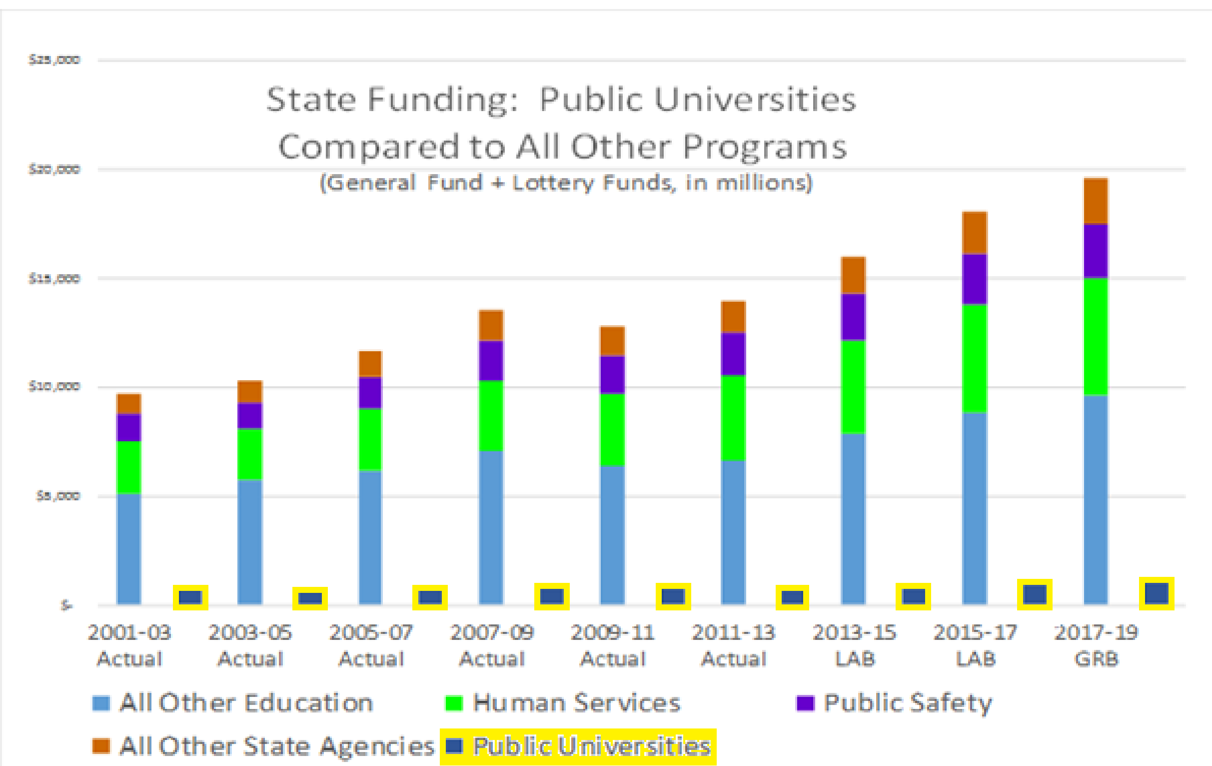
Oregon Council of Presidents

Legislators should strike a balance between spending on capital and operating expenses for Oregon's Public Universities

Some have asserted that by eliminating capital projects, the legislature would free up general funds to support students and reduce tuition at Oregon's universities. The relationship between state debt and general fund spending is not so simple. Issuing bonds for capital projects on university campuses is not the reason why tuition rates have climbed in the past. And pulling those investments back won't help reduce tuition. In fact, state bonds for university buildings both improve student success and, over time, generate more revenues for the state to support students.

The legislature has chronically under-funded Oregon's universities

As indicated in the graph below, over the past 17 years as Oregon's general fund revenues have increased, the legislature has had plenty of opportunities to devote general funds to universities to keep tuition low. But that is not how legislators have chosen to invest their operating funds. State spending has increased at well over twice the rate for all other state programs compared to state spending on Oregon's public universities, *even when accounting for the debt that is devoted to paying off bonds for university buildings*. The benefits of the growth in Oregon's economy are not flowing to Oregon's public universities.



The effect of this trend has been the steady shift in the responsibility for paying for university degrees away from state general funds and toward tuition. In 2000, students bore roughly one-third of the cost of an education at Oregon's public universities while the state carried two-thirds of the cost. During the current biennium, as a result of this shift in responsibility, students are now carrying well over two-thirds of the costs, and the state is carrying one-third. Investments in capital projects are not the cause of this shift – it is the conscious choice by the legislature to spend growing general fund revenues on programs other than Oregon's public universities.

The legislature follows prudent guidelines when investing in capital

Oregon will not solve this problem by shifting money away from university capital projects because doing so will not free up general funds to spend on university operating budgets. Long-standing policies developed by the State Debt Policy Advisory Commission determine how much money the legislature has available to spend on debt for capital projects, both in good times and in bad. These guidelines seek to ensure that debt service obligations each biennium do not exceed 5% of the state's forecasted general fund revenues.

The legislature has been prudent and diligent in adhering to these guidelines. For example, in 2015, the Debt Policy Advisory Commission recommended that in order to remain in the 5% range, the legislature should commit no more than $1.245 billion in general fund-supported bonds.[1] During the 2015 session, the legislature committed $1.085 billion in general fund bonds, consuming approximately 87% of the capacity recommended by the Debt Policy Advisory Commission.[2] A review of the past four biennia indicates that if the legislature has the capacity to bond, it has generally invested to that capacity, reserving a cushion to address emergencies. For the 2017-19 biennium, the Debt Policy Advisory Commission is recommending a $1.15 billion limitation for general fund bonds.[3]

The 5% limitation is a sound and prudent policy designed to ensure the right balance between debt and operating funds across all state-funded activities both when times are good and when the economy is contracting. Given the pressure for using its available debt capacity, if the legislature chose not to expend debt capacity on higher education, it would simply spend that capacity on other projects. Shifting capital investments to other state projects won't create any general fund savings, and there would be no opportunity to invest more operating funding for universities to support student success programs or reduce tuition.

Capital investments in Oregon's public universities provide dividends for years to come

Shifting investments away from Oregon's public universities would significantly reduce the rate-of-return on Oregon's debt capacity. Unlike most other state capital projects, many university projects are matched with funds raised by the university. A $50 million bond used for another state project will result in a $50 million building. As a result of philanthropic matches, a $50 million state bond used for many university buildings will result in a $100 million building. This leverage translates into more construction jobs and increased returns throughout the lifetime of the building.

University buildings also create their own internal rates of return either by serving students or by enabling research. For example, at Western Oregon University the proposed renovation of the Oregon Military Academy Building this session will enhance WOU's ability to focus attention on underserved students and high-demand workforce needs.

---

[1] Report of the State Debt Policy Advisory Commission, January 22, 2015, p. 1 (http://library.state.or.us/repository/2011/201101061311294/2015.pdf). This figure includes $270.7 million in carry over bonds from the previous session.

[2] HB 5005, 2015 Session: https://olis.leg.state.or.us/liz/2015R1/Downloads/MeasureDocument/HB5005/Enrolled

[3] Report of the State Debt Policy Advisory Commission, January 23, 2017, p. 1 (https://www.oregon.gov/treasury/Divisions/DebtManagement/Documents/SDPAC/2017%20SDPAC%20Report.pdf).

This renovation project will allow WOU to consolidate admissions, financial aid, service learning and career development, and services to veterans. It will also retain the "barracks" upstairs for conferences, such as the Cesar Chavez Leadership Conference, and for certificate programs in the summer for bilingual education and other critical workforce needs.

On Oregon State University's Corvallis campus, the research enabled by the creation of a Quality Food and Beverage building will enable the development of innovative dairy, beer and wine products sold by Oregon companies as they compete in a global market. The $9 million in state bonds for this project will be matched by $9 million raised by OSU from Oregon companies. The project will also create a learning laboratory for OSU students who aspire to work in Oregon's growing fermentation industry. This investment and the commercial activities it will support will bring significant outside resources into Oregon's economy for years to come.

If anything, increased spending on university capital projects over time will actually increase economic activity and the inflow of revenues from outside of Oregon. These revenues can then be used to reduce tuition for Oregon students. As important, university capital projects significantly and directly increase and improve the level of service available to students. Eliminating projects to save money for operating expenses would create a false promise for Oregon students and would actually result in a less productive economy and fewer resources available to support those students and other state-funded programs.

Sincerely,

Edward J. Ray

Ed Ray
President, Oregon State University

Rex Fuller

Rex Fuller
President, Western Oregon University