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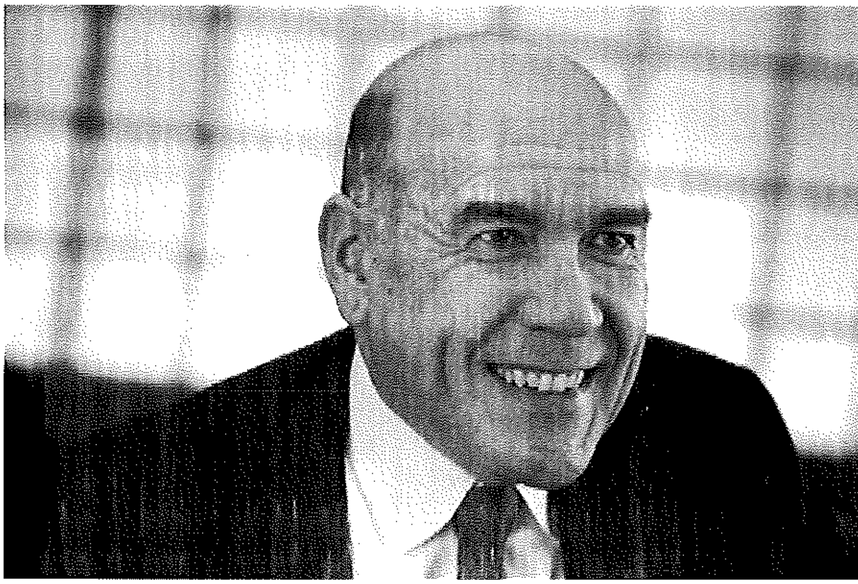
University of Oregon President Richard Lariviere proposes using $1 billion bond sale to finance university for 30 years

Published: Tuesday, May 11, 2010, 7:41 PM   Updated: Wednesday, May 12, 2010, 1:25 PM

By **Bill Graves, The Oregonian**



Thomas Boyd/The Oregonian University of Oregon President Richard Lariviere wants to give his university more independence from eroding state financial support.

University of Oregon's president wants to stabilize the school against the rise and fall of state budget cycles by issuing up to $1 billion in bonds to run the school for the next 30 years.

President Richard Lariviere released a **white paper** Tuesday that includes details, analysis and proposed legislation for his unusual financing plan. He says it would be the first of its kind in the nation.

"The reason for doing this is to provide us with some predictability so we can begin to get a handle on managing the costs that we pass on to our students," he said. "The whipsaw effect is really hard on our middle class families. Really hard on them."

Lariviere acknowledges his plan will be a tough sell to state legislators and higher education leaders.

House Speaker Dave Hunt, D-Gladstone, said he was "cautiously pessimistic" about the plan, which he compared to giving his children a 30-year advance on their allowance.

"It has a way of getting spent more quickly, and mom and dad don't have accountability anymore," he said.

But Lariviere argued that mom and dad, that is the state Legislature, keep varying the allowance from year to year, forcing the university to clobber students and their families with periodic tuition spikes.

"Our proposal is to capitalize the state's current investment in the university," he said, "without asking for more money."

Under his plan, the Legislature would take the $65 million a year it now gives to the University of Oregon and use that amount each year to finance bonds. That would freeze the state contribution to the university at $65 million a year for the next 30 years and would finance taxable general obligation bonds worth somewhere between $800 million and $1 billion, Lariviere said.

"The state's investment in the institution would come in the form of paying off the debt issued to fund the endowment over 30 years," the UO analysis states.

In return, the university would have upwards of $1 billion to sink into its endowment. The university would then match that amount through the UO Foundation's private fund raising.

The university would tap about 4 percent of the yield from the endowment to run the university while reinvesting excess returns, Lariviere said.

One model, which assumes an average 9 percent annual return on the investment, shows the university's distribution from the endowment climbing from $64 million in the first year to $99 million by year 10 and to $162 million by year 20. Yields would be less if the investment's return is less. For example, the state Public Employee Retirement System's average over the last 10 years has been about 4.5 percent -- though much higher since the recession's end.

In his **white paper**, Lariviere also argues the state should adopt a governance model similar to Washington's that would replace the current state board with a coordinating board, responsible for setting system-wide performance goals and policy. In addition, each university would have its own public governing board to keep the school focused on its "public purpose-accountable autonomy."

The president said he thinks his proposal would give the university better control over its financial health and enable it to keep tuition hikes to lower, more predictable rates closer to cost of living increases.

Seattle-Northwest Securities Corp. reviewed the bond proposal and concluded the concept is "functionally sound" and "a likely more predictable resource within the university's control."

It also said the proposal falls within Oregon's debt capacity, although it "will require either tradeoffs in the timing and size of other competing projects." Rating agencies factor in such debt obligations when calculating a state's ability to borrow for future projects.

Legislative and higher education leaders praised the proposal for its creativity, but expressed reservations about obligating the state to 30 years of debt to give the university $800 million or more to gamble on Wall Street.

Paul Kelly, president of the **State Board of Higher Education**, said the proposal raises a "host of questions" about how to deal with other universities that would want to do the same thing, how tuition would be regulated and how much autonomy to grant the university.

House Speaker Hunt questioned whether it is appropriate to use long-term bonding for operating costs. The state typically issues bonds for capital projects, like highways, buildings and bridges.

"It sounds like they want all the rewards and none of the risks," Hunt said. "This proposal would appear to be a big cash giveaway without any oversight."

He said the Legislature has to stabilize funding not only for higher education, but for public schools and other state services as well.

Senate Majority Leader Richard Devlin, D-Tualatin, former co-chairman of the higher education subcommittee for the House Ways and Means Committee, said he is open to changes in the relationship between higher education and the Legislature. But legislators are not going to give up control over issues such as protecting access, affordability and quality in the state's universities, he said.

The university system's chancellor, George Pernsteiner, said Lariviere's plan is a "means to an end of educating Oregonians," but it will have to fit into the guidelines the state board is developing to seek more independence for the universities.

Like Lariviere, other university presidents and the state board want more freedom to raise money because of declining state support. Oregon is spending $752 million on higher education for 2009-11, down from $865 million in the 2007-09 biennium. Oregon ranks 43rd in the nation in the amount the state spends per student on its community colleges and universities.

The UO must do something different if it is to grow, Lariviere said. "The idle complaint that there should be more money available for the state for these wonderful institutions hasn't done much to change our circumstances," he said.

-- **Bill Graves**