, 0.25 FTE) –** The Governor's budget transfers the existing Student Child Care program from the Department of Human Services to OSAC. The program is transferred at the essential budget level of funding. The Student Child Care program is described in the Other Programs area below. The component in the Office Operations program would finance a part-time administrative specialist position for the 21 months that OSAC would administer the program in the 2007-09 biennium.

OSAC – Opportunity Grants

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	43,293,489	74,204,502	74,204,502	98,372,067
Lottery Funds	0	1,527,619	1,527,619	9,507,036
Federal Funds	1,480,969	2,103,860	2,103,860	2,104,655
Other Funds (NL)	0	300,000	300,000	16,242
Total Funds	**$44,774,458**	**$78,135,981**	**$78,135,981**	**$110,000,000**

Program Description

The principal student aid grant program in Oregon 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 25,000 students will receive an Opportunity Grant each year during the 2005-07 biennium, up from an average of 19,000 students per year during the prior biennium.

Revenue Sources and Relationships

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. Revenue from this source was affected when the state used the corpus of the Education Stability Fund (ESF) to offset General Fund reductions during the recession that hit after the 2001 session. Since then, however, the corpus of the ESF has been recovering. The Fund provided $1.5 million of Lottery Funds earnings for Opportunity Grants in the 2005-07 biennium. The amount of Lottery Funds forecast to be available for the 2007-09 biennium budget, from both 2007-09 biennium ESF earnings and from carry forward of earlier earnings not yet spent, is $9.5 million.

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 of recent large increases in state support for the Opportunity Grant, the matching funds requirements have been met and the state is maximizing the amount of Federal Funds available from these programs.

Budget Environment

In recent years, significant numbers of students who were eligible to receive an Opportunity Grant did not receive one because of lack of funds. The Commission approved eligibility standards and award levels that could not be financed given the amount of Opportunity Grant funds available. Because of this, the Commission set an application cutoff date each year. Students who did not finalize their plans until later, or who did not apply by the cutoff date for other reasons, did not receive an Opportunity Grant award. Approximately 66-70% of eligible students received awards in 2003-05 before funding was cut off. This practice most severely affected community college students, who often do not register for classes until shortly before the term begins. Most of the unserved students were community college students. In 1999, the Legislature directed the Commission to revise its administration of the Opportunity Grant so that community college students would not be disproportionately affected by fund limitations. The Commission responded by setting a separate cutoff date for community college applicants that was later than the cutoff date for students at four-year institutions.

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

The state further expanded the program in the 2005-07 biennium. The Legislature expanded the Opportunity Grant to part time students. More significantly, it addressed the issue that some eligible students failed to receive the grant because of the level of funding. Instead of directing the Commission to establish eligibility requirements that reflected available funding, the Legislature increased funding to serve all students who were eligible for funding under the criteria that the Commission had set.

The 2005-07 legislatively approved budget added $31.4 million of General Fund support above the essential budget level for the Opportunity Grant. State support (General Fund plus Lottery Funds) for Opportunity Grants totaled $75.7 million, a 72% increase over the 2003-05 level. Adding in available Federal and Other Funds, the budget financed $78.1 million for Opportunity Grants, which was also a 72% increase over the prior biennium level of funding.

The funding financed a two-stage expansion of the Opportunity Grant:

- <u>2005-06 fiscal year</u> – The Opportunity Grant program was expanded to serve <u>all</u> eligible students attending qualified public institutions, i.e., Oregon University System campuses, Oregon community colleges, and the Oregon Health and Science University. Approximately 70% (the 2003-05 biennium rate) of eligible students at private colleges were to be served in this year.

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

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

The $78.1 million available for Opportunity Grants was projected to be sufficient to finance all of the approved program expansions. These expansions were forecast to increase Opportunity Grant awards from an estimated 38,400 students in the 2003-05 biennium, to 63,000 students in 2005-07. Actual participation has been far less than forecast, however. In the first year of the biennium, Opportunity Grant awards were made to 24,299 students and totaled $29.3 million. The number of awards to full-time students in Fall 2006 fell by more than 12% from the prior year, even though the program was expanded that term to cover all eligible student at private institutions for the first time. Because of this, second-year payments would only total $30.5 million if Fall Term awards represent the same proportion of all term awards as they did last year. This is even though award amounts have increased since the prior year, and the part-time award program is just starting this year. The Legislative Fiscal Office now projects that Opportunity Grant awards will total only $60 million in the 2005-07 biennium (23% below the cost projected last session).

The primary reason for the lower than expected costs is that program participation is much lower than expected. The expansion of Opportunity Grant funding does not appear to have increased enrollment of lower income Oregonians in post-secondary education. The 2005-07 biennium budget for the Opportunity Grant was funded on the assumption that 63,000 awards would be made during the two academic years of the biennium. The Legislative Fiscal Office now projects that the actual number of awards in the 2005-07 biennium will only total approximately 50,400 (20% below the number projected last session).

Governor's Budget

The Governor's recommended budget supports another major expansion in the Opportunity Grant program. The Governor's budget adds $47 million of General Fund to increase Opportunity Grant support to a total of $110 million, which is 41% over the 2005-07 legislatively approved budget, and 83% over the current estimate for 2005-07 biennium Opportunity Grant expenditures.

The funds would be used to expand the Opportunity Grant in the second year of the biennium by adopting the Shared Responsibility Model. The Shared Responsibility Model, which is based on Minnesota's student grant program, would adjust grant award amounts with the student's income level. This would end the current situation in the Opportunity Grant program whereby qualifying students receive the same grant amount regardless of their income or family status, and whereby there is a cliff effect such that an additional dollar of income disqualifies a student and eliminates the entire award amount.

The budget would also fund a significant expansion of the program, expanding the average award amounts and the number of students served. The Governor's budget would extend the Opportunity Grant to middle income students. Awards would be available to students, generally, with family incomes of up to $60,000. The number of students served is projected to increase from 26,000 in 2006-07, to 42,000 (a 61% increase) in 2008-09, when the expansion would occur. Average grant award amounts would also increase: from $1,200 in 2005-06 to $1,800 in 2008-09.

Because the Opportunity Grant changes would be effective in only the second year of the 2007-09 biennium, there would be a roll-up cost of approximately $45 million in 2009-11, when the changes would be fully phased in. The Governor's support for this Opportunity Grant increase is contingent upon a proposed increase in the minimum payment in the corporate income tax. The Governor supports reducing Opportunity Grant support from the level in his budget by $35 million General Fund if the minimum corporate tax increase is not enacted.

The Legislative Fiscal Office (LFO) characterizes the supplemental funding above essential budget level to implement the Shared Responsibility Model for one year of the biennium as equal to $47 million of General Fund. This is based on projected 2006-07 academic year costs of the Opportunity Grant of $30.5 million. LFO calculates the essential budget level of maintaining the Opportunity Grant program at the 2006-07 level through the two years of the 2007-09 biennium to be approximately $63 million. Therefore, the $110 million in the Governor's budget represents $47 million over the essential budget level. The Governor does not characterize it in this way, however. The Governor's budget estimates an essential budget level of over $71 million, based on earlier projections of program usage. Therefore the Governor's budget characterizes its funding as only $39 million over essential budget level. LFO, however, considers the $47 million figure to be accurate.

LFO also cautions that the projected costs of adopting the Shared Responsibility Model are highly uncertain. Indeed, the Governor's budget includes funds in the Office Operations program to develop better modeling of Shared Responsibility Model costs.

OSAC – Other Programs

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	599,026	968,279	968,279	2,995,061
Other Funds	299,461	536,611	555,361	3,088,496
Other Funds (NL)	9,531,275	8,714,812	8,714,812	10,269,546
Total Funds	**$10,429,762**	**$10,219,702**	**$10,238,452**	**$16,353,103**

Program Description

The Other Programs area of the budget includes payments made under the agency's student aid programs other than the Opportunity Grant. These programs include three existing state supported programs – a) the Rural Health Services Program, b) the Nursing Services Program, and c) Oregon Troops to Teachers Program; one state-supported program proposed to be transferred from another agency – d) the Student Child Care program; one program that currently operates without state-support but for which the Governor proposes adding state support – e) the ASPIRE program; and a number of programs that neither receive state support (or are supported in other state agency budgets with funds merely transferred to OSAC for disbursement), nor are proposed to receive state support – the largest in this latter category being the Private Awards program.

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

The ASPIRE (Access to Student Assistance Programs in Reach of Everyone) program is an OSAC initiative. The program is not a financial aid program, but instead it works to increase access to post-secondary education by providing high school students with information on how to apply to college and apply for financial aid. ASPIRE trains volunteers who mentor high school students through the college admission and financial aid application process, thereby supplementing services that many high schools have reduced in recent years. ASPIRE was begun in 1998 and has expanded to 83 high schools. The program is entirely funded by grants (Other Funds). Other Programs also houses the Private Award program. The Commission acts as a clearinghouse for the administration of over 320 privately funded scholarship programs. 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.

Budget Environment

General Fund supported three Other Programs in the 2005-07 legislatively approved budget: the Rural Health Services Program, the Nursing Services Program, and the Oregon Troops to Teachers Program. The Rural Health Services Program was not increased in 2005-07 above the essential budget level, and is operating at capacity. Funding for the Nursing Services Program was more than doubled in 2005-07 to restore a one time fund shift in 2003-05 when funding for the program was adjusted to equal current costs. This funding restoration has turned out to be more than was needed. Only about 70% of the General Fund appropriated for the Nursing Services Program will be spent in 2005-07.

The Oregon Troops to Teachers program was established in the 2005 session. The program was funded with $165,000 General Fund. Only 27% of this ($45,000) is expected to be used, however, as utilization was less than expected.

Governor's Budget

The Governor's recommended budget increases General Fund for Other Programs by $2 million (or 209%) over the prior biennium level. Total funds are increased by $6.1 million (or 60%) over the prior biennium level. There are three General Fund enhancements, and one General Fund program is eliminated.

- **ASPIRE Program expansion ($670,000 General Fund) –** The Governor's budget appropriates General Fund for the ASPIRE program for the first time. The additional funds would finance expansion for the program from 83 to 150 high schools in the state (out of a total 317 schools). The funding added to the Other Programs area represents payments to local school districts to expand ASPIRE in their high schools. The funds would be used to finance half the cost of ASPIRE school coordinators who recruit and supervise volunteers. School districts would have to match these moneys with their own funds to finance the coordinators. (Note the budget also adds $680,000 of General Fund for agency administration of ASPIRE. This $680,000 is not included here, but is instead in the Office Operations area. **The total General Fund proposed for ASPIRE is $1.35 million**.)

- **Rural Health Services Program expansion ($600,000 General Fund) –** The budget expands the level of loan repayments under this program by $600,000 (or 138%) over the prior biennium level. The budget also anticipates a number of changes in the program that would require statutory changes in a substantive bill. The changes would open the program to dentists, and allow the program to be associated with specific practices sites. A rural medical practice site could then recruit personnel by clarifying that persons who work there are eligible for this program. Program participants would also have to commit to a site before becoming eligible for the award, which is not currently the case. (Note the budget includes an additional $23,000 General Fund for program administration in Office Operations.)

- **Student Child Care ($896,000 General Fund) –** The Governor's budget transfers the existing Student Child Care program from the Department of Human Services to OSAC. The program is transferred at the essential budget level of funding. The Student Child Care program is a direct payment program that assists student parents with childcare costs. The program currently assists approximately 110 student parents each year. OSAC proposes to change the program into a student aid program. Payments would no longer be made directly to students. Instead, they would be distributed to colleges and universities and be used in financial aid packages for qualifying students. The program would be transferred three months after the start of the 2007-09 biennium, and OSAC would therefore administer it for 21 months in 2007-09. The transferred funding is equivalent to 21 months of funding at the essential budget level. Legislation to transfer this program to OSAC was introduced in the 2005 session, but the bill was not enacted.

- **Oregon Troops to Teachers (-$165,000 General Fund) –** The Governor's budget eliminates funding for the Oregon Troops to Teachers program.

Additionally, the JOBS Plus Scholarship program has no General Fund impact, but will increase Nonlimited Other Fund expenditures by an estimated $769,000. These would be scholarships that would be distributed to former JOBS Plus clients from monies contributed into JOBS Plus Individual Education Accounts. Currently, unused JOBS Plus IEA funds are spent on Opportunity Grants. Opportunity Grant funding is projected to decline by $310,000 as a result of establishing the JOBS Plus Scholarship.

OSAC – Loan Division

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	70,661	0	0	0
Other Funds	7,355,826	0	0	0
Other Funds (NL)	31,072,150	0	0	0
Total Funds	**$38,498,637**	**$0**	**$0**	**$0**
Positions	44	0	0	0
FTE	44.00	0.00	0.00	0.00

Program Description

The Loan Division administered the Federal Family Education Loan Programs (FFELP), formerly called the Guaranteed Student Loan Program. The FFELP included 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 were 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 were guaranteed for Oregon students who study both in-state and out-of-state, and for out-of-state students attending Oregon institutions.

OSAC was unable to cover costs of participating in the FFELP program. FFELP revenues were largely generated by the level of loan volume, and OSAC was unable to maintain sufficiently large loan volumes as the federal government reduced reimbursement rates and the loan guarantee industry consolidated. The program could not be made financially viable without an ongoing General Fund subsidy. As a result, and with the agreement of the Federal government, OSAC ceased operation as a loan guarantor agency on December 31, 2004. Oregon students can still participate in the federal student loan guarantee program, but they now have their loans guaranteed by other guarantors.

The Loan Division was eliminated in the 2005-07 biennium budget after OSAC withdrew from the FFELP program.

Revenue Sources and Relationships

The Loan Division received no state funds. Most of the Commission's Other Funds revenue is received under the federal loan guarantee program. The Commission received Other Funds when it collected ("recovered") on defaulted student loans that it had guaranteed. The agency also received payments for loans that it had reinsured with the federal government, and from fees it charged in the loan guarantee program.

Budget Environment

The budget limited the Commission's expenditures for administering the loan program but it did not limit what the Commission could pay to assume the loans it had guaranteed, or the payments made back to the federal government for their portion of the loan recoveries.

Governor's Budget

The Loan Division no longer exists. Information on the Loan Division is provided for historic context only.

OSAC – Office of Degree Authorization

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	171,449	115,275	115,275	297,809
Other Funds	443,938	290,565	312,519	241,161
Total Funds	**$615,387**	**$405,840**	**$427,794**	**$538,970**
Positions	6	2	2	2
FTE	6.00	2.00	2.00	2.25

Program Description

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

ODA also maintains information on post-secondary education in Oregon, including data on enrollments, graduations, finances, staffing, and program descriptions on all public and private degree-granting institutions in Oregon. The Office authorizes and regulates 70 private institutions that offer degree programs in Oregon, and 25 public institutions with respect to detrimental duplication issues. ODA conducts approximately 75 reviews and program evaluations per biennium, and also responds to inquiries and complaints about substandard and fraudulent educational practices.

Revenue Sources and Relationships

The Office of Degree Authorization receives Other Funds revenue from fees it charges institutions for required academic degree program reviews.

Budget Environment

ODA charges fees for reviewing private institutions' proposed degrees. These fees are received as Other Funds, and are projected to total approximately $280,000 in the 2005-07 biennium. The budget projects that fee revenues will decline to $240,000 in 2007-09. 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.

The ODA budget was reduced in the 2005-07 legislatively adopted budget to reflect the inability of fee collections to generate the revenue that the 2003-05 budget anticipated. The anticipated $240,000 of Other Fund revenue will not be sufficient to maintain current services in 2007-09, however. Fee revenue will be $185,000 less than the amount needed to fund the essential budget level.

Governor's Budget

The Governor's recommended budget increases total Office of Degree Authorization expenditures by $111,176 (or 26%) from the prior biennium level, and increases staffing by 0.25 FTE by expanding an existing position to full-time. General Fund support is increased $182,534 (or 158%) over the prior biennium level.

The budget provides approximately $248,000 of General Fund above the essential budget level. (Nonetheless, there is only a $182,534 General Fund increase over the prior biennium. This is because cost reductions lower the 2007-09 biennium essential budget level below what was approved for 2005-07.) The $248,000 of General Fund above the essential budget level includes $185,000 General Fund to replace the Other Funds shortfall of the same amount. The budget also provides an additional $62,503 General Fund for ODA program enhancements. These include $23,253 General Fund for increased staffing and $39,250 General Fund for services and supplies. Of the services and supplies increase, $30,000 is designated for Attorney General charges for ODA to conduct hearings through the Office of Administrative Hearings regarding complaints around the use of unauthorized degrees; the remainder is for miscellaneous expenses.

Teacher Standards and Practices Commission – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	3,672,701	3,915,455	4,255,660	4,592,868
Total Funds	**$3,672,701**	**$3,915,455**	**$4,255,660**	**$4,592,868**
Positions	21	22	22	24
FTE	20.00	21.50	21.50	23.00

Agency Overview

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

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

There are approximately 60,000 educators in Oregon who hold 66,000 current licenses. Slightly over one-half of these licensees were employed in Oregon's public schools in 2005-06. All student teaching candidates, 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 mission is to ensure that students are taught by competent and ethical teachers. The agency 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 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 (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.

Fees for licensure increased from $75 to $100, the maximum allowed by statute, in January 2006. Other fees include $62 for fingerprinting, $75 for registration of charter school educators, $120 for applicants graduating from other than an approved Oregon educational program, $99 for an expedited license, $150 for reinstatement of a revoked license (in addition to the $100 application fee), and an alternative assessment fee of up to $200. The alternative assessment is a process to determine professional eligibility of applicants who are unable to pass traditional licensure tests. The fee for a duplicate license is $20 and late fees are $25 per month to a maximum of $100.

Budget Environment

Contacts from educators are increasing. The agency has issued 8% more licenses from July through September of 2006 than it did a year ago during that same period. 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. The Legislature has continued to add limited duration positions to help address the backlog.

The federal No Child Left Behind Act of 2001 has increased the workload of the agency. This law mandates that all teachers be "highly qualified." TSPC has been working closely with the Oregon Department of Education to determine the requirements for elementary, middle, and high school teachers. Over the last couple of years, TSPC staff has reviewed thousands of teacher credentials to determine if individual teachers are "highly qualified."

The number and complexity of discipline cases and investigations continues 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. The increase in cases has put a strain on the agency's budget and they were required to request additional funding at the December 2006 meeting of the Emergency Board.

Governor's Budget

The Governor's recommended budget is a 7.9% increase over the 2005-07 legislatively approved budget. The budget includes:

- A phase-out of $8,000 Other Funds expenditure limitation for one-time costs in 2005-07, primarily for the agency's scanning project hardware.
- The addition of $273,499 Other Funds expenditure limitation for 2 full-time permanent positions (2.00 FTE) to address the backlog of discipline cases.
- The addition of $139,670 Other Funds expenditure limitation to cover the cost of a permanent full-time (1.00 FTE) information technology specialist to maintain and upgrade the technology projects for the agency. The agency currently contracts for these services.
- The addition of $74,489 Other Funds expenditure limitation to establish a permanent part-time (0.50 FTE) office specialist position. This position has been limited duration and assists with the workload in the licensure section.