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U. of Oregon's $1.6-Billion Proposal: an Endowment Instead of Annual Appropriations

By Goldie Blumenstyk

The president of the University of Oregon, seeking an end to the "whiplashing effect" of decades of up and down levels of state support, is looking to strike a new deal: He is proposing that the state borrow $800-million on the bond market to help establish a new $1.6-billion endowment for the university and let the endowment's earnings take the place of the annual appropriations to the institution.

Under the plan, the state would pay off the bonds over the next 30 years with an annual commitment of $65-million, the same amount of the state's current appropriation to the university (and about the same as it was in 1990-91).

Over the past 20 years, the state's annual appropriation to the university has ranged from a high of $74.5-million to a low of $44-million.

The goal is "to create predictability around the funding," the president, Richard W. Lariviere, said in an interview on Wednesday.

The state's support for the 22,000-student university, which now covers only about 9 percent of the overall budget, is "embarrassingly small," Mr. Lariviere said. In 1990-91, the $63.3-million in state funds covered about one-third of the budget.

The financing tradeoff he proposes "will be a great deal for the state," he said. And while it may limit what the university might receive from the state in years when the economy is doing better, Mr. Lariviere said the plan is at least "one way to stop the erosion" of state support.

In theory, an endowment of $1.6-billion could generate within a couple of years at least as much in income for the university as it now receives from the state, and more than twice that amount in about 15 years, based on assumptions developed by the university's lawyers and bankers. (They assumed an average annual investment return of 9 percent and an annual payout rate of 4 percent.)

But the financial modeling underpinning the bonding idea, part of a broader proposal for university autonomy that Mr. Lariviere is unveiling this week, depends on several other pieces. Some of those—most notably, the financing for the additional $800-million that would make up the endowment—are still missing. Without the additional $800-million, the endowment would probably generate much less than the university now receives.

And it's not clear how the idea will fly with lawmakers or with leaders of the state's six other public universities, some of which have already questioned the merits of adding to the state's debt load and how the plan would affect their own aspirations. Some of those institutions are making proposals of their own.

The legislature would not take up Mr. Lariviere's plan until next year's session, which begins in January. The plan would also require voter approval.

Matching Funds

In the interview, Mr. Lariviere sent mixed signals about the prospects for raising the missing $800-million. He said he was "very, very confident" that the university could raise the additional money to match the state's share but also acknowledged "there's no question that this is a challenge."

The university has historically enjoyed support from major benefactors, including Phil Knight, the chairman of Nike, but Mr. Lariviere said he did not have any private gifts already lined up. Yet the president, who will mark his one-year anniversary at the university in July, also hinted that he has not been planning this in isolation. "This isn't a proposal that has been generated from my kitchen table," he said.

He said the bonding plan would not hurt other public universities and could be phased in over several years. "We're not asking for more money to be taken away from other institutions or other commitments," he said.

Assessing Risks and Benefits

Depending on endowment earnings to generate about a 10th of the university's annual budget is risky. But Mr. Lariviere said he prefers that risk "to the constant of a bad year every other year" from the state. (Because the plan calls for borrowing the money with taxable bonds, not tax-exempt ones, the plan would not touch on a practice known as "indirect tax arbitrage," which has recently been in the spotlight because of Congressional scrutiny.)

Experts in public higher education praised the plan for its creativity but warned that it was hardly a cure-all for the difficult financial

conditions in Oregon, or a model for other institutions also facing shrinking levels of state support.

"This doesn't solve the funding problem for Oregon—it solves the funding problem for the University of Oregon," said Dennis P. Jones, president of the National Center for Higher Education Management Systems, a nonprofit consulting firm.

He noted that the plan also might not insulate the university from the ups and downs of financing as much "as it appears on the surface." Over the 30-year life of the bond, if the state gets into a tight spot, it could also turn back to the university and ask that the institution help cover the costs of the debt service. "It takes nothing but a statute to say 'the institution shall pay part,'" Mr. Jones said.

"What I keep telling people is there's no gimmick you can put into place that will make the legislature give you money it doesn't have or doesn't want to give you," he added.

Mr. Lariviere said he understands that's always a risk, but he contends that having the state's commitment to the university tied up in a bond obligation would help to raise the importance of that commitment and make it more inviolable than an annual budget appropriation.

"I'm not trying to sell this proposal as the only solution, but it's the only solution I can think of," he said. "If someone has a better one, I'd be delighted."

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