

UO bond plan sparks ‘conversation’

Lariviere’s proposal that the university be independent of the Legislature has attracted widespread attention

By Greg Bolt

The Register-Guard

Appeared in print: Saturday, May 15, 2010, page A1

By at least one measure, the bold plan laid out by University of Oregon President Richard Lariviere earlier this week to completely revamp the relationship between the UO and the state already has been a success.

In the white paper laying out the new structure, Lariviere said the proposal “is intended to inspire a conversation” about the best ways to fix what many agree is a broken higher education system. Lariviere can check that goal off his list.

People are talking.

National experts, business leaders, legislators, faculty and editorial writers all are talking about the plan, which in essence would have the state take out and make payments on a very large bond instead of giving the UO money for operations. The UO would invest the proceeds of the bond — \$800 million to \$1 billion — in an endowment fund and use the investment earnings to replace what it used to get from the state.

If nothing else, Lariviere is getting points for creativity.

“It seems to me it is a different take on higher education financing than I’ve seen anywhere before,” said Patrick Callan, director of the National Center for Public Policy and Higher Education. “Whether or not this turns out to be a good idea after it’s been vetted, this certainly is a time when you’d want to encourage creative approaches to funding higher education given the doldrums we’re all in.”

But with the exception of the hometown fans — the UO faculty — that’s about as close to an endorsement as the plan has received. The plan needs the approval of the Legislature, and the response in the political realm has been muted, at best.

Dave Hunt, speaker of the Oregon House, stopped just short of calling the plan dead on arrival. Senate President Peter Courtney promised a fair hearing but expressed misgivings. Even some of the legislators whose districts include the UO are conspicuously cautious.

“Before deciding anything about the proposal, I will be looking for comments, suggestions and ideas from all sources,” Rep. Phil Barnhart, D-Eugene, said in an e-mail comment. “Ultimately, whatever the legislature decides must be in the long-term interests of the citizens of Oregon and our economy, and be best for current and future students.”

Governance at issue

If Lariviere’s plan were a track event, it almost certainly would be the high hurdles. The short list of the obstacles it will have to overcome include that it’s both new and would require significant change in a system that has seen little of it in recent decades; it would require a huge new fundraising effort by the university; it relies on debt financing that puts the UO’s budget in the hands of the financial market; and it only addresses the problems of one university when the state has seven.

And, as challenging as the financing side of the proposal is, it is the governance issues that could prove the hardest sell in Salem. The plan takes away both the Legislature’s ability to control the university by holding the purse strings and its direct authority over tuition and most other aspects of university management, giving that instead to an appointed board of trustees.

Legislators have never shown much appetite for surrendering those powers. For at least the past five legislative sessions, the Oregon University System has proposed major changes in its relationship with the state that were less comprehensive than what is in the UO’s current proposal, and few ever were approved.

Lariviere argues that the university can’t do what the state asks of it without major changes. Oregon already is falling behind in the push for the kind of educated work force that will attract new business, higher education leaders say.

Lariviere and others say that for the first time in generations, Oregon’s older residents are better educated than its younger citizens.

Reversing that will require universities and community colleges to increase the number of degrees they award each year by two-thirds, according to OUS figures.

“There’s no question that the system is underperforming and that the state has undersupported it for much of the past two decades,” said Callan, whose organization gave Oregon an F for college affordability. “The state has been diversifying its economy and wants to have a knowledge economy, but it’s been relying on importing educated people from other states and not so much on growing its own.”

It also exasperates many people in higher education, such as former UO President Dave Frohnmayr, that the state holds onto so much power over universities while contributing so little to their operation. State funding makes up just 9 percent of the UO’s total revenue this year.

Despite past failures in wresting authority from the Legislature, some higher education leaders, including the president of the state higher education board and most university presidents,

believe that the state will have to accept dramatic changes soon if universities are to survive, much less advance.

Lariviere said he hasn't heard anything that suggests that the plan is fundamentally unsound or that people won't give it a fair shot. And he said it's good that people are asking questions.

"When it's a new idea, no one's going to step up and say, 'Let's do this immediately,'" he said. "People in positions of responsibility want to know more, and that's pretty encouraging."

Bonding capacity a problem

If the management side of Lariviere's plan has obstacles, the financing side doesn't offer any breathers. The state already has turned to various forms of bonding to cover its pension obligations, fix its roads and bridges, make seismic upgrades to public buildings and meet many other needs, including helping construct campus buildings.

That means that even if Lariviere can convince the Legislature that the bonding idea is sound, he also will have to convince them it's affordable. That's already proving difficult.

State Treasurer Ted Wheeler, in an interview on Oregon Public Broadcasting, said Wednesday that the state only has about \$1 billion in total bonding capacity in the coming two years. While he expressed strong support for better higher education funding, he said committing that debt cushion to the UO would leave nothing for other needs.

"That means if we did this it would literally crowd out any other infrastructure investments for the state of Oregon," Wheeler said. "So I would want to know that this is the highest and best use of that bond capacity, and I'm not sure it is."

The UO hired a bond consulting firm to look at the debt capacity issue and the firm determined that the state could commit \$2.7 billion over the next two biennia. Lariviere has said the model he is suggesting is not set in stone and could be changed to build the endowment over time or structure it in other ways to ease concern about the state's debt capacity and bond rating.

"I'm open to modifications of this plan," he said. "What I'm not terribly keen to talk about, however, is 'No, we can't do this' and 'No, we can't do anything.' That wouldn't be very encouraging."

That still leaves the question of whether the university's budget is better off in the hands of a strapped legislature or what is currently a volatile investment market.

University endowments have done well over time, but many, including Harvard's, lost 30 percent of their value or more in the recent downturn.

Lariviere noted that the UO's endowment lost less than 20 percent of its value and said a conservative investment strategy would go a long way toward protecting the long-term value of the endowment. He also pointed out that the plan calls for what is considered a quasi-

endowment, which means the university could dip into the principal in times of fiscal stress to lessen the effect on the budget.

“That’s basically an insurance policy against catastrophe,” he said.

United front desired

It’s too early to predict the ultimate fate of what everyone seems to agree is an innovative and even brash plan. The conversations Lariviere wants to start already have begun, and he has more than six months to move from plan to legislation.

That will give Lariviere time to work with existing efforts aimed at fixing higher education’s woes, including a panel established by the governor and another by the state Board of Higher Education. It also will provide time to integrate the UO plan into a statewide plan that addresses Oregon’s six other universities as well.

So far, other university presidents have not commented directly on Lariviere’s ideas. The UO president said he wants all seven of them to present a united front to the Legislature. But at the same time he has said each institution should come up with a plan that best suits its particular mission.

That’s another way the new approach would break with the past. The state has always managed its universities as a single system, and Lariviere said it’s time to change that, too.

But regardless of the particulars, it may simply be the idea and scope of change that will require the most work to move the plan forward. While the Legislature has not been willing to go very far down the path of change in the past, many feel it is running out of time and options.

“To borrow a comment from one of my fellow board members, we’re perhaps at an inflection point, you might call it a tipping point or a crisis point,” said Paul Kelly, a Portland attorney and president of the state Board of Higher Education.

“Maybe we’re at a time when things are different enough and challenging enough and daunting enough that maybe the powers that be can be persuaded that it’s time for some changes. I hope so.”