OPINION

Saving Public Universities, Starting with My Own

By Richard Lariviere

Oregonians don't whine. In the face of adversity, we grit our teeth and carry on. Land use, bottle-deposit bills, beach protection—Oregon has led the nation.

But Oregon's 25- to 34-year-olds are less likely than their parents to have college degrees. We have one of the worst-funded systems of public higher education in America: Oregon ranked 44th in the latest measurement of state funding per student.

The easy response to decades of reduced funding is to simply ask the state for more. But with Oregon expecting a $3.3 billion budget shortfall for the coming biennium and a "decade of deficits," as Gov. Ted Kulongoski recently put it, asking for more money is futile.

Boldness is a necessity—and we think we have the answer. Our plan is to stabilize the University of Oregon's financial situation by establishing an endowment funded by a partnership of private and public monies.

Twenty years ago, the state legislature appropriated $63.3 million for the University of Oregon. Our state funding for the current fiscal year has dropped to a projected $60 million. Adjusted for inflation, that's just $34.9 million in 1990 dollars.

State funding currently makes up less than 8% of the university's overall budget, while tuition and fees now account for about 40%. A generation ago, state funding per student was twice the amount received in tuition. Because of a dramatic rise in enrollment and an equally dramatic decline in state funding, tuition has increased by an average of 7.5% each year for the past 38 years. But the rise in tuition has been erratic, due largely to fluctuations in state appropriations, with annual tuition increases ranging from 2% to 25% in a single year.

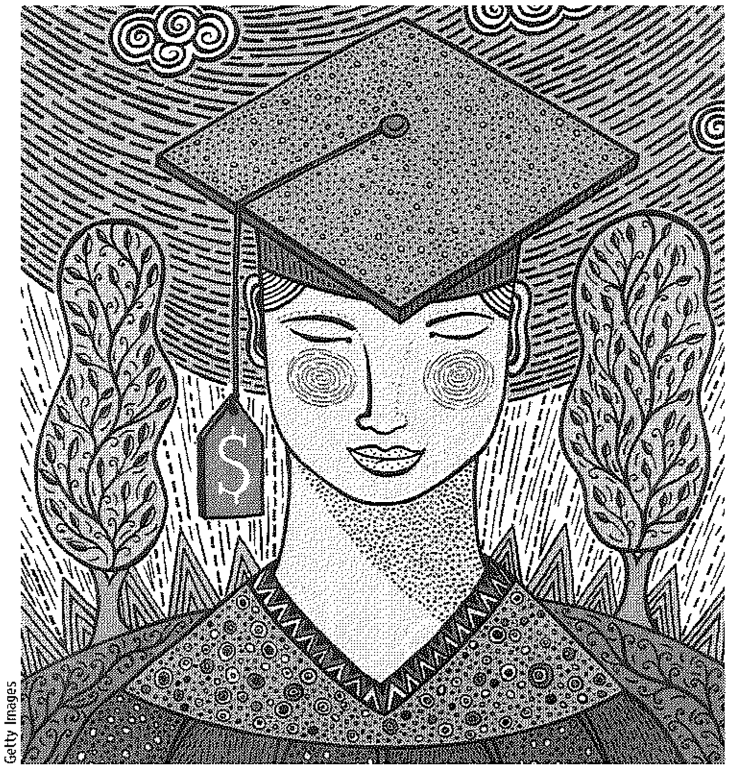
This unpredictability adds to the already tremendous burden on middle-class families hoping to send their children to the university. College is being put beyond the reach of too many worthy students. The goal at our university is to sustain high academic quality, while providing these young Oregonians with an affordable education.

The solution is an endowment funded by public and private contributions. Here's how to do it.

To accomplish this goal, we propose three steps. First, the university needs careful governance by a publicly appointed board specifically charged with overseeing the university's operations. Second, the university should be more accountable to the state-level board that oversees its educational goals and standards. And finally, we propose a first-of-its-kind formula for replacing year-by-year state appropriations to the university with a public-private endowment. Earnings from the endowment's invested capital will replace the unpredictable muddle of state funding.

It is this third element—replacing the state's annual appropriation with a public-private endowment—that makes our proposal unique. We are asking lawmakers to lock public appropriations for the university at $63 million over 30 years—enough to make debt payments, at a 7% taxable bond rate, on $800 million in general obligation bonds.

Meanwhile, the university will pledge to match the $800 million in bond proceeds with private donations, and we will raise the private money before the public money is used for these bonds. The combined $1.6 billion public-private endowment will create a solid base for the university's financial operation, replacing the erratic seesaw of annual state appropriations.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Using historical returns from the University of Oregon Foundation as a benchmark, the new public-private endowment will generate $64 million in operating revenue for the university in its first year. This is more than the current annual appropriation.

Projecting returns of 9% and assuming distributions of 4%, the endowment's annual payout will increase to $263.4 million in its 30th year. The endowment's capitalized balance of $6.9 billion at that point will secure the university's future.

Some have labeled our projected returns as overly optimistic. But the University of Oregon Foundation's own endowment has returned an average of 9.8% annually since 1994 (the earliest year for which reliable information is available). That takes into account three years of negative returns—including a 17.8% loss in 2008, during the worst economic downturn since the Great Depression—as well as a strong return of 10.1% in 2009.

Over the next 30 years, there will inevitably be good times for the state of Oregon, and it will undoubtedly invest more in higher education. But we're willing to exchange the prospect of an eventual increase in state funding for a predictable level of support—even at today's low level. Having a steady income stream through the public-private endowment will enable us to better control the rate of tuition increases.

As the proposal heads toward legislative consideration next year, we are now also in discussions to include a requirement that the new endowment maintain a portion of its investment portfolio in local companies, so we can help jump-start the state's economy.

Oregon's experience with higher education funding is not unique. Economic and demographic changes are demanding a response from universities across the nation. We believe that we've come up with a viable answer to the question of how to provide educational opportunity without sinking our state deeper into the financial hole—and we hope other states consider following suit.

Mr. Lariviere is president of the University of Oregon.