Docket Item:
Temporary Administrative Rule Relating to the ETIC Sustaining Funding

Summary:
The HECC is charged through ORS 351.735(3)(f) to:

Adopt rules governing the distribution of appropriations from the Legislative Assembly to community colleges, public universities listed in ORS 352.002 and student access programs. These rules must be based on allocation formulas developed in consultation with the state’s community colleges and public universities, as appropriate.

As part of this responsibility, there are several items within the Public University State Programs that require specific allocation formulas be developed in order to distribute funds. ETIC Sustaining Funds is one such program. The distribution of ETIC Sustaining Funds relies on an allocation process to disburse funds. The following temporary OAR is intended to allow for allocation of funds continuing previous methodologies. A temporary rule is allowed to remain in operation for 180 days under ORS 183.335(5-6a).\(^1\) HECC Staff will, upon adoption by the Commission of the temporary rule, begin the process for permanent rule adoption to supersede the temporary rule in order to distribute funds for this program.

Docket Material:

ETIC Sustaining Funds:
The Engineering Technology Industry Council was established by SB 504 (1997) to support the growing high technology industry cluster in Oregon. The primary efforts of the Council were to respond to urgent engineering educational needs and to develop excellence in engineering faculty and research. Specifically ORS 351.663 provided the following guidance in establishing ETIC:

(a) Responding to the urgent engineering educational needs of Oregon’s fast growing high technology industry, especially in the Portland metropolitan area.
(b) Increasing this state’s faculty and program capacity to meet the graduate level, professional education needs of engineers working in Oregon’s high technology industry through investments in public and private institutions.
(c) Creating additional opportunities for Oregonians to pursue education in electrical engineering, computer engineering and other engineering disciplines critical to the advancement of Oregon’s high technology industry.
(d) Investing relatively scarce state financial resources to:
   (A) Address the high technology industry’s most demonstrated and pressing needs;
   (B) Produce the greatest amount of educational benefits with the least short-term and long-term costs to the public;
   (C) Avoid duplicating existing public or private resources; and

\(^1\) ORS 183.335(6)(a) “A rule adopted, amended or suspended under subsection (5) of this section is temporary and may be effective for a period of not longer than 180 days.”
(D) Leverage existing and future private resources for the public benefit.
(e) Making all investments in public and private institutions through performance-based contracts with measurable outcomes in order to ensure strong linkage between the most urgent engineering education needs and implemented solutions.
(f) Maximizing the leverage of state investment funds to build faculty and program capacity and share existing and new faculty and program resources.

After nearly two decades of investment and significant and sustained success in building the educational and research quantity and quality at Oregon universities, ETIC began a process of self-reflection and restructuring that split its funding structure into two tranches, a Sustaining and Renewable tranche. The Sustaining tranche was shifted to the HECC (HB 5024, 2015), while the Renewable funding was shifted to a newly imagined and expanded Oregon Talent Council (OTC) under the Oregon Employment Department (HB 2728, 2015).

During the June 11, 2015 HECC meeting the Commission received a report summarizing ETIC’s history, transition and funding. At that time staff advised the Commission that it would convene a workgroup to establish a short-term allocation methodology for Fiscal Year 2016 and a path forward for the long-term allocation of these funds which comport with a set of goals and principles. These goals and principles importantly include the following:

- The allocation model will effectively link Sustaining Funding with industry and labor force needs over the short and long-term.
- The allocation model will recognize allocation history and program capacity in core engineering and technology related disciplines and legislative intent as expressed in SB 504 (1997) which created ETIC.

Included within this docket item is a memo dated June 23, 2015 that outlines the recommendations of the ETIC Sustaining Funds Workgroup whose participants included Commissioner Dyess and institutional leadership representing research, engineering, and finance functions as well as HECC staff. The recommendations included in the memo meet these two objectives, represent an agreement on 2015-17 biennial allocation of ETIC Sustaining Funds and represent a major shift in allocation methodology. The agreement transitions ETIC Sustaining Funds from a system that carries forward historic allocation amounts to a system that supports the core capacity developed within institutions over the past nearly two decades and tactical linkage of state investment to the employment of graduates using the funding model developed by ETIC. The agreement reached was supported unanimously by all workgroup participants and reported to the Oregon Public University Council (President’s Council).

The workgroup Sustaining Funds, as represented within the attached temporary OAR are structured as follows:

1. FY 16 and FY 17 funding will be distributed on the standard 49% - 51% basis.
2. FY 16 Sustaining Funding will be split into two tranches.

2 http://education.oregon.gov/Documents/HECC/2015%20Full%20Commission%20Meetings/06.%20June%2011%2c%202015/12.1%20Engineering%20and%20Technology%20Industry%20Council%20%28ETIC%29%20Background.pdf
a. “Historical Funding” will be based on the proportional share of FY 15 Sustaining Funding levels on an institution by institution basis;
b. “Outcomes Funding” will be based on the proportional share of funding as recommended by the employment-based funding model proposed by ETIC.

3. Historical Funding is designed to provide baseline support for prior investments at all institutions which have historically received Sustaining Funding for faculty lines.
   a. Funding will be based on the FY 15 proportional level of Sustaining Funding as approved by the OEIB and recommended by ETIC in September 2014.
   b. The Historical Funding based developed during FY 16 is intended to establish a minimum predictable base for the universities to account for the capacity increases and investments made to achieve the FY 99-FY 13 ETIC outcomes, including doubling the number of engineering graduates.
   c. As Historical Funding base is intended to provide stability, it would only be readjusted by the HECC if the institutional outcomes consistently fall below their historical levels.
   d. The Historical Funding tranche will carry forward into subsequent biennia as “base funding.”

4. Outcomes Funding is designed to emphasize institutions success in supporting Oregon’s engineering and technology related industry cluster.
   a. All non-Historical Funding will be allocated based on Outcomes Funding.
   b. Funding will initially be based on the employment-based funding model proposed by ETIC, which is based on the wages of resident graduates of Oregon’s seven public universities in engineering and technology disciplines.
   c. The principles which undergird employment-based funding model proposed by ETIC, namely the tactical linkage between engineering and technology related departments and industry employment needs is critical. Measuring the efficacy of this linkage through post-graduate employment and wages is recognized as valid and reasonable.

5. FY 16 allocation will be used to establish biennium base funding going forward.
6. FY 17 funding will allocate all additional funds to institutions who are below the allocation level put forward in ETIC’s employment-based model, on a proportional basis.
7. The HECC will establish a formal workgroup to recommend Sustaining Funding Allocations over the long-term, including review and refinement of a post-graduate employment-based model as indicated in the staff proposal to the Commission on June 11, 2015. This workgroup will start from the ETIC recommended funding level, adjusting where necessary, but consistent with that which ETIC has proposed.

The process ETIC underwent to transition the allocation of funding from one stream to two independent – Sustaining and Renewable – streams shifted all funding at the University of Oregon (UO) and Oregon Health Sciences University (OHSU) into the “at risk” Renewable tranche which is now to be allocated by the OTC. Neither UO nor OHSU have any “Historical Funding” given the definition agreed to by the workgroup despite the development and existence of core engineering and technology teaching and research capacity at these institutions. Therefore, removal of all funding may cause significant harm to the state’s research and
teaching capacity. The workgroup has recommended HECC staff communicate the new funding allocation methodology and make specific note of the possible deleterious impact of removing funding from these two institutions to the OTC as they begin deliberations and the allocation process for legacy ETIC Renewable funds.

Specific funding levels by institution and their calculation can be found in the appended memo dated June 23, 2015. The Legislature has allocated $24,451,274 for ETIC Sustaining funding by section 1 (10), chapter 642 Oregon Laws 2015.

The proposed temporary OAR is appended to the end of this document.

**STAFF RECOMMENDATION:**

Report is for informational purposes only. In September, Commission staff will file a temporary rule to govern the allocation of funds through the regularly scheduled second quarter allotment. Within 180 days to follow, Commission will need to consider and adopt a permanent administrative rule.
1. Definitions:
   a. “Engineering and Technology Industry Council” or “ETIC” was the body established by ORS 351.663 and abolished by Section 5, Chapter 682 Oregon Laws 2015, for the purposes of improving engineering education in the state of Oregon.
   b. The “Higher Education Coordinating Commission” or “HECC” is the body established by ORS 351.715 and appointed by the Governor.
   c. “Historical Funding” is funding based upon a university’s historical allocation of ETIC Sustaining Funds in fiscal year 2015 as approved by the Oregon Education Investment Board (OEIB).
   d. “Oregon Education Investment Board (OEIB)” was the body established by section 1, chapter 519, Oregon Laws 2011 and appointed by the Governor.
   e. “Oregon Health and Science University (OHSU)” is an independent public corporation established by ORS 353.020.
   f. “Oregon Students, Oregon Jobs Model” is defined as the model that had been developed by ETIC and submitted to the HECC to award funds based on placement of Oregon resident graduates in Oregon jobs.
   g. A “Public University” is any institution as defined in ORS 352.002, including; Eastern Oregon University (EOU), Oregon Institute of Technology (OIT), Oregon State University (OSU), Portland State University (PSU), Southern Oregon University (SOU), University of Oregon (UO) and Western Oregon University (WOU).
   h. “Sustaining Funds” are funds designated by the Legislature as legacy ETIC Sustaining Funds.

2. This rule allocates Sustaining Funds to Public Universities and OHSU for the 2015-17 biennium.

3. Allocations in the first year of any biennium shall be 49% of total appropriated for the biennium. The remainder shall be allocated in the second year of the biennium.
4. Sustaining Funds are to be spent in support of engineering and technology related programs in support of Oregon industry.

5. Allocations shall be made by the HECC to Public Universities and OHSU for the fiscal year beginning on July 1, 2015 as follows;
   a. 80% of available funds shall be allocated on the basis of Historical Funding.
      i. Of these funds, the allocations shall be as follows;
         1. Eastern Oregon University shall receive $144,601.
         2. Oregon Health Sciences University shall receive no historical funding.
         3. Oregon Institute of Technology shall receive $444,592.
         4. Oregon State University shall receive $6,179,323.
         5. Portland State University shall receive $2,410,166.
         6. Southern Oregon University shall receive $168,447.
         7. The University of Oregon shall receive no historical funding.
         8. Western Oregon University shall receive $237,770.
   b. 20% of available funds shall be allocated in the proportions indicated by the Oregon Students, Oregon Jobs Model.
      i. Of these funds, the allocations shall be as follows;
         1. Eastern Oregon University shall receive $10,814.
         2. Oregon Health Sciences University shall receive no funds.
         3. Oregon Institute of Technology shall receive $513,415.
         4. Oregon State University shall receive $862,072.
         5. Portland State University shall receive $771,841.
         7. The University of Oregon shall receive $107,892.
         8. Western Oregon University shall receive $62,503.

6. Allocations shall be made by the HECC to public universities and OHSU for the fiscal year beginning July 1, 2016 as follows;
   a. Funding to each public university shall continue in amounts equal to those in section 5.
   b. The additional funds available shall be allocated to institutions which have not reached funding indicated in the Oregon Student, Oregon Jobs Model.
      i. Of these funds, the allocations shall be as follows:
1. Eastern Oregon University shall receive no funds.
2. Oregon Health Sciences University shall receive no funds.
3. Oregon Institute of Technology shall receive $287,431.
4. Oregon State University shall receive no funds.
5. Portland State University shall receive $105,785.
6. Southern Oregon University shall receive $17,318.
7. The University of Oregon shall receive $77,906.
8. Western Oregon University shall receive $586.

7. The continued allocation of Historical Funding is contingent upon institutions maintaining performance consistent with past efforts.
8. The HECC will give deference to any legislative designation of specific resources or policy decisions when making determinations on allocation of funds.
9. This temporary rule shall take effect immediately upon its adoption by the HECC and will expire 180 days from its adoption or when a permanent rule is adopted, whichever is sooner.

Statutory Authority: ORS 351.735(5)
Statutes Implemented: ORS 351.735(3b), Chapter 682 Oregon Laws 2015, Chapter 642 Oregon Laws 2015.