

Aug. 11, 2014

To: Funding and Achievement Subcommittee Members

From: Tim Nesbitt, Chair
Higher Education Coordinating Commission

CC: Ben Cannon, Executive Director

Re: Framework for Constructing Our 2015-17 Post-Secondary Budget

Constructing our budget recommendations for 2015-17 will be an exercise in short-term prioritization and long-term vision, reflecting the steering and cheering functions we identified in our strategic plan to achieve the state's 40-40 goals, informed by the work of our subcommittees and work groups and focused on the synergies we can achieve by improving access and affordability and student success.

Keep in mind, though, that these budget recommendations will be followed by a ten-year, stair-stepped budget that will address the true funding needs of our post-secondary system to achieve the state's 40-40 goals by 2025. We should expect that the 2015-17 "step" in that budget will be higher than what we are able to recommend within the constraints of the 2015-17 agency budget process.

What follows is an explication, rather than an enumeration, of proposed goals and approaches to constructing our first "agency recommended budget" for the next biennium. I have asked staff to provide the dollar amounts for a big picture look at the numbers before we dive into the specifics.

Challenges

Rising Costs and a Growing Affordability Gap: College is unaffordable for too many Oregonians. The Oregon Opportunity Grant, Oregon's need-based financial aid program, reaches only one of five eligible students and still leaves sizable shortfalls for those it serves. This "affordability gap" discourages students from pursuing and completing their education after high school and saddles many of those who do so with debts that constrain their opportunities and burden their finances after graduation. State funding for the Oregon Opportunity Grant amounts to only one-third of the national average for state aid programs. A more robust and farther-reaching financial aid program, at two to three times current funding levels, is needed to achieve affordability for Oregon students.

Declining State Support and Increasing Student Needs: State support for our community colleges and universities has declined by 32 percent on a per student basis over the past five years. As a result, Oregon ranks 46th of the 50 states in state appropriations for students in our community colleges and public universities. Further, demographic trends suggest that future students are more likely to be the first in their families to attend college and require more mentoring, coaching and support services to

make their way successfully and achieve their potential in post-secondary settings. As our community colleges and universities respond to these challenges, savings from efficiencies – such as greater use of online learning, more college credits earned in high schools, accelerated pathways and credit for prior learning – will have to be applied both within and outside of the classroom to meet the needs and ensure the success of a new generation of Oregon students.

Limited State Resources: State General Fund (GF) revenues are expected to increase by 11.2% next biennium, far short of what can reasonably be expected to achieve adequate funding for our institutions and our financial aid program.

Deferred Costs: The cumulative effects of budget reductions have created a backlog of deferred costs at the institutional level, such as deferred maintenance in buildings and infrastructure. Other coping mechanisms, such as the greater use of part-time faculty, may have reached a point of diminishing returns when viewed in terms of the need for greater student support.

Opportunities

Moderating Payroll Cost Increases: Reforms enacted last year and improved earnings on the fund's investments have reduced estimates of increased employer PERS rates in 2015-17 to approximately one percent of payroll. Employee health plan costs are expected to be flat in the next biennium, thanks to cost containment efforts by the Public Employees Benefit Board. These developments mean that increased revenues should not be eaten up by increased payroll costs.

Expanded Scope for Budget Requests: Although state revenues are expected to increase by only 11.2% in the next biennium, the Governor has asked for budget recommendations as high as 20% above current levels – which, if attained, would enable a record level of reinvestment in post-secondary education.

Priorities for 2015-17

1) Access and Affordability.

The priorities that have emerged from the actions taken and the ideas referred to us by the Legislature (tuition buy-downs, PIF and two free years of community college) put access and affordability in the “pole position” for the next biennium's budget. If, as we have concluded, tuition freezes and “buy downs” spread their dollars too broadly and are too expensive to sustain, then we need to restore a more robust and well-targeted financial aid program to make college affordable for low- and middle-income Oregonians. We propose to achieve this goal by expanding the OOG with broad support for the first two years of post-secondary education in a community college, public university or a private college and university currently eligible for the program, as well as post-secondary career technical programs. The goal is to provide a truly affordable first two years of

college or career training for all of Oregon's high school graduates, beginning with the 2016-17 academic year.

2) Student Success

Promoting access and affordability is not enough. If we expand participation in post-secondary education only to see a third or as many as half of our students wash out and fail to complete their degrees, we will have failed those students and set back our economic development goals.

To achieve the state's 40-40 goals for post-secondary completion, we must partner with our institutions to promote and sustain a process of continuous improvement to boost the persistence and completion rates of our students. This will require not just more funding, but better use of new funds to create a culture of college going and college completion in the face of demographic trends that will require more attention strategies that ensure student success.

Further, we will work with our institutions to better align their degrees with the needs and potentials of the state's economy and provide more efficient pathways for our students to rewarding jobs and fulfilling careers.

To these ends, we will seek an increase in state funding for our community colleges and universities that boosts the dollars available on a per-student basis above what has been defined in the past as an inflation-adjusted "current service level" (CSL) increase. How much above CSL we can recommend is a key question to answer in this exercise and one which stands in tension with our consideration of a meaningful increase for the OOG program.

One measure to keep in mind is the 11.2% increase in state GF revenues in 2015-17. An increase in per student funding of this amount from 2013-15 to 20115-17, combined with the moderation in payroll cost increases described above, could be considered a baseline minimum for the community college and university support funds in the next biennium.

Recommended Framework and Goals

I recommend for your consideration an approach to constructing the state's post-secondary education budget for 2015-17 that accomplishes the following via the Oregon Opportunity Grant, the Community College Support Fund and the University Support Fund, whose funding amounted to a little over \$1 billion in the current biennium.

- A fully affordable first two years of college or post-secondary career training for high school graduates who enroll within a specified period after graduation and meet the program's criteria for financial need and academic progress, beginning in the 2016-17 academic year. This program should supplement, not displace, the existing OOG program for a broader population of students.

Goal: Motivate Oregonians to pursue and complete their educations beyond high school and support their efforts to do so by providing a fully affordable first two years of college and career training.

- An increase in state support for the university and community college support funds that at least matches the projected increase in state GF revenues for 2015-17 on a per student basis and enables institutions to apply additional resources to supporting students in the efficient completion of certificates and degrees.

Goal: Enable our community colleges and universities to improve student retention and completion rates by streamlining student pathways and supporting students in their progress to certificates and degrees.

For the remaining areas of agency and program budgets, we will base our recommendations on an inflation-adjusted basis, a current service level projection or program-specific recommendations.