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A Risk Worth Taking?
*A look at the hopes and challenges of the UO’s proposal for a new relationship with the state*
By Brent Walth

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This article by Brent Walth ’84 is the first installment of *Oregon Quarterly*’s Boyd-Frohnmaier Writers Series. A gift from former UO president William Boyd in honor of former UO president Dave Frohnmaier makes it possible for *Oregon Quarterly* to hire exceptional writers to cover topics vital to the University and the state. Walth is a senior investigative reporter at *The Oregonian*. He shared the 2001 Pulitzer Prize Gold Medal for Public Service for stories that revealed abuses by the U.S. Immigration and Naturalization Service. He is also the author of the critically acclaimed *Fire at Eden’s Gate: Tom McCall and the Oregon Story*, a biography of McCall ’36, the legendary Oregon governor.

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I arrived at the University of Oregon in the fall of 1980 as a typical freshman—eager, ambitious, looking for a chance to prove myself. But money—the cost of school—was also on my mind. I was an Oregon resident, a graduate of Milwaukie High, and the UO offered me the programs I wanted at a price that my family could handle. Well, almost. Things were tight, for sure. I got a $400 scholarship—$400—and that made a huge difference.

We could manage the UO’s tuition because of the long tradition of the public university. Oregonians helped underwrite tuition costs knowing their investment would make the state a better and more robust place in which to live.

But even then, money shortages haunted the University. Oregon had slid into a deep economic recession, lawmakers cut higher-ed budgets, state universities raised tuition, and great faculty members left because the pay was too low. In the journalism school, where I spent a lot of my time, professors handed out assignments printed on reused paper, classrooms didn’t get cleaned very often, and, with the world moving to computers, we wrote stories on manual typewriters bolted to desks. By the time I took my advanced reporting course, the J-school had a few computers. The prof allowed us each to try them out—just once, and only for five minutes.

Yet the UO kept its promise to me: a strong and affordable college education that I use every day, a foundation to build on through the years.

Today, as I walk around the UO campus, I see a school transformed, primarily by massive giving by donors, especially a handful of the very rich. The University has become far savvier in bringing in private money to put up new buildings and outfit them with the latest equipment.

Yet with all this, the state of Oregon is betraying its promise to a new generation of students.
The UO and the state’s other six universities were created to give Oregon kids an affordable shot at college they would not otherwise have. Oregonians pay taxes to support the universities—providing a subsidy on the tuition bill for tens of thousands of high school graduates who call Oregon home.

But state lawmakers have pinched funds to the point that the UO is barely state funded any more. The UO gets less than 9 percent of its operating budget from the state. But more telling is the erosion in direct support for education. Two decades ago, Oregonians provided 62 percent of the cost of educating their university students. Now it’s about one-third of the cost. That ranks Oregon as forty-fourth in the nation for the amount of support its citizens give its public universities.

UO officials now put the estimated cost of a year at the University for Oregon residents (tuition, housing, expenses) at more than $17,000—almost four times what it was when I went there. To cover those costs, the UO and the other universities, with the legislature’s blessing, have jammed students with increasingly higher tuition bills to make up the difference. Annual tuition hikes at the UO since 1990 average 7.5 percent. That’s twice the growth rate of the median Oregon household income—now about $50,165, according to the U.S. Census Bureau—during that same time (see graph). It takes 36 percent of the average Oregon household income to pay for a year at a state public university—even after financial aid. “Measuring Up,” the annual report issued by the National Center for Public Policy and Higher Education, says that makes Oregon’s system one of the nation’s least affordable, when you compare costs to what people in the state actually earn.

A little more than half of UO undergraduates leave the University with outstanding student loans, and their debt averages $19,789. That’s one third more than a decade ago. Then there’s the students who can’t afford to even start. Despite programs to cover tuition and fees for the poorest of students, such as the UO’s PathwayOregon, the state is struggling to get students into college. That same “Measuring Up” report says the likelihood of students entering college by age nineteen is low—thanks to college costs and low high school graduation rates—and students’ chances in Oregon are falling faster than in most states.
The issue is access—can Oregon keep the UO affordable and hold its doors open to more Oregon students?

Enter Richard Lariviere, the University’s new president, a PhD in Sanskrit and blunt-talking son of a welder. Lariviere has proposed an audacious idea: Let the UO borrow and beseech its way to a new $1.6 billion endowment that would earn enough money from its investments to replace the money the University now gets from the state.

Lariviere says that increasing access to the UO can’t come until the University has financial stability. And to him, that means ending the roller coaster ride that comes with funding from the state budget, the University never knowing from one biennium to the next how much it can count on from the state. His plan calls for lawmakers to borrow $800 million on the UO’s behalf and then make payments on the bonds. It calls for getting private donors to match the loan with another $800 million. And—perhaps most difficult of all—it means convincing a wary legislature to trust the school and give up their power over the UO’s funding.

*Oregon Quarterly* asked me to take a hard look at the president’s plan—to explain how it works and see if it will deliver what it promises. What I found is that Lariviere’s idea is more than a
funding plan. It’s the sharpest protest in years against chiseling state university funding. His plan, in effect, calls out the legislature in particular for its failure to adequately support higher education—a risky thing, given lawmakers have to approve his idea.

But on the central question—will it make the UO more accessible to Oregon students?—Lariviere’s plan offers hope, but no guarantees.

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Lariviere recalls having dinner one night with two major UO supporters, who were then trying to woo him to accept the University’s presidency. Lariviere says he was intrigued about coming to the UO but was not yet convinced. At one point, one of the donors turned to the other and asked, “Shall we talk to him about the freedom movement?”

Lariviere perked up. His dinner companions told him the UO’s current relationship with the State of Oregon—the very relationship that spawned and fostered the University for more than a century—was a wreck. The state’s repeated cuts to Oregon’s public higher-education system and the UO in particular had gone so far that the University might as well be private.

Lariviere says he told his hosts he didn’t want to take the UO private. They told him they wanted to keep the UO public but find a way to bring it the financial stability it now lacked.

“That,” Lariviere says, “was something I could get behind.”

Public higher education in the United States, Lariviere says, is the envy of the world, with elites in other countries taken care of by the Oxfords and Sorbonnes.

“Nobody has what we have, a series of institutions in every state that can take a young person’s promise, shape it, develop it, so they can fulfill their own potential,” Lariviere says. “It sounds corny as hell when I say it that way, but, goddamn it, it’s true. And we’re doing our best to squander it.”

Across the country, state university funding often bobs up and down with states’ fiscal fortunes. And nationally, tuition for public universities has climbed sharply. “Public universities are competing for money that states also need for health care, prisons, K–12 education,” says Daniel J. Hurley, director of state relations and policy analysis for the American Association of State Colleges and Universities.

“Public universities have been hit hard because legislatures look at them and say, ‘Go find more money elsewhere.’ And that means higher tuition.”

Oregon has its own special brand of this dynamic. The 1990 property tax limit passed by voters forced lawmakers to shovel billions more into K–12 funding while the demands for other budget needs—primarily prisons and human services—continued to grow. Agencies that could find money elsewhere were forced to do so. That triggered steep tuition hikes at Oregon’s state universities.
“Oregon is not a state that over past decades has done very well by its higher-education system,” says Patrick M. Callan, president of the National Center for Public Policy and Higher Education. “It’s a state that hasn’t been strong in the good economic years in helping its universities gain the ground that they lost.”

One person who saw this up close for years is Michael Redding, formerly the UO’s lobbyist in Salem. After years of frustration at the legislature, Redding tried to puzzle out ways to smooth out the finances for the UO.

About four years ago, Redding, now the UO’s vice president for university relations, says he came up with the idea of borrowing a great deal of cash to build an endowment. In effect, the State of Oregon might front the UO enough money so that someday the University’s operations could be free from relying on annual state appropriations.

Redding floated the idea with his bosses but it wasn’t until Lariviere arrived that it took off. “The degree to which it requires a complete change in thinking, it’s an intimidating notion,” Redding says.

Redding kept working on it and as part of his doctoral work (he recently earned his doctor of education in education administration from the University of Pennsylvania) he studied the myriad ways other public universities are governed. In his first meeting with Lariviere, Redding shared his ideas, and Lariviere latched on to them immediately, making them central to his plan.

Here’s how the plan would work.

The legislature appropriated about $65 million in 2009–10 to the UO for operating expenses, less than 9 percent of a total budget that includes money from the state, tuition, the federal government, grants, and private donors. Under Lariviere’s plan, lawmakers would shift that money from paying expenses to making payments on $800 million in bonds. The money from the bonds would create a new UO endowment. The school would invest the money and the earnings from those investments would go to running the school.

But even that much money wouldn’t be enough. The University would need to raise $800 million in private donations to beef up the endowment. Without those gifts, the endowment wouldn’t have enough money to make the UO financially independent.

So the rosy outcome after all of these changes looks like this: The legislature would never again be asked to increase its contribution to the UO. It would only have to make the promised debt payment on the bonds. And in thirty years, when the bonds were paid off, the legislature could stop funding the UO entirely. Meanwhile, the University’s endowment would still be there, throwing off cash and steadily increasing funding for UO operations out into the future.

But there are many assumptions underlying this plan. Lariviere’s plan assumes, for example, the endowment would earn an average of 9 percent a year—the average rate of return experienced by the UO Foundation since 1994. Of that 9 percent, the plan assumes the UO would spend 4 percent and roll 5 percent back into the endowment. Under this assumption, the endowment
would earn the UO $64 million in its first year for operating expenses, an amount that grows to $263 million in thirty years.

The University has prepared an analysis that shows how that will work, and how the endowment could grow. (That analysis is included in a white paper available at newpartnership.uoregon.edu). “What we’ve come to see is that this plan could work,” says John Chalmers, associate professor of finance at the UO Lundquist College of Business, who participated in the funding analysis. “But I think the biggest thing is that it’s given a lot of people hope because we see our leadership trying to find a solution rather than saying things can never change.”

But there is an undeniable risk that the endowment won’t live up to the projections, which could undermine Lariviere’s entire plan. Even though its 9 percent projected annual earnings is based on the real-world returns of the UO Foundation, through both the boom of the late ’90s and more recent bust of 2008—anyone who has watched Wall Street in recent years knows that no long-term returns are a sure bet. If the endowment doesn’t make its targets in certain years—which history has shown is likely to happen—the UO would face a choice: cut operating budgets or leave less of the earnings in the endowment. In calamitous years—when the endowment might actually lose money—the University couldn’t easily go back to the legislature. Lawmakers would already be spending money dedicated to the UO to make payments on the bonds. That would leave the University with one last out: dip into the endowment itself to pay its bills.

Lariviere doesn’t dismiss the risks. He says he simply weighs them against the reality the UO now faces. “We could take our chances here,” he says, “or we could do away with any risk and stick with the legislature and know we’re going to get cut.”

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**I asked Lariviere what part** of his plan, if it passed, would keep him awake at night.

“Have we raised the $800 million from donors yet?” he asked.

Tying the UO’s financial freedom to donors is necessary to raise the money the school needs. Politically, too, it shows state officials the University is willing to meet the state halfway in creating this new endowment.

The UO has raised big money before. Campaign Oregon, launched by former UO President Dave Frohmayer, raised $853 million in eight years, far beyond its original $600 million goal. But the UO has never tried to raise this kind of cash for a general purpose. Most gifts that come in are tied to specific causes. Big donors especially want their money going to specific causes—particular academic programs, athletics, buildings they want erected, sometimes with their name attached. But scholarships, the most efficient way to help students gain access, attracted about 12 percent of the money raised in Campaign Oregon.

Lariviere says the idea of raising this kind of money for a general endowment has already received enthusiasm from major donors, who, he says, find the idea of financial stability for the UO appealing. “It could be one hell of a campaign,” he says.
The plan has already run into opposition in the legislature. That’s not surprising, given that the plan—at its core—is about power.

Lariviere’s plan would give the University more power than it’s ever had to control its own fate. Under his plan, the UO would be overseen by its own board, appointed by the governor. The board would have final say over major UO decisions, such as hiring top officials, its budget, and setting tuition.

Other state schools are coming up with their own plans to gain more autonomy from the State Board of Higher Education. But a fundamental aspect of Lariviere’s plan is the way in which it would make the UO first in line among the seven state public universities when it comes to getting money from the legislature.

Today, the UO must compete for higher ed funding in the legislature. Once the legislature doles out money for universities, a funding formula then helps the State Board of Higher Education decide how much each school gets. The formula weighs many factors, including the cost of programs and the number of in-state students. Based on that formula, the UO got $4,811 per student, compared to an average of $5,317 among all the universities. (Only Portland State University got less.) UO officials point to another analysis—one that includes all students, including out-of-state residents—that shows the University dead last in per-student funding among Oregon universities. Either way, funding for the UO is in the cellar.

UO officials say they are willing to lock into a level, $65 million a year, which equates to this lower per-student funding. They say they are willing to do this to get stability, acknowledging it also gets them out of the biennial competition at the legislature for general fund money. As a result, they say, they are willing to forgo the chance at funding increases that might be available to the other universities in the future.

That’s hard to imagine right now.

Based on my review of Lariviere’s plan, the UO comes out ahead in two big ways. First, the school converts the money it gets from the legislature from operating funds to a debt payment—$65 million that lawmakers must commit every year before any other university gets a dime. What’s the advantage here? Let’s say the state budget faces more cuts—which is a certainty, with studies predicting a decade of state budget shortfalls. The UO will have its money locked up, leaving Oregon State University, Portland State University, and the other universities scrambling for what’s left. Second, the $65 million leverages the possibility of annual funding increases from the return on the endowment—an opportunity no other university would have.

Senator Mark Hass ’78, a Beaverton Democrat, says he’s intrigued by Lariviere’s plan but isn’t comfortable with putting the UO first. “We should look at a path that is to the common good, not one that puts one university ahead of all the others,” Hass says.

House speaker Dave Hunt, a Gladstone Democrat, has been especially dour about the idea. “We have to look at the whole picture of higher education, not just stabilizing the UO,” Hunt says. “I
think about if the foundation of my house is crumbling, and I decide to shore it up only under my daughter’s bedroom—it might make me feel better, but the rest of the house is still unstable.”

What’s more, Hunt says, controlling tuition costs remains one of the legislature’s most powerful accountability measures over the state’s universities. “If we’re talking about accountability,” Hunt says, “then we should continue to have elected officials be the ones who have final say about tuition.”

It’s this question of power where the debate over Lariviere’s plan will turn: In the future, who would really run the UO?

I’ve thought about that by considering who really runs it now. Ostensibly, the State Board of Higher Education provides oversight, but it also has six other universities to keep an eye on. That invests a lot of power in the hands of the university president.

Lariviere says that under his plan the UO will have more accountability than it currently does. From the perspective of the University president, he may be right. He says that having a governing board dedicated solely to the UO will actually increase the scrutiny of how the University is run and his actions as president. Lariviere says he and future presidents would have to answer publicly for major decisions that get no real scrutiny now.

But on the very biggest issues—control of the money and creating greater access for students—the power and accountability shift toward the UO. “They want to take away the most powerful kind of accountability, the financial relationship to the state, where it has to negotiate for its budget each year,” Callan, of the National Center for Public Policy and Higher Education, says. “If you take that piece out, what is going to assure the institution really does operate as a public institution in the public interest?”

Under the plan, the governor—whose authority over universities now runs through the higher-ed board—becomes the sole elected official accountable for the UO. Based on models developed for the universities of Washington and Virginia, the plan lets the State Board of Higher Ed set benchmarks in areas such as accessibility, affordability, and diversity. The board could impose penalties on the UO if standards are not met.

But the political reality, in my reading, essentially takes the legislature out of any meaningful role, and the higher-ed board—not exactly a tiger now when it comes to holding the universities accountable—would be left at the margins. The UO board would have the real power—control over tuition and spending, the power to hire and fire the president, and to OK any major initiative or donor-driven project.

Lariviere says a local board could work well, as long as it doesn’t become beholden to the president, big donors, or other political influences—such as, he says, campaign contributors who want a governor to stack the UO board in a particular way. He’s right—but these are big ifs. This plan increases the chances that the kind of political influences he describes—for good or ill—could affect the operations of the UO.
Perhaps the biggest ask Lariviere is making is in seeking greater public trust in the UO.

Lariviere makes this request as he tries to turn around the UO’s image that has been scorched in headlines about secret deals, million-dollar buyouts, and a history of cloaked relationships with major donors. In short, Lariviere is asking for Oregonians’ trust at a time when the UO is trying to overcome what he acknowledges is a history of mistrust—capped off in April by the controversial $2.3 million buyout deal of former Duck athletic director Mike Bellotti, which exposed sloppy and cozy dealing within the UO. The University has faced similar criticisms about its reputation for excessive secrecy, especially in regard to what some perceive as foot-dragging when it comes to responding to public-records requests. My colleague at The Oregonian, columnist Steve Duin, wrote that the UO had “adopted a code of secrecy worthy of the KGB”—especially around UO athletics and Phil Knight ’59, chairman of Nike and the University’s megadonor.

Lariviere says the Bellotti mess (he actually used a barnyard epithet instead of the word mess) helps to make his point about transparency and accountability: He believes a board dedicated to running the UO would have demanded more transparency in the first place and never allowed the University’s athletic director to work based on a handshake deal. Similarly, he has already responded to criticism about public-records foot-dragging by creating a public records ombudsman who will track and make posts on the Internet about the way in which the UO deals with every public records request it receives. Lariviere says it might take years to rebuild the trust the UO has lost. “The legacy of mistrust is pretty deep,” Lariviere says. “I don’t understand it. I understand there is mistrust. I don’t understand what gave rise to it or why the policies were in place that gave rise to mistrust.”

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I come back to my basic question: What will Lariviere’s plan do to help high school graduates from Beaverton or Roseburg or Baker City who want to go to college but find the UO has priced them out of their dreams?

Lariviere’s plan promises stability—the president says keeping annual tuition increases to 5 percent is a reasonable goal, allowing the UO to guarantee incoming freshmen and their parents exactly what a four-year education will cost without surprise tuition and fee hikes along the way. But at that rate, it seems to me, Oregon’s high school grads will still see their hopes squeezed by tuition increases that will still outpace the recent increases in middle-class Oregonians’ earnings.

I have no idea if his plan will succeed—no one can know that. But it’s already cast a harsh light on the ways in which governors and legislative bosses in the past twenty years have chiseled away at the state’s support for public universities and the promise of an affordable public university diploma for Oregon students. In this glare, all Oregonians should be squinting. They need to look at what the past decades have wrought and decide if things look fine to them—or if a new path is worth the risk.