April 28, 2008

To: Bill McGee, DAS

From: Jay Kenton, OUS

Re: Possible Implications from the Loss of State Salary Funding:

The possible loss of some or all of the salary funding will have many adverse effects on OUS institutions and the Chancellor's Office during the 2007-09 biennium. These effects include fewer and larger class sections (reducing educational opportunities for students), labor relations challenges and increased costs associated with employee turnover; reduced student services; increased tuition and reduced programmatic fee remissions; reduced faculty and support staff; reduced services to the public; increased deferred maintenance and technological obsolescence; reduced administrative capacity and services; and reduced reserves. All of these potential effects directly contradict the Board of Higher Education's stated goals of improving quality through more competitive compensation, reduced student faculty ratios, providing funding for enrollment growth and improved student success, funding needed capital repairs and reducing the deferred maintenance backlog over time. Both individually and collectively, these effects will seriously jeopardize the state's goals for educational attainment and opportunity for Oregonians.

I will now discuss each of these potential impacts in greater detail.

<u>Larger and Fewer Course Sections:</u>
Many institutions project that they would need to reduce course offering or increase class sizes as a means of dealing with the potential loss of some or all of the salary funding. This would become necessary as the funding would not be available for faculty to teach these classes. As fewer course sections are offered less tuition and other revenues will be generated. Offering fewer section will obviously limit educational opportunities for students and could have other negative effects on retention, graduation and student success generally.

<u>Labor/Employee Relations and Employee Development Challenges:</u>
OUS has bargained in good faith with multiple employee groups based on the prospect of receiving its share of the salary fund. All but one of these agreements has been ratified, resulting in a two year commitment to certain salary and benefit increases. Thus, OUS must honor these contractual commitments regardless of the availability of funding to cover these costs. In addition, other non-represented employee groups will feel disadvantaged in relation to these represented groups if they do not receive similar treatment. Thus, most institutions will feel a moral obligation to offer these non-represented employee groups similar salary and benefits even though they are not contractually required to do so. As salaries and benefits represent ~80% of the OUS E&G cost base, this leaves OUS with few options for dealing with the unfortunate

consequences of possibly losing this salary funding subsequent to the successful conclusion of most of our collective bargaining obligations.

Many institutions also fear that the more mobile (and, in many cases more productive) faculty and staff could leave the institution/state for other opportunities elsewhere. This could have the effect of reducing the perceived reputation of the institution as well as increasing the search costs to fill these important vacancies. Finally, some institutions have indicated that cuts may be required in employee development and training programs, thereby leading to serious impacts on their ability to develop the workforce necessary to respond to changes in the market due to age, demographics, skills, and other factors that can affect recruitment and employee retention efforts.

<u>Reduced Student Services:</u>
At the direction of the Board of Higher Education, all institutions are currently engaged in efforts aimed at improved student success, especially as measured by improved student retention and completion, and reduced time to degree. Loss of needed funding will adversely impact these efforts. Facing the possibility of losing some or all of this salary funding will force campuses to defer hiring faculty needed to serve a growing enrollment and will lead to fewer course sections being offered. This in turn, could lower retention and slow graduation as students become frustrated and leave or must wait one or more terms for space to become available in courses needed to graduate. As students extend their time to degree, they will incur additional tuition expense and loan debt.

In addition, some campuses have indicated that they would be forced to cut other student services. Multiple institutions have indicated that they would also need to reduce library operating hours as well. As these important student services are reduced, student success initiatives will be compromised. Both OUS and external studies have shown that cuts in student support services and initiatives have a negative impact on completion rates.

<u>Increased Tuition and Reduced Programmatic Fee Remissions:</u>
Most institutions have indicated that they may be forced to increase tuition to fully, or partially offset the loss of state funding for salaries. As non-resident and graduate tuition are already at levels that are marginally competitive, most of these increases would be targeted to resident undergraduate rates. Increases ranging from 0 – 10% above the previously planned 3.4% tuition increases were projected by campuses. The exact amount varies by campus and would also vary based on the loss of some or all of the salary funding, however, the highest increases are projected by the larger universities. Although the Board is committed to access and affordability, differentiating the tuition by campus, with the largest universities having a significantly higher tuition than the regional universities could serve to drive demand to the regionals which could help the regionals attain financial sustainability. This differentiation in tuition could also be used to achieve other Board goals in terms of improved retention, graduation and student success generally defined as the regional universities typical provide a more robust set of individual services as compared to the larger more research focused universities.

In addition, two campuses have added that they would reduce programmatic fee remissions as well, thereby reducing access and possibly making a college education unaffordable for some students. Depending on the severity and duration of this economic downturn, this could also compromise WOU's ability to continue offering their popular Tuition Promise program begun this year. As in the past, once these issues become public many students will consider either not going to college or going out of state thereby; possibly compromising the goals to increase the education levels of Oregonians.

<u>Reduced Faculty and Support Staff:</u>
All campuses have noted that loss of some or all of the salary funding will lead to hiring freezes or deferment of filling vacant positions. As the workforce is reduced, less service will be offered to students, less research will be conducted and less administrative and support service will be available to maintain systems. Offering fewer course sections and performing less research can also adversely affect revenues generated from these activities, further exacerbating these issues and placing the campuses in a downward spiral that will be difficult to reverse.

For the remaining employees, maintaining morale and productivity levels will be difficult as services are reduced and/or costs are increased leading to greater customer dissatisfaction, added workload, fewer colleagues, reduced support services, etc.

<u>Reduced Public Services:</u>
Oregon State University's Statewide Public Services will be hard hit by these reductions as a large proportion of their cost bases are funded with State General Fund. Losing some or all of the salary funding is expected to impact these services as follows:

> *Agricultural Experiment Station (AES):*
> This reduction in funding essentially offsets new AES funding provided by the Legislature in the 2007-09 session to hire new positions in targeted programs (e.g. viticulture and enology, biofuels, water, etc.). Hiring for some or all of these targeted positions and any existing vacancies will have to be deferred for the remainder of the biennium. In addition, the AES leverages each state general fund dollar with 1.5 dollars of external funding, resulting in an expected additional reduction of over $4 million for the biennium in external research dollars being brought into the state. The short run economic impact on Oregon's economy of the potential $6.9 million reduction in total research expenditures would be approximately $14 million for the biennium. The long term consequences from the disruption and loss of research would be significantly larger than this.
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> *Extension Service (ES):*
> The reduction would lead to fewer programs offered, resulting in a reduced number of Oregonians participating in activities sponsored by ES. A reduction of 15 FTE translates into approximately 70,000 fewer Oregonians reached. Loss of volunteer supporters who currently are central to the ES information delivery model will also lead to reduced services being provided. We depend upon these volunteers in our efforts to reach all Oregonians but they must be supervised by

our faculty. Our current ratio of employees to volunteers is 1:127. The loss of 100% of the salary funding would lead to a reduction of 15 FTE employees thereby translating into a potential loss of 1,900 volunteers and less ability to effectively deliver information across the state.

ES leverages each state general fund dollar with 1.29 dollars of external funding. A loss of 15 FTE negatively impacts that leveraging ability leading to a potential loss in external funding of $2.7 Million.

ES is able to serve Oregonians through our long standing partnership among State, Federal and County governments. Many of these County government partners are facing a significant loss of federal funding (Rural Schools) that will certainly have a negative trickle down effect to OSUES local offices. Potential funding losses from both our State and County partners will seriously jeopardize our ability to effectively meet the needs of Oregonians.

Forest Research Laboratory (FRL):
This reduction in salary funding essentially defers the implementation of the FRL Policy Option Package that was funded in the 2007-09 Legislative session. It means the FRL will not have the capacity to fully support research into high production, sustainable timber increases in planted forests, nor to provide development assistance for Oregon industries seeking to market wood-based products.

The FRL leverages each state general fund dollar with over $6 in external funds, so this reduction could result in an additional loss of $1.5 million in research funds being spent for salaries, supplies and services within Oregon.

As part of a state and private partnership, Oregon forest landowners and industries have historically set Harvest Tax levels at a rate that matches the general fund appropriation. A reduction in the general fund allocation could lead to a corresponding reduction in the Harvest Tax for the next biennium. The long term consequence of this possible reduction is a further withering of the FRL's ability to provide the research and management expertise that will help keep Oregon's $13 billion forest sector a competitive and sustainable portion of the economy, producing living wage employment for thousands of citizens.

<u>Increased Deferred Maintenance and Technological Obsolescence:</u>
Loss of some or all of the salary funding can also lead some campuses to defer needed repairs or postpone needed investments in new technologies. In addition, one campus indicated that it would reduce investment in library acquisitions. This can lead to life safety concerns, higher costs in the future to correct these deficiencies, and a learning and research environment that are not competitive nor up to current standards.

Reduced Administrative Capacity and Services:
The loss of some or all of the salary funding will also adversely affect administrative services at all of the campuses. This is an area where OUS is already extremely lean compared to peers. Further reductions in these areas can compromise financial control systems, thereby leading to greater audit exceptions and other problems; slow responses to human resource issues; reduced responsiveness to requests for information; a reduced level of security provided to the campus at a time of growing concern in this area; diminished collection efforts; limited staffing for new initiatives; and other impacts on important work with other educational providers, such as articulation with K-12 and community colleges, assessment of learning outcomes, and other important Board initiatives and projects.

Reduced Reserves:
Given the timing of this possibility, some campuses have indicated that they would have little choice other than to reduce reserves. While such action can address the problem this biennium, it does nothing to address the consequences should this become a recurring reduction. In addition, some OUS campuses are marginally viable today and have reserves that are at, or below, Board mandated minimum levels. Thus, this further weakens their financial position and makes them more financially vulnerable to other unforeseen challenges.

We think it is clear from the observations above that a loss of some or all of the salary funding provided by the State will have significant and adverse effects on the ability of OUS and its member institutions to fulfill their missions, accomplish Board initiatives and goals, and to otherwise accomplish the goals of the State as articulated by the Legislature, Governor and other groups.

This exercise also underscores the importance of stabilized funding for the system of higher education as is articulated in ORS 351.300 as follows, "The Legislative Assembly finds that in order to avoid unnecessary disruption at public institutions of higher education and in order to provide assurance that the institutions share in the benefits of any major reform in the Oregon tax system, it is necessary to stabilize funding for such institutions over a longer period than is customary with biennial budgeting." According to data reported by State Higher Education Executive Officers (SHEEO), since 1991, Oregon has experienced the greatest decline in state funding per student FTE of any state in the US. This boom and bust cycle has occurred repeatedly during this time period and now the duration of these cycles seems to be getting shorter and shorter. It is very difficult to plan for the effective administration of a system of higher education when we go from a period of investment to a cycle of possible disinvestment in a period of seven months.

Higher education has the promise of changing the course for Oregon and all Oregonians. It differs from some other state agencies that fulfill largely a regulatory function. It holds the key for both individuals and the collective future of our State, and it requires a sustained investment to reach its full promise. We can only hope that this is simply an exercise in preparation for an eventuality that does not come to pass.

As you know, currently we are at a critical juncture in the recruitment of students for the 2008-09 academic year and given the increased funding available for the Shared Responsibility Model, applications are currently strong at all OUS institutions. Given this, I hope that the dissemination of this information can be limited to the extent feasible, as knowledge of these potential impacts could become a factor in where students decide to seek their education or if they decide to attend college at this time.

As requested, attached is the worksheet indicating OUS's responses to the scenarios outlined. Please contact me at 541-737-3646 should you have questions or need additional information.

C: Board Members
Chancellor Pernsteiner
Institutional Presidents