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Higher-education leaders want independence for Oregon University System

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By **Bill Graves, The Oregonian**

State university leaders have reached consensus on the need to end the **Oregon University System's** status as a state agency subject to what they see as stifling micromanagement from the Legislature.

Their challenge will be to persuade the Legislature next year to cut them loose.

"I don't know of anyone saying business as usual is great," said Ed Ray, president of **Oregon State University**. "Everyone is saying it has got to change."

Members of the **State Board of Higher Education** and presidents of the state's seven universities want to see the system gain the independence that community colleges enjoy with control over tuition, personnel, health benefits, purchasing, bonding and other operations.

Such a change, they say, would enable universities to save millions of dollars and give them more options to raise money, possibly even with taxing authority.

Facing declining state support, public universities across the nation are, to various degrees, exploring similar ideas, said Robert Berdahl, president of the Association of American Universities in Washington, D.C.

"Everyone is grappling with this," said Berdahl, a **University of Oregon** dean during the early 1980s. "These universities are facing either developing a new business model or inevitable decline. There is no other choice. You cannot sustain the quality of the university with a steadily eroding resource base."

In Oregon, the erosion is driving state and university leaders to look for a change. Adjusting for inflation, state funding for the university system dropped 16 percent over the two decades ending in 2009 while enrollment increased by 27 percent. Twenty years ago, Oregon college students shouldered about 30 percent of the cost of their education; now their tuition covers about 70 percent

Restructuring Oregon's university system

The Oregon State Board of Higher Education and presidents of the state's seven universities are working on ways to change the Oregon University System to give it more flexibility, independence and options for raising money. Ideas they're considering:

Change the Oregon University System status from a state agency to a statewide education district with authority similar to what community colleges have.

Give universities control over setting and managing tuition and allow them to keep

of the cost.

The university system could save money in a variety of ways just by terminating its state agency status, Chancellor George Pernsteiner wrote last week in a paper on possible changes.

The Legislature would no longer be able to keep interest on tuition and raid tuition reserves for other state purposes as it does now. Last year, lawmakers spent \$33 million of university tuition on other state services, Pernsteiner said.

The university system also would save money -- \$12 million for health insurance alone -- by not having to participate in state benefit and property and liability insurance plans, all of which it can purchase for less on its own, the chancellor said.

Even legislative leaders have acknowledged that change may be in order by creating last week an interim work group to come up with reform proposals for higher education.

University presidents have talked about the need for less state control for years. But the idea has been gaining momentum since November when Dave Frohnmayer, former president of the University of Oregon, recommended the state convert its three largest universities into public corporations governed by local boards.

Wim Wiewel, president of **Portland State University**, issued a paper the same month arguing for a new governance structure that would give universities more independence. Whatever the model, he said, it should include a state-funding floor per student and give universities control over tuition, capital expenditures and general operational flexibility.

In January, the other six university presidents signed a letter in support of the principles Wiewel had outlined.

Richard Lariviere, president of the University of Oregon, stepped forward last month with the most controversial restructuring proposal and, many argued, the most creative, turning heads in academia across the country.

He wants state support in the form of \$800 million or more in bonds to put into the university's endowment. The state's obligation to the university would be only to pay off the bond debt over 30 years at \$65 million a year, essentially freezing its level of contribution for that period.

interest earnings, which now go to the state for other purposes.

Give universities flexibility and authority to issue bonds, make contracts and capital purchases, handle personnel and benefits, hire legal services and take charge of other operations now subject to tight state regulation.

Give some or all universities local governing boards, while retaining the broader oversight of the State Board of Higher Education.

Dedicate state revenues, possibly from the state corporate tax or the corporate kicker tax refund, to higher education.

Give Portland State University authority to seek voter approval for a property tax.

Give the University of Oregon about \$800 million from state issued general obligation bonds, which it would put in its endowment and match. The state would pay off the bonds over 30 years, and the university would operate off investment returns on its endowment.

Various plans for more autonomy began to coalesce last week as the State Board of Higher Education governance committee, joined by most board members and presidents, discussed how it would form "a new compact with the state." The board wants to come up with a final proposal for the Legislature by July.

Leaders agree the universities need to be freed from agency status while at the same time remaining part of a strong statewide system governed by a state board. But they are divided over whether some or all universities should have their own local governing boards. Wiewel and Lariviere favor a local board.

With power to hire and fire the president, a local board would hold the university more accountable and have a deeper understanding of the institution than the state board, Wiewel said. Local governance also would make it easier to raise money because contributors would not have to worry about donations being siphoned off by the state, he said.

But regional university presidents argued against local boards, saying they'd add another layer of bureaucracy and foster competition for state dollars among the universities that would put the regional campuses at a disadvantage.

"I'm not a big fan of confederations," said Chris Maples, president of the Oregon Institute of Technology.

The Oregon Student Association is remaining neutral on restructuring until it sees more concrete proposals. But student leaders worry that giving universities more autonomy could unleash more tuition hikes.

Many universities elsewhere in the country have moved or are moving in the direction that Oregon leaders want to go. Each University of California campus has strong local authority. The same is true for the University of North Carolina's 16 campuses, each of which has its own board of trustees.

The Virginia Legislature in 2005 gave universities more autonomy in exchange for their meeting academic goals set by the state. The Colorado Legislature recently passed a law that gives public universities more control over tuition, purchasing, contracts, construction and other operations.

State contribution to the Oregon University System

Biennium	State allocation (actual dollars)	Enrollment
1987-89	\$565 million	114,605
1989-91	\$572 million	117,117
1991-93	\$588 million	109,994
1993-95	\$550 million	107,499
1995-97	\$503 million	110,513
1997-99	\$608 million	114,687
1999-01	\$745 million	122,539
2001-03	\$756 million	137,737
2003-05	\$657 million	142,838
2005-07	\$738 million	143,000
2007-09	\$864 million	146,175
2009-11	\$752 million	157,985*

*Projected enrollment

Source: Oregon University System

Oregon Health & Science University

broke away from the university system in 1995 to operate independently under its own governing board as a public corporation. Most leaders say the shift freed the university, which operates a medical school, two hospitals and dozens of research institutions, to grow dramatically.

While state support for the institution's education operations has declined, the university's overall budget has tripled from \$499 million to \$1.8 billion since it restructured. State support now accounts for 2 percent of its education and research enterprise.

The university has nearly doubled its building space and staff since 1995, but it also has taken on heavy debt and its medical school students pay among the highest tuition in the nation.

Still, the university's bond rating has remained good, and the high tuition is a result of declining state support, not restructuring, said Joe Robertson, president of OHSU.

"The public corporation allowed OHSU to be much more nimble and flexible," Robertson said. "We train more students, we do more research, we treat a lot more patients and have more outreach programs than would have been possible without the public corporation."

Paul Kelly, president of the State Board of Higher Education, said that by becoming a public corporation, OHSU made a fundamental shift from a restrained focus on meeting state regulations to a creative, entrepreneurial mentality.

He and other leaders want to help the state's other universities make that shift.

-- **Bill Graves**