The Opportunity Initiative

Initiative 402 (Senate Joint Resolution 1)

Goal:

Cover the postsecondary education "needs gap" for Oregon students by creating a permanent fund to finance student assistance needs.

- Maintain a highly skilled workforce for Oregon
- Raise per capita income
- Lower public services costs

The Opportunity Initiative

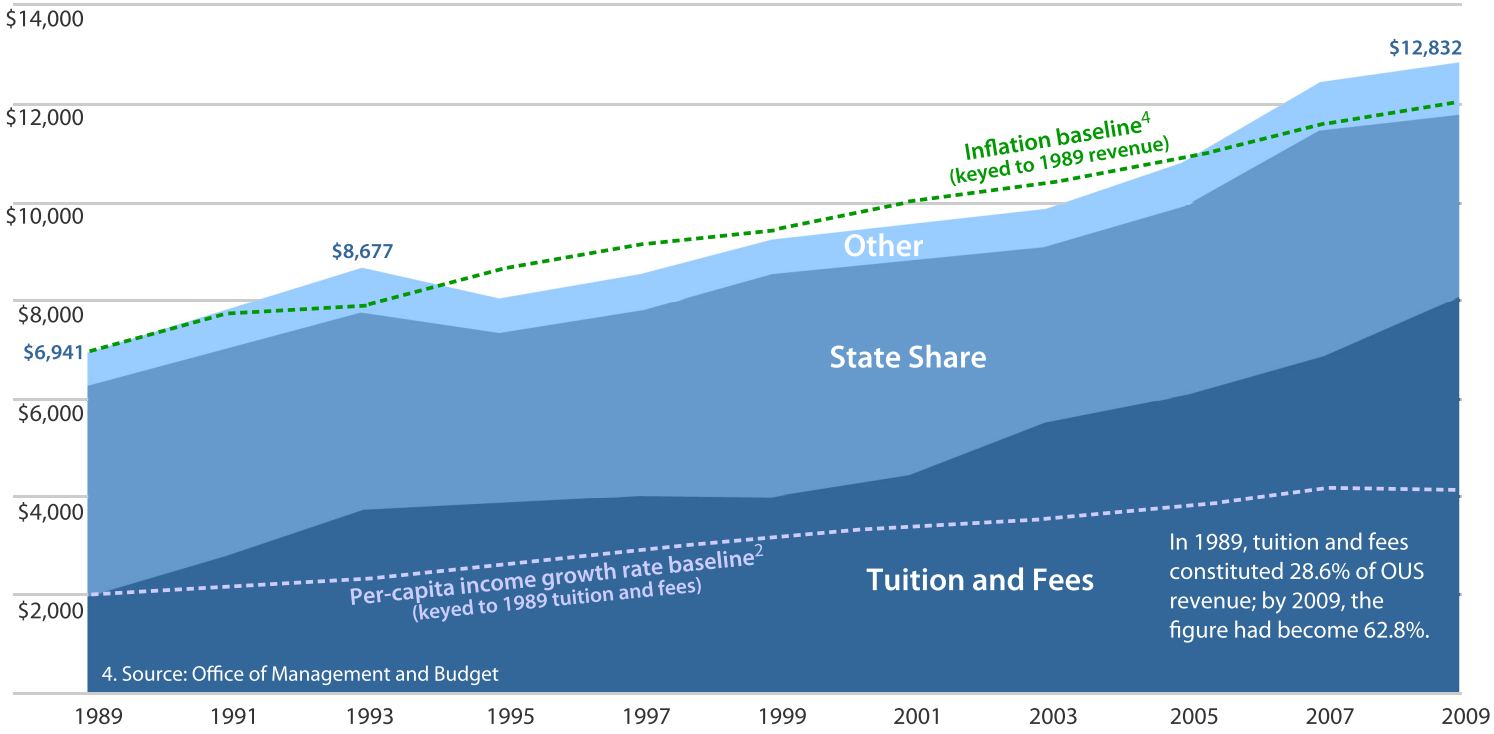
Oregon's future depends on maintaining a skilled workforce

The cost to students of a college education in Oregon is rising rapidly. From 2004-05 to 2011-12, OUS tuition and fees rose 50%[1], while per-capita income in Oregon increased only 20%[2]. That means OUS tuition has increased two and a half times faster than per capita income in Oregon over the six-year period. Although the underlying per-student costs to institutions remain relatively stable, **students feel the pinch as a greater share of those costs are shifted their way.** The amount of assistance per eligible Oregon student has declined at an annualized rate of 5% over the last seven years[3].

1. Source: Oregon University System 2. Source: Bureau of Economic Analysis. 3. Source: Oregon Student Assistance Commission

OUS Revenue Per Student[1]:
Costs to students is outpacing the ability to pay

Although total revenues generally track inflation, the gap between costs to students (tuition and fees) and income growth is widening as more costs are shifted that way.



Oregon's student assistance efforts have lagged the national average by 20%[5,6], and Oregon students who attend OUS or Oregon community colleges pay 18% more in tuition and fees than the U.S. average.

One result is that student debt is soaring for those students that do attend. The average student borrower graduating from an Oregon four-year college in 2010 had almost $24,000 in debt, 21% more than five years ago[7].

This problem needs to be addressed now for three main reasons:

- As tuition and fees increase, post-secondary education and training **opportunities will become increasingly limited** for all but the most affluent Oregonians.
- Oregon's **per-capita income**, which is already low compared to other states, **will be driven even lower** as more people miss out on the higher earning potential that comes from post-secondary education.
- Oregon students who do attend higher education will be saddled with **ever-larger debt loads**, just as they are starting out in an unstable job market.

5. Source: National Association of State Student Aid Grant Programs 6. Source: *State Higher Education Finance 2011*, State Higher Education Executive Officers
7. Source: *Student Debt and the Class of 2010*, Project on Student Debt

Proposal: The Opportunity Initiative

The Opportunity Initiative creates a Constitutionally-dedicated permanent fund that will be invested to generate income. Income from the investment returns will both **increase student assistance** in the short-term for students at community colleges, public universities, and private universities, and also put Oregon on a path toward a **lasting solution**.

The fund itself isn't spent, but rather invested – with the earnings dedicated to student assistance programs. Earnings depend on how well the fund is financed.

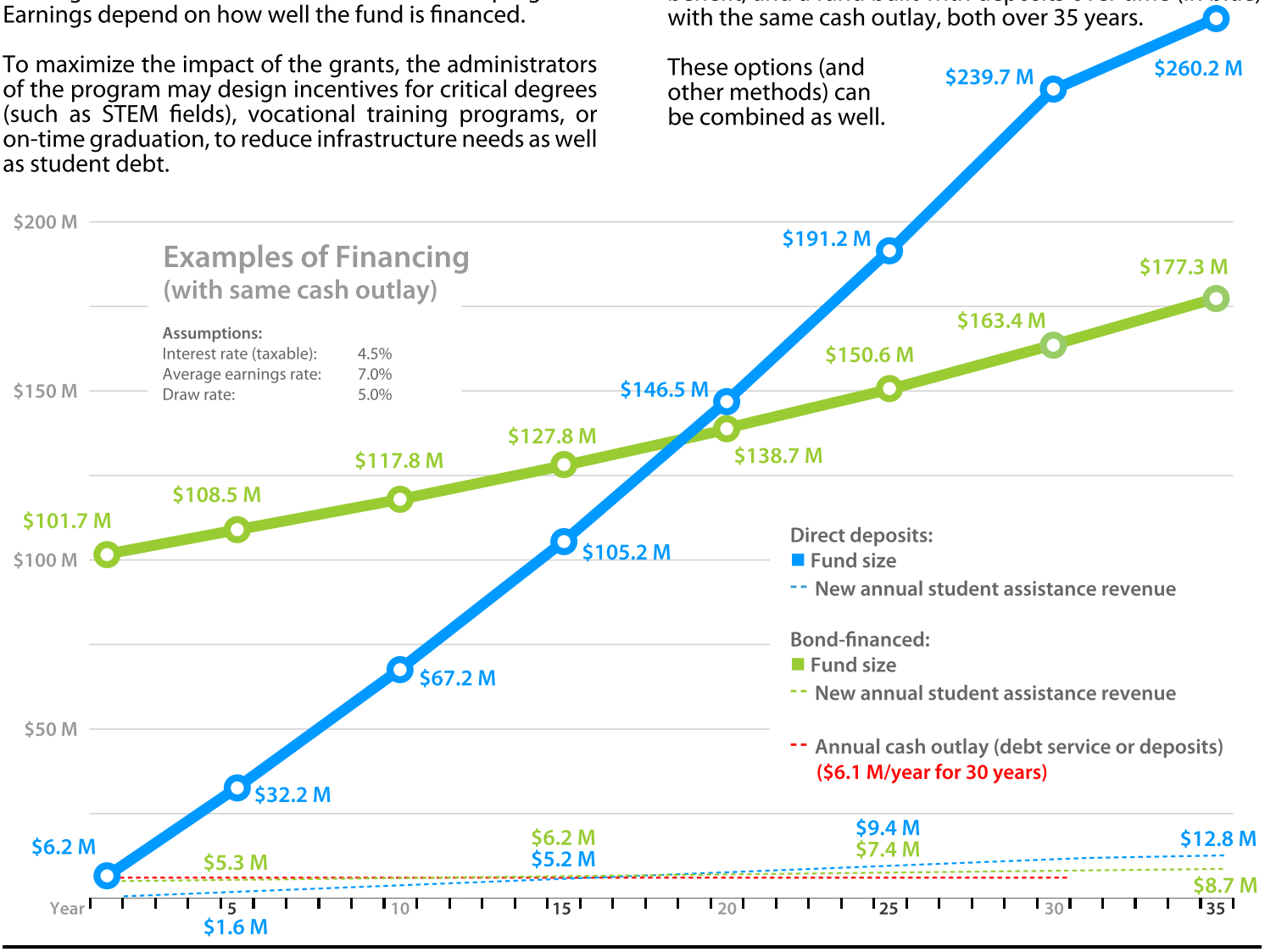
To maximize the impact of the grants, the administrators of the program may design incentives for critical degrees (such as STEM fields), vocational training programs, or on-time graduation, to reduce infrastructure needs as well as student debt.

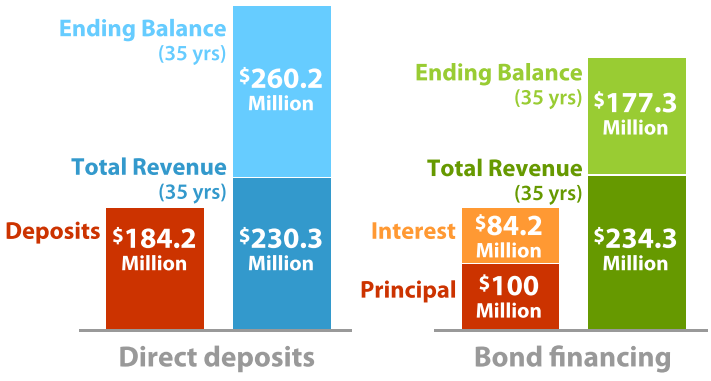
Financing Options

If authorized by the voters, the fund could be financed in various ways, including direct committed deposits, donations, bond proceeds, one-time appropriations, and other forms of financing.

The charts below show the difference between a bond-financed fund (in green) with greater immediate benefit, and a fund built with deposits over time (in blue) with the same cash outlay, both over 35 years.

These options (and other methods) can be combined as well.





Benefits

However the fund is financed, it will create a **permanent and growing** source of revenue for student assistance.

Each $100 million in the fund is anticipated to create a dedicated and permanent revenue stream of $5 million each year for Oregon student assistance. Currently, that represents an initial increase of 10% over the Opportunity Grant program.

Whether deposited directly or bond financed, the fund provides a net financial benefit to the State.

Next Steps

The Opportunity Initiative was passed by the 2013 Legislature as Senate Joint Resolution 1. Voters will weigh in on the measure at the November 2014 general election.

The measure asks voters to approve an amendment to the Constitution that would:

- Create a permanent Student Opportunity Fund that is Constitutionally locked and protected, and

- Allow the State to issue general obligation bonds into that fund and use earnings for student assistance.

(If passed by voters, the Legislature would still need to finance the program.)

Initiative 402 (SJR 1)

Amends Constitution:
Requires creation of fund for Oregonians pursuing post-secondary education, authorizes state indebtedness to finance fund.

Result of "Yes" Vote:
"Yes" vote amends constitution and requires legislature to establish fund for Oregonians pursuing post-secondary education, career training; authorizes state to incur debt to finance fund.

Result of "No" Vote:
"No" vote rejects authorization for state to extend credit and incur debt to create dedicated fund for Oregon students pursuing post-secondary education and career training.

Summary:
Amends Constitution. Oregon constitution generally prohibits the state from extending credit or incurring debt. Measure requires the legislature to create dedicated fund for exclusive benefit of Oregon students pursuing post-secondary education, including technical, professional and career training. Measure authorizes state to lend credit and incur debt to finance fund. Indebtedness incurred may not exceed one percent of real market value of all property in state. Moneys in fund not subject to constitutional limitations on investment. Generated earnings must be retained by fund, unless used to provide financial assistance to Oregon students pursuing post-secondary education. If governor declares an emergency, legislature may pass a bill to use the fund's money for any lawful purpose, provided the legislature also has approved a plan to repay the fund.

Frequently Asked Questions

What will this plan do in the short-term?

It depends on how well the fund is financed. If the fund were to be seeded with $100 million, current Opportunity Grant assistance can be increased by over 10% ($5 million) per year after the first biennium, increasing each year.

Which agency will manage the program?

That would be determined by statute after the measure passes, but given its current duties regarding student assistance, likely the Higher Education Coordinating Commission. The Oregon Investment Council would likely be used to invest the funds.

Would this be using bond proceeds for operating costs?

No. Any bond proceeds would create a capital asset: a permanent fund in the form of a Student Opportunity Fund. To ensure that the fund is permanent (and not raided for operating costs) the fund would be Constitutionally-locked. Only the earnings (and not the corpus) would be drawn upon.

Why use State resources? Isn't this just a personal finance problem for students?

A highly-trained workforce is a net positive for the economy and can help save costs of other public services. This plan applies not only to college-bound students, but to apprenticeship programs and vocational training. Studies show that states with better-trained workforces have healthier economies, and have less demand for social service and public health programs.

Could this damage the State's credit rating?

No; this measure was crafted in close consultation with the Treasurer's office and bond counsel. The measure provides for the use of bonds, but does not require them – and no one has suggested that we issue any bonds outside of the State's conservative debt capacity targets.

What if we need to change course?

The Opportunity Initiative does not bind future legislatures to any course of action or to a specific outcome. The plan provides a way to lock in stable and adequate postsecondary student assistance, but future Legislatures will decide independently whether to make new commitments.

What will it be the Measure Number?

Measure numbers have not yet been assigned. The Opportunity Initiative went through the Legislature as Senate Joint Resolution 1 and has been assigned initiative number 402. It will receive a measure number before it heads to the ballot.