Oregon Quarterly

# Tough Times, Bold Plan

*The UO offers a plan for new governance and financial models to improve student access and stabilize funding.*

By Richard W. Lariviere

A quote from Albert Einstein embodies the optimism of academia: "In the middle of difficulty lies opportunity."

This is the time to employ that kind of optimism. This is the time to reach within to find our own opportunity.

This spring, we presented a white paper to the people of Oregon, titled "Preserving Our Public Mission through a New Partnership with the State." It explains the difficulties that a culture of boom-and-bust funding has caused for the University of Oregon, the Oregon University System, and the Oregon legislature. It also outlines an opportunity for the UO to solve its riddle of fiscal uncertainty and for the state to take on a consistent, manageable commitment to the University.

The key points to the proposal lie within its title. It seeks to cement the UO's mission as a public institution by offering stability to the state-sponsored portion of its budget. And it truly does advocate a new partnership between the University and the state—an inventive and bold yet well-considered approach to conducting the business of higher education in Oregon.

## A history of uncertainty

Twenty years ago, the University of Oregon received an appropriation of $63.3 million from the state legislature. Our state funding for the current fiscal year has dropped to a projected $60 million. But a dramatically rising consumer price index has eroded the value of today's appropriation to just $34.9 million in 1990 dollars—a loss in real buying power of nearly 42 percent.

I suppose the counter-intuitive good news in those numbers is that state funding currently makes up less than 9 percent of the overall UO budget. But the flip side of the coin is that tuition and fees from students now account for more than three times that amount. A generation ago, the UO received more than double the amount in state funding per student that it received in tuition.

You can see that there is a tremendous and growing burden on middle-class families who send their students to us for education. It threatens to put higher education beyond the reach of an expanding segment of worthy students, and that is a frightening prospect for all of us.

Oregon is engaged every day in an economic competition with other states, regions, and countries. Today's economy is knowledge-based, and our state is in danger of losing the advantages that our political, educational, and business leaders have gained for us over many years.

Parents of those in Oregon's twenty-five to thirty-four-year-old age group have a higher percentage of college degree attainment than their children, while the reverse is true nationwide and in most countries that are our economic peers.

The University of Oregon is a member of the Association of American Universities, a prestigious organization of research institutions. But of thirty public universities in the association, the UO ranks dead last in the amount of state support received per student.

Our university receives less than one-fifth the per-student state funding of the nation's best-funded public schools. Even among Oregon's seven public universities, the UO ranks last in per-student state funding.

But Oregon state government runs largely on the back of income tax revenue, and that dependence is unlikely to change anytime soon. We can complain that the state should make more money available to its outstanding public universities, but the reality is that the legislature has no workable means of spending more on higher education.

Prospects for a change of fortune at the UO and other public universities in the state are dim, so long as we remain on the same budgetary path. The governor has forecast ten years of deficits, so any discussion about the future of our university and our state must anticipate a change in approach.

**Governance a first step forward**

Before we can recreate our budgetary model, we must first fashion a system that can accommodate it.

The Oregon University System is currently administered by the State Board of Higher Education, which has budgetary and governing authority over the state's seven public universities. But that system no longer serves Oregon's needs, and the time has come to replace it with one that will put the state in a position to achieve its educational goals and re-establish itself as a cradle of innovation and brilliance.

A shift away from the centralized structure of the State Board of Higher Education will offer each of our universities the autonomy to determine its best course forward. By establishing a new state-level coordinating board, local campus governing boards, and performance-based financial incentives for the campuses to meet the state's educational needs, we can maintain statewide authority over higher education policies and goals that will determine Oregon's future.

Early assessments of our new partnership have both commended and criticized the plan for its boldness. But that is precisely what current circumstances require—bold action.

Our difficulties present an opportunity to create a new model for public higher education. However, Oregon's public universities are far from being alone in realizing the need to reinvent themselves.

Between 1985 and 2002, more than 100 measures were considered nationwide that would modify states' administration of—or jurisdiction over—higher education. As we seek to rejuvenate our system and create a contemporary model that includes new tools to stabilize university funding, we should pay close attention to what has succeeded elsewhere.

The University of Washington and the University of Virginia each operate under systems in which state-level coordinating boards ensure individual universities' accountability and provide incentives for each institution to thrive, while allowing them to manage their own business affairs.

Under the proposed Oregon model, each of our state's public universities could elect to have its own public governing board and determine its best method of operation and financing. Portland State University, for instance, has issued a white paper that proposes a local taxing district—similar to those of the state's community colleges—to help stabilize the PSU budget.

We propose that the UO have a local governing board like the University of Washington's. A majority of the board members would be appointed by the governor and confirmed by the Senate and would thus be accountable to the state, ensuring that the University meets its public responsibility and fulfills the state's objectives, such as helping more Oregonians earn degrees. A local board can focus directly on how to make the UO thrive and prosper.

Being a statewide institution with a worldwide reputation, the University of Oregon must redraw its financial base more broadly. We must embrace what remains of our state funding base and refashion it into a reliable, sustainable mechanism for ongoing support.

**A means of leveraging state support**

The University of Oregon is receiving a projected $60 million this year from the state and the federal American Recovery and Reinvestment Act. We can make the same tired request for more revenue that has become a tradition as each legislative season approaches, but that seems pointless with the state facing a budget deficit of more than $500 million over the next year and at least $2.5 billion for the biennium to follow.

It is time to embrace our boldness and do what we do best—innovate.

During my time working in the business sector, I learned well the lesson that successful businesses find ways to leverage their opportunities. I am also a firm believer that a public institution as large and complex as the University of Oregon—with an annual operating budget of more than $700 million—must be administered as the elite-scale enterprise that it is.

The first step in creating a new budgetary design for the UO is to identify any opportunity that can be capitalized to our advantage. The state appropriation is certainly one such asset, despite its inadequacy in the current form.

But consider what a financial institution might do to get the most from a dependable stream of income. It would use its bag of seed corn judiciously, to create a reliable, replenishable yield.

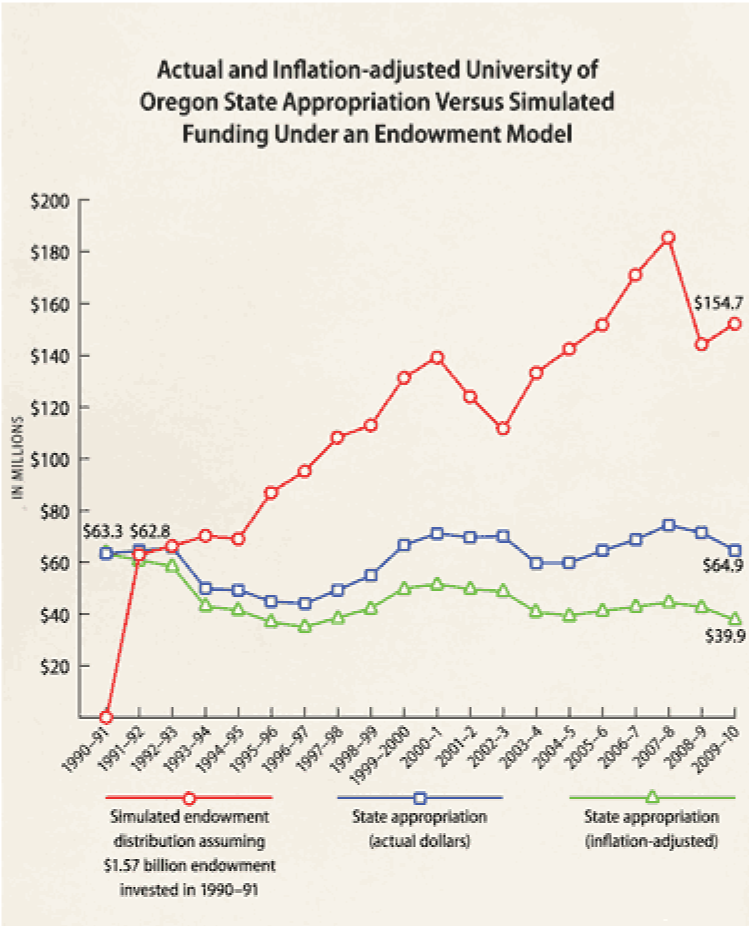
Our current business model requires that we eat every kernel of our seed corn, every year, and the result is that we are never entirely nourished by it. But if we were able to treat our yearly payment from the state as an investment in Oregon's educational future, we could watch that money grow and provide the solid base of public support that will allow the University to thrive.

A commitment from the Oregon legislature to maintain its present level of support will allow the UO to create an endowment, and to bring the goals of the institution and the state within reach.

A state funding commitment of about $63 million per year, less than the $64.9 million amount allocated in 2009–10, can be used over thirty years to make annual debt payments on $800 million in general obligation bonds. The UO will match the $800 million in bond proceeds with money raised from private donors and manage the combined $1.6 billion as an endowment.

Using reasonable estimates of 9 percent for yield and 4 percent for distribution rate, that money will create an endowment fund that can serve as a stable, perpetual base of UO financial operation. In its first year, the public endowment will generate $64 million in operating revenue for the University—nearly equal the amount in state funding. The distribution will increase each year, to $263.4 million in its thirtieth year—when the endowment's capitalized balance will total $6.9 billion.

Some have maintained that our projections of the endowment's earnings are overly optimistic or too aggressive, but the here-and-now experiences of the UO Foundation indicate otherwise. The yield of the foundation's own endowment since 1994—the earliest year for which reliable information is available—has averaged 9.8 percent per year. Those figures take into account three years of negative returns, during the worst economic downturn since the Great Depression—including a 17.8 percent loss in 2008—as well as a strong yield of 10.1 percent in 2009.




SOURCE: UNIVERSITY OF OREGON OFFICE OF INSTITUTIONAL RESEARCH

If our proposed $1.6 billion endowment for UO operations had been created in 1990–91, it would have paid a distribution of $62.8 million in its first year and that annual payout would have grown to $154.7 million for 2010 (see the graph on page 29). The endowment balance—our seed corn—would now be worth $4.1 billion.

Our proposal in no way short-changes the UO's partners in the Oregon University System. We hope to convert a consistent level of funding—set at the low water mark of state support—to a public endowment. In doing so, the UO will also preclude itself from any opportunities over the next thirty years for a general fund reinvestment in public higher education. The state's other public universities will still have those opportunities, and with the UO out of that picture their shares of any future increase in state funding will increase.

Our proposal calls for the UO to trade its prospects of a state reinvestment in public higher education for a predictable—though minimal—level of support. That reliable income stream will then create an incentive for increased philanthropic investment in the University, and the state's base level of support will be capitalized in a manner that best fulfills Oregon's promise to offer Oregonians an affordable higher education.

Even as economic conditions have forced the Oregon legislature to cut programs such as the Oregon Opportunity Grant, the University of Oregon has maintained its historical commitment to ensure Oregonians' access to a college education. Thanks in large part to generous alumni and other donors, the UO already provides more than $20 million per year in scholarships and institutional aid such as PathwayOregon, a program that pays all tuition costs at the UO for qualified lower-income Oregonians.

I know firsthand what it means for families to find the money to send their students to college. I was the first member of my family to attend university, and that privilege has opened every door for me that I have had the honor to walk through since.

At its core, the University of Oregon's proposal is a means of extending the opportunity of a college education—and all the thresholds that come with it—to the greatest possible number of Oregonians. It will tether the cost of a college education to reality and will alleviate concerns that tuition rates at the UO may rise above many Oregonians' financial reach.

The UO is in position right now to reassert itself as a great, readily accessible public university. By reorganizing public assets and resolving to bolster private support, the University can build a stable and predictable funding structure. Statewide goals for educational attainment, affordability, and diversity will be ensured by performance-based financial incentives available to each of Oregon's public universities. Public higher education will no longer be driven by the state's economic circumstances.

Most important, the University's livelihood will no longer be tied to ever-increasing tuition rates. The cost of a top-tier education at Oregon's flagship university will become predictable. A combination of improved control over tuition rates and additional scholarship opportunities will result in greater access to that education by a larger number of Oregonians.

I began with a quote from Albert Einstein, and I will close with another: "We can't solve problems by using the same kind of thinking we used when we created them."

Let's change our thinking and put to use an innovative approach to the persistent problem of eroding state support for higher education. Let's reimagine a financial foundation built on dependability, and a bright, stable future for the University of Oregon and the students the University was created to serve.

*Richard Lariviere is the sixteenth president of the University of Oregon. For more information about the University's proposal for a different relationship with the state, visit [newpartnership.uoregon.edu](newpartnership.uoregon.edu).*