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Neil Bryant, Chair
Higher Education Coordinating Commission
255 Capitol Street NE, Third Floor
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Dear Chair Bryant,

I am grateful that the Higher Education Coordinating Commission is reviewing the process and standards by which it will evaluate and recommend capital construction projects for the 2019-21 biennium, and I look forward to working with the Commission as it assesses and develops a longer-term approach.

The Commission faces a number of opportunities and challenges as it makes recommendations for committing taxpayer revenues to 20-year funding obligations. Foremost among the Commission's opportunities is to provide multiple educational pathways for Oregon students as they seek their own success in a career and life, and their potential for contributing to the state's economic vitality and resilience. Chief among the challenges facing the Commission is allocating state debt in an equitable and economically sound manner among Oregon's universities, which themselves face opportunities and challenges.

As you know, during the 2018 session the legislature approved budget note language calling on the Commission to "report to the Emergency Board in May 2018 on the statewide criteria developed to evaluate and prioritize Public University capital requests that are proposed in the agency's request budget." I look forward to providing whatever assistance the Commission needs as it responds to this request, and I urge you to undertake that effort before moving forward on a process that would rank projects for the 2019-21 biennium.

The first two elements below address the issue of how much of the state's debt capacity should be invested in Oregon's public universities. The remaining elements address how this capacity should be apportioned among the institutions. I believe it is important for the Commission to address both of these issues in its report to the legislature.

Part I: Grow and maintain Oregon's higher education infrastructure

As Oregon's capacity for debt financing grows, the Commission should not waver in advocating for increasing the capacity for financing higher education facilities. Growing the capital pie for all of Oregon's universities is a wise investment for the state in the following ways:

1. It ensures universities have the capacity necessary to produce the skilled workers Oregon will need to compete in an increasingly knowledge-intensive economy;
2. It protects and sustains the significant portion of Oregon's state-financed capital facilities that the universities already operate and maintain;
3. It ensures that growth at one institution does not come at the expense of others; and

4. Most importantly, growing and maintaining capital infrastructure ensures that students will have access to a university education and that they will not be forced to pay higher tuition needed to cover the cost of capital infrastructure that is not otherwise provided by the state.

Recognize and capture the leverage and return-on-investment generated by university capital expenditures

Unlike most other state capital investments, a major proportion of state bonds used to finance university capital needs are matched by philanthropic gifts or revenues from non-state sources. Using Oregon State University as an example, in the last decade, OSU raised $225.6 million in other funds to match $291.2 million in state bonds (44% of the total). Among state enterprises, only public universities are able to leverage state capital investments to such an extent.

Based on the state's growing debt capacity, the need for capital renewal, the need for new capital to accommodate growth, and the unparalleled leverage and return on investment in university facilities, I believe the Commission should support at least $300 million in capital investments for the 2019-21 biennium.

A strategic approach to capital investments will increase the diversity and resilience of the state's economy while generating significant additional corporate and individual tax revenues. For example, analyses conducted by ECONorthwest indicate that the annual state income taxes generated by the second academic building at OSU-Cascades will not only pay for the bonds used to finance that building, but they will also generate additional state income taxes that will enable legislators to make other future investments throughout the state.

Part II: Allocate the capacity strategically in a manner that achieves educational goals

The Commission should consider the following factors as it ranks and distributes capital investments among Oregon's public universities.

Acknowledge the leverage created by matching funds

As discussed above, a significant portion of capital investments includes university-generated matching funds. The Commission should highly rank those projects that include philanthropic and other non-state funds. These funds are unique among state capital projects and they are important in generating legislative support for capital investments, particularly when compared to other bonding requests submitted to the legislature.

Invest where growth is forecasted to occur

The Commission should consider the future when recommending any long-term commitment of state funds. For example, Central Oregon is not only the fastest growing region in the state, it is among the fastest growing regions in the country. When contemplating 20-year commitments, the Commission should consider the wise guidance from hockey great Wayne Gretzky: "A good hockey player plays where the puck is. A great hockey player plays where the puck is going to be." By recognizing where the state economy and population are growing, the Commission can improve both equity and the returns on investment. The rubric should consider where the population is going to be, not just where it is now.

Invest where student enrollments show a pattern of sustained growth

This concern is similar but distinct from investing in regions that are growing. Just as the Commission considers resident enrollment as a factor in its Student Success and Completion Model (SSCM) for distributing operating funds, it should include enrollment trends in its appraisal of capital projects. Providing operating funds based on enrollment growth, but not providing capital capacity for meeting that growth, will simply undercut the effectiveness of the state's operating funds. Over the last five years, two university campuses in Oregon have shown sustained growth in the enrollment of Oregon students—OIT, and OSU-Cascades. The Commission should account for sustained enrollment in its decisions regarding capital investments.

Address high-need and under-served populations
Similarly, the SSCM allocates operating funds in a manner that rewards campuses that attract high-need, non-traditional, and under-served populations. The criteria used to rank capital investments should also reflect this principle. As with capacity, to do otherwise will simply weaken the relevance of this factor in the allocation of operating funds. The Commission should highly rank capital investments that enable student access and completion for historically under-represented and under-served groups of students.

Maintain consistency in funding mechanisms
The SSCM appropriately recognizes the historical status of OSU-Cascades as a separate and distinct campus. The Commission should apply the same approach to funding for capital projects. Since the concerted studies that created the branch campus concept in the late 1990s, approval by the legislature during the 2001 legislative session, and ever since, OSU-Cascades has been considered as separate and distinct from OSU's Corvallis campus when it comes to distributing operating funds.

The Commission has not squarely faced this issue in its consideration of capital funding. At its inception, the capital investments for OSU-Cascades were included in the operating costs for the campus in order to pay down the debt on Cascades Hall on the Central Oregon Community College campus. Now, following legislative and administrative decisions to establish the branch campus as a four-year institution, it is only appropriate to consider it as separate and distinct when allocating capital funding.

OSU-Cascades is unique among the other affiliated campuses in Oregon, such as Oregon Tech's Portland-Metro campus and OSU's Hatfield Marine Science Center. OSU-Cascades was created following a rigorous two-year process established by the State Board of Higher Education in close coordination with Governor Kitzhaber. Governor Kitzhaber carried forward the board's unanimous decision to pursue the campus by including separate funding for the branch campus in his proposed budget. And, the decision was ratified and directly funded by the legislature in 2001 when it allocated $7.2 million specifically to cover the capital and operating costs for OSU-Cascades. The campus serves a region that is not served by any other university. Since its inception, state operating funds (including funds for capital facilities) have been reviewed, determined, and apportioned by the State Board of Higher Education, and now the Commission.

Address future and present deferred maintenance needs
I share the concerns of legislators and others that universities should more actively take on the responsibility for providing for ongoing and future maintenance of new buildings. In reviewing a new building, the Commission should evaluate whether the university has established internal financing mechanisms needed to cover ongoing maintenance, repair, and replacement costs to keep that building functional throughout its expected lifetime. Doing so will ensure that new buildings do not add to the state's growing inventory of deferred maintenance.

Address the unique challenges facing a new campus
The Commission should also address the unique challenges of a new campus. Those include significantly higher infrastructure costs that are devoted to such factors as local system development charges to compensate cities and service districts for expanded services, new roads, traffic management, transportation, and other investments that appropriately allocate the cost of growth to new developments. If these costs are not reflected in the Commission's ranking system, investments in existing campuses will always be favored over those that are new and expanding to serve growing needs in Oregon.

Address capital projects for research and economic development
The Commission should also address the unique opportunities that universities provide to the people of Oregon. These include our research and economic development missions. If these attributes are not reflected in the Commission's ranking system, universities will have a more difficult time attracting and sustaining industry and other non-state support for Oregon-based economic development and research.

Conclusion
The Commission faces competing priorities, challenging demographics, and multiple opportunities as it weighs the various attributes of the capital investments that Oregon's universities will be proposing for the coming biennium.

- First, the Commission should support Oregon's public universities to ensure they receive an appropriate share of the state's debt capacity. That share should reflect the proportion of state-financed facilities that are operated and maintained by the public universities, the leverage provided by matching funds, and the overall return on investment that universities provide to the state's economy. I believe that figure should be at least $300 million for the 2019-21 biennium.
- Second, the Commission should identify which investments provide the most significant benefits to the same students it is seeking to serve, not just for now, but in anticipation of who and where those students will be in the years to come.
- Third, the standards the Commission uses to allocate capital resources should complement, not counteract or diminish, the solid and longstanding processes and standards it has developed for allocating operating funds. In particular, the ranking system for capital projects should reflect the long-established precedent that financing for the students who attend the OSU-Cascades campus should be separate and distinct from the funding provided to the students who attend the OSU campus in Corvallis.

Sincerely,

Ed Ray

Edward J. Ray
President