



Oregon State Board of Higher Education

Meeting of the
Board Committee on
Finance & Administration
January 18, 2013

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Oregon State Board of Higher Education

Finance & Administration Committee

January 18, 2013

1:00—3:00 p.m.

Boardroom (ASRC 515), 1800 SW 6th Ave, Portland, Oregon

AGENDA

1. CALL TO ORDER/ROLL CALL/WELCOME

2. ACTION ITEMS

- a. OUS, 2012 Annual Financial Report (Green/CliftonLarsonAllen LLP) 1
The audit opinion issued by CliftonLarsonAllen, LLP, is an unqualified opinion, which means that their opinion as to the fair presentation of the financial statements was issued without qualification.
- b. OUS, 2012 Internal Audit Division Final Progress Report and 2013 Internal Audit Annual Plan (Snopkowski)..... 17
The Oregon State Board of Higher Education’s Finance and Administration Committee charter outlines that the Internal Audit Division is to provide progress reports and the annual calendar year plan for approval by the Committee. IAD requests approval of the Division’s Final 2012 Progress Report and the 2013 Annual Audit Plan.
- c. UO, Approval of License Agreement for (gift of) Autzen Stadium Landscape, Exiting and Accessibility Improvements (Kenton/Moffitt)..... (under separate posting)
- d. OUS, Outcome-based Budget Development Process and Timeline (Kenton) 29
The Governor’s Balanced Budget indicates that in 2013-2015 budget allocation is to be centralized in the new Department of Postsecondary Education (DPSE) and is to be partially accomplished using an outcome-based methodology.

3. REPORT ITEM

- a. OUS, Update on the 2013-2015 Governor’s Balanced Budget (Lewis) 37

4. CONSENT ITEMS

- a. Approval of Minutes, December 21, 2012..... 83
- b. Approval of Minutes, January 9, 2013 87

5. ADJOURNMENT

OUS, 2012 Annual Financial Report

SUMMARY

The report titled Oregon University System 2012 Annual Financial Report (see <http://www.ous.edu/dept/cont-div/accounting-reporting/annualfinreport>) was prepared by the Chancellor's Office and the financial statements included within were audited by CliftonLarsonAllen, LLP, under contract to the Secretary of State, Audits Division. The audit opinion issued by CliftonLarsonAllen, LLP, is an unqualified opinion, which means that their opinion as to the fair presentation of the financial statements was issued without qualification.

In conjunction with the audit, CliftonLarsonAllen, LLP, has issued a letter to OUS Management communicating observations and recommendations relating to OUS internal controls. OUS Management has issued a letter in response to these observations and recommendations that includes general agreement with the observations and planned actions in response. None of the observations made by CliftonLarsonAllen, LLP, represented a significant deficiency or a material weakness in the design or operation of internal control for 2012.

As part of the financial statement audit, CliftonLarsonAllen, LLP, is required to communicate certain matters related to the conduct of the audit to those who have responsibility for oversight of the financial reporting process.

STAFF RECOMMENDATION TO THE COMMITTEE

Subject to the report of CliftonLarsonAllen, LLP, staff recommends that the Finance and Administration Committee of the Board accept the Oregon University System 2012 Annual Financial Report.

(Committee action required.)

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CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

Required Communications to the State Board of Higher Education

October 31, 2012

Members of the State Board of Higher Education:

This letter is to provide you with information about significant matters related to our audit of the financial statements of the Oregon University System (the System) for the year ended June 30, 2012.

We have provided a separate letter, dated October 31, 2012, concerning other matters that we noted during our audit.

The following are our observations arising from the audit that are relevant to the System's Board of Education's responsibilities in overseeing the financial reporting process.

Auditor's Responsibilities Under Generally Accepted Auditing Standards. Our audit was performed for the purpose of forming and expressing an opinion about whether the financial statements, that have been prepared by management, with the Board of Education's oversight, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit does not relieve the Board of Education or management of their responsibilities.

Other Information in Documents Containing Audited Financial Statements.

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

In connection with the System's financial statements, we did not perform any procedures or corroborate other information included in the report. However, we read management's discussion and analysis of financial conditions and results of operations and considered whether the information or the manner in which it was presented was materially inconsistent with information or the manner of presentation of the financial statements. Based on our reading, we concluded that the information did not require revision.

Significant Issues Discussed With Management Prior to Retention. We discuss various matters with management prior to retention as the System's auditors. These discussions occur in the normal course of our professional relationship. There were no significant issues, including the application of accounting principles and auditing standards, which were discussed with management prior to our retention as auditors.

Consultations With Other Accountants. We were informed by management that it made no consultations with other accountants on the application of generally accepted accounting principles and generally accepted auditing standards.

SAS Qualitative Aspects of Accounting Practices.

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the System are described in Note 1 to the financial statements. There were no significant accounting policies or their application which were either initially selected or changed during the year. As discussed in Note 1, the University adopted the provisions of GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, GASB Statement No. 59, *Financial Instruments Omnibus*, GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, GASB Statement No. 58, *Accounting and Financial Reporting For Chapter 9 Bankruptcies*. As discussed in Note 1, adoption of these standards had no material impact to the System's financial statements.

We noted no transactions in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

There were no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The following are management's descriptions of the processes utilized in forming estimates for the allowance for uncollectible receivables, the periods to depreciate capital assets owned by the System, the liability for other postemployment benefits, accrued compensated absences and the System's percentage ownership in an inter-institutional collaborative building project.

- Accounts and loans receivable are recorded net of estimated uncollectible amounts, approximating anticipated losses. Individual accounts are written off against the allowance when collection of the account appears doubtful.
- Capital assets are depreciated using the straight-line method over the estimated useful lives of the assets. Estimated useful lives range from 5 to 50 years.
- Other postemployment benefit expense is calculated based on the annual required contribution (ARC) of the University, an amount actuarially determined.
- Compensated absences and related personnel expenses are recognized based on estimated balances due to employees for vacation and sick leave. The limitations on such payments are defined by the rules associated with the personnel systems at the System.

- Percent ownership of the inter-institutional Collaborative Life Sciences building was determined based upon the initial estimates in the Tenancy in Common Agreement. Ownership is divided amongst the System and Oregon Health and Science University, an institution not belonging to the System. The ownership percentage estimates could change based upon final construction audits.
- Summer tuition deferred revenue is the estimate of the number of days of summer courses that were incurred subsequent to year-end, but for which tuition was charged and collected prior to year-end.

Difficulties Encountered in Performing the Audit. We encountered no significant difficulties in dealing with management related to the performance of our audit.

Corrected Misstatements. The attached Exhibit A summarizes the corrected misstatements, other than those that are trivial, that were brought to the attention of management as a result of audit procedures. Management has corrected all such misstatements.

Passed Audit Adjustments. During fiscal year 2012, management determined that capital assets were overstated by \$9.8 million in the prior year for the City of Portland's share of a condominium constructed on Portland State University's campus. Management recorded an adjustment in fiscal year 2012 to reduce capital assets by \$9.8 million and record a corresponding expense. Also, during fiscal year 2012, \$9.4 million of bond issuance costs to be amortized in fiscal year 2014 and beyond were classified as current assets versus noncurrent assets. Lastly, the University of Oregon reported a receivable for \$7.9 million from its Foundation; yet, the timing requirements under GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, had not yet been met to warrant recognition.

For the aggregate component units, one Foundation reported its financial statements on the cash basis. As a result, a payable to the System of \$6.1 million is currently not being reflected in the component units' financial statements.

Management has determined that these passed audit adjustments are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Representations from Management. We have requested the representations from management that are shown in the attached Exhibit B.

Disagreements With Management. There were no disagreements with management on financial accounting and reporting matters, auditing procedures, or other matters which would be significant to the System's financial statements or our report on those financial statements.

This report is intended solely for the information and use of the Board of Education, the Secretary of State – Audits Division, and the System's management, and is not intended to be and should not be used by anyone other than these specified parties.

CliftonLarsonAllen LLP

**Oregon University System
Audit Adjustments
For the Year Ended June 30, 2012**

Adjustments on financial statement captions

| Adj. no. | Description | Change in net assets unadjusted audit differences arising in | | | Balance sheet | | | | |
|---|-------------------------------|---|-----------------|------------------|--------------------|-------------------|----------------------|------------------------|---------------------------|
| | | Current period | Prior period | Total | Net assets | Current assets | Noncurrent assets | Current liabilities | Noncurrent liabilities |
| 1 | Accounts Receivable | — | — | — | 1,368,490 | 1,368,490 | — | — | — |
| | State and Local Grant Revenue | (1,368,490) | — | (1,368,490) | — | — | — | — | — |
| <i>To correct the impact of eliminating SELP Loan proceeds more than once.</i> | | | | | | | | | |
| 2 | Capital Grants and Gifts | 8,850,075 | — | 8,850,075 | — | — | — | — | — |
| | Contract Payable - OHSU | — | — | — | (8,850,075) | — | — | — | (8,850,075) |
| <i>To correct the impact of recording gift funds belonging to Oregon Health and Sciences University in relation to the future construction of the Collaborative Life Sciences Building.</i> | | | | | | | | | |
| | Total | <u>7,481,588</u> | <u>—</u> | <u>7,481,585</u> | <u>(7,481,585)</u> | <u>1,368,490</u> | <u>—</u> | <u>—</u> | <u>(8,850,075)</u> |

Amounts above are shown as debits and (credits).

Exhibit B

October 31, 2012

CliftonLarsonAllen LLP
109 North Main Street
Austin, MN 55912

We are providing this letter in connection with your audit of the statement of net assets of the Oregon University System (System) as of June 30, 2012 and the related statement of revenues, expenses and changes in net assets, and cash flows for the year then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the financial position, change in net assets, and cash flows of the System and the results of its operations and its cash flows in conformity with U.S. generally accepted accounting principles.

We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with U.S. generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting and compliance, and for preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items in No. 31 are considered material based on the materiality criteria specified in OMB Circular A-133. Items are considered material if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of October 31, 2012, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles and include all other financial information of the System and all component units required by U.S. generally accepted accounting principles to be included in the financial reporting entity.
2. In defining the financial reporting entity of the System:
 - a. We have assessed the related organizations in accordance with GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units and determined that the following organizations are considered component units of the System:

Eastern Oregon University Foundation

Oregon Tech Foundation

Oregon State University Foundation

Portland State University Foundation
Southern Oregon University Foundation
University of Oregon Foundation
Western Oregon University Development Foundation
Agricultural Research Foundation

These related organizations, under applicable law and in accordance with contractual relationships between such organizations and the System and its institutions, are independent from the System. However, in accordance with accounting standards, the component units are properly included and adequately disclosed in the System's financial statements, as well as any joint ventures the System has an equity interest in. In addition, we have apprised you of all significant transactions that have occurred between the component units and the System during the fiscal year ended June 30, 2012.

- b. To the best of our knowledge, there are no component units requiring financial presentation and disclosure in accordance with GASB Cod. Section 2600, other than those already disclosed to you.
 - c. To the best of our knowledge, there are no joint ventures requiring financial presentation and disclosure in accordance with GASB Cod. Section J50.
3. We have made available to you all—
 - a. Financial records and related data and all audit or relevant monitoring reports, if any, received from funding sources.
 - b. Minutes of the meetings of the State Board of Higher Education or summaries of actions of recent meetings for which minutes have not yet been prepared.
4. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
5. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or the schedule of expenditures of federal awards.
6. During fiscal year 2012, management determined that capital assets were overstated by \$9.8 million in the prior year for the City of Portland's share of a condominium constructed on Portland State University's campus. Management recorded an adjustment in fiscal year 2012 to reduce capital assets by \$9.8 million and record a corresponding expense. Also, during fiscal year 2012, \$9.4 million of bond issuance costs to be amortized in fiscal year 2014 and beyond were classified as current assets versus noncurrent assets. For the aggregate component units, one Foundation reported its financial statements on the cash basis. As a result, a payable to the System of \$6.5 million is currently not being reflected in the component units' financial statements. Lastly, the University of Oregon reported a receivable for \$7.6 million from its Foundation; yet, the timing requirements under GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, had not yet

been met to warrant recognition. We believe the effects of these items are immaterial to the financial statements taken as a whole.

7. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
8. We have no knowledge of any fraud or suspected fraud affecting the System, other than immaterial matters that have been previously disclosed to you by the OUS Internal Audit Director, involving:
 - a. Management,
 - b. Employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.
9. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others; except as previously disclosed to you by the OUS Internal Audit Director.
10. We have a process to track the status of audit findings and recommendations.
11. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
12. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
13. The System has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or net assets.
14. The following, if any, have been properly recorded or disclosed in the financial statements:
 - a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - b. Guarantees, whether written or oral, under which the State Board of Higher Education is contingently liable.
 - c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied, and adequately disclosed.
15. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified

and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, or other financial data significant to the audit objectives.

16. There are no—
 - a. Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and other grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on noncompliance.
 - b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with generally accepted accounting principles (formerly Statement of Financial Accounting Standards No. 5).
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by generally accepted accounting principles (formerly Statement of Financial Accounting Standards No. 5).
17. There are no estimates that may be subject to a material change in the near term that have not been properly disclosed in the financial statements. We understand that *near term* means the period within one year of the date of the financial statements. In addition, we have no knowledge of concentrations existing at the date of the financial statements that make the System vulnerable to the risk of severe impact that have not been properly disclosed in the financial statements.
18. The System has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral, except as disclosed in the financial statements.
19. The System has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
20. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
21. The financial statements include all component units.
22. The financial statements properly classify all activities per generally accepted accounting principles.
23. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) are properly classified.
24. Provisions for uncollectible receivables have been properly identified and recorded.
25. Interfund, internal, and intra-entity activity and balances have been appropriately eliminated.

26. Deposits and investment securities are properly classified as to risk and investments are properly valued.
27. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
28. Capital assets have been evaluated for impairment as a result of significant and unexpected decline in service utility. Impairment loss and insurance recoveries have been properly recorded.
29. We acknowledge our responsibility for the management's discussion and analysis and Schedule of Funding Progress, which is required supplementary information (RSI). Such information is measured and presented within prescribed guidelines, and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the supplementary schedules
30. With respect to the consolidating statement of net assets, consolidating statement of revenues, expenses, and changes in net assets, consolidating statement of cash flows (supplementary schedules):
 - a. We acknowledge our responsibility for presenting the supplementary schedules in accordance with accounting principles generally accepted in the United States of America, and we believe the supplementary schedules, including their form and content, are fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the supplementary schedules have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
31. With respect to federal award programs:
 - a. We are responsible for understanding and complying with, and have complied with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, including requirements relating to preparation of the schedule of expenditures of federal awards.
 - b. We have prepared the schedule of expenditures of federal awards in accordance with OMB Circular A-133, and have identified and disclosed in the schedule expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.
 - c. We acknowledge our responsibility for presenting the schedule of expenditures of federal awards (SEFA) in accordance with the requirements of OMB Circular A-133 §310.b, and we believe the SEFA, including its form and content, is fairly presented in accordance with the Circular. The methods of measurement and presentation of the SEFA have not changed from

those used in the prior period, and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFA.

- d. We have identified and disclosed to you all of our government programs and related activities subject to OMB Circular A-133.
- e. We are responsible for understanding and complying with, and have complied with in all material respects, the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major program.
- f. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to federal programs that provides reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended. Also, no changes have been made in internal control over compliance or other factors to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to internal control deficiencies reported in the schedule of findings and questioned costs.
- g. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relating to major federal programs. We have received no requests from a federal agency to audit one or more specific programs as a major program.
- h. We have complied, in all material respects, with the compliance requirements, including when applicable, those set forth in the *OMB Circular A-133 Compliance Supplement*, relating to federal awards and have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal awards, including those resulting from other audits or program reviews.
- i. We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the applicable compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditors' report.
- j. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken up to the date of the auditors' report.
- k. Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-21, *Cost Principles for Educational Institutions* and OMB's

Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments.

- l. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
 - m. We have made available to you all documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
 - n. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
 - o. We have charged costs to federal awards in accordance with applicable cost principles.
 - p. The copies of federal program financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
 - q. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
 - r. We are responsible for preparing and implementing a corrective action plan for each audit finding.
 - s. We have disclosed to you all contracts or other agreements with our service organizations, and we have disclosed to you all communications from the service organizations relating to noncompliance at the service organizations.
32. The System has not been notified by the U.S. Department of Education of the loss of eligibility for one or all of the Title IV programs due to high default rates.
 33. The System has reported to the U.S. Department of Education for investigations all known criminal misconduct involving Title IV funds by any student, employee, third-party servicer, or other agent of the institution involved in the administration of the System's Title IV programs.
 34. The System or its employees have not received any direct or indirect benefits from lenders related to the System's Title IV loan programs.
 35. No events, including instances of noncompliance, have occurred subsequent to the statement of net assets date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.

George Pernsteiner
Chancellor

Jay D. Kenton
Vice Chancellor for Finance and Administration

Michael J. Green
Associate Vice Chancellor for Finance and Administration and Controller

Diana Barkelew
Director of Accounting and Reporting



CliftonLarsonAllen

CliftonLarsonAllen LLP
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Michael Green
Associate Vice Chancellor for
Finance and Administration and Controller
Controller's Division
Oregon University System

We have completed our audit of the Oregon University System (the System) financial statements as of and for the year ended June 30, 2012, and have issued our report dated October 31, 2012. In connection with our audit engagement, we noted the following matters which we would like to bring to your attention.

RETAINAGE PAYABLE

Retainage payable is a portion of an agreed upon contract price (generally for construction projects) that is withheld until the work on the project is substantially complete to ensure the contractor has satisfied all the required obligations and has completed the construction project. Any outstanding retainage payable amounts relating to the System's construction projects should be recorded as liabilities until paid. During our testing of six projects, we noted that the respective retainage payables were not recorded as liabilities for three of the projects tested.

We recommend the System update/refine closing procedures to remind campuses to accrue for retainage payable liabilities. Campuses should review construction progress invoices near or after year-end to determine the amount of retainage payable that should be accrued for the year under audit.

Management's Response

Management concurs with the recommendation. Management has updated the Fiscal Policy Manual policy 05.780 to include additional detail on accounting for retainage payable. Management will update the detailed closing of the books instruction and annual year end training to include a review of construction projects prior to the close of period 14 to ensure the amount for retainage payable is accurate.

RECORDING OF CAPITAL PROJECTS

In fiscal year 2011, a university recorded an asset and a related revenue of \$9.8 million for a portion of a capital asset that was part of a unique joint project with an outside entity. This portion of the asset was being constructed on behalf of the outside entity, using funds received from the outside entity, with ownership by the outside entity to be perfected at a future date. In fiscal year 2012 when the ownership by the outside entity was perfected, the university made an entry to remove the asset and related depreciation from their accounting records, which resulted in a reduction to non-operating activity of \$9.8 million in fiscal year 2012. Since the portion of the asset constructed on behalf of the outside entity was never intended to be owned by the university, the funding of its construction costs should not have been recorded as revenues and the resulting asset should not have been recorded as a capital asset of the university. Management of the System elected not to restate beginning net assets due to immateriality.

In addition, during fiscal year 2012, two campuses were involved in a unique and complex joint capital project with a third party entity. Various sources of funds were flowing through the System for this project, including funds from the third party for the third party's portion of the capital asset. As a result of our audit procedures, the System discovered that \$8.8 million of capital grants and gifts were erroneously recorded in the System's draft financial statements for a portion of the third-party's funding. This amount should not have been recorded as revenue, but rather as an agency transaction.

In order to avoid such errors in the future, the System should enhance capitalization procedures to consider unique circumstances that the System may encounter. For example, procedures could be enhanced by requesting campuses to document ownership for unique projects, such as joint projects with outside entities. In addition, when working with third parties on capital projects, the System should accurately identify funding sources to ensure they are properly classified in the financial statements. All such activity should be reviewed by someone at a level higher than the preparer prior to being reclassified within the financial statement captions.

Management's Response

Management concurs with the recommendation. Management has implemented a revised Capital Project Element Request form which is used to request a project code in the financial system when a new project is started. The revised form includes confirmation for each category; direct purchase, constructed, joint project outside of OUS, and joint project within OUS. The new categories will provide the System with notification when a capital project is a joint project. In addition, management is reviewing processes for financial statement adjustments, reclassifications and eliminations to ensure that someone at a level higher than the preparer reviews the journal entries prior to recording.

This letter is intended solely for the information and use of management, others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

CliftonLarsonAllen LLP

Austin, Minnesota
October 31, 2012

OUS, Internal Audit Progress Report

Background:

The Oregon State Board of Higher Education Finance and Administration Committee Charter outlines that the Committee is to review and approve the Oregon University System Internal Audit Division's (IAD) plans and progress. In accordance with the charter, IAD will present the 2012 Final Progress Report and the 2013 Annual Audit Plan as directed. IAD notes that all the audit report recommendations made over the past quarter are being adequately addressed by management.



Oregon
University
System

Internal Audit Division
2012 Final Progress Report
&
2013 Annual Audit Plan

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| VI. | 2012 Calendar Year – Goals and Accomplishments |
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I. Executive Summary

The Oregon State Board of Higher Education (Board) has oversight responsibility to ensure that the Oregon University System (OUS) is performing its duties of financial reporting, ensuring effective and efficient internal controls, and complying with laws, regulations, and ethical standards. The OUS Internal Audit Division (IAD) is charged with assisting the Chancellor and the Board with their oversight responsibility.

This report contains an overview of the IAD organization, a summarization of the internal reports issued over the past quarter, progress made toward completing the 2012 calendar year audit plan, and the 2013 calendar year audit plan. This report is being provided in accordance with the IAD charter, which outlines responsibilities for:

- developing and implementing an annual internal audit plan that outlines the engagements to be performed using an appropriate risk-based methodology
- issuing quarterly progress reports to the Chancellor and the Finance and Administration Committee summarizing the results of engagement activities

The IAD charter was developed in accordance with internal auditing standards promulgated by the International Institute of Internal Auditors:

Standard 2010 *“The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization’s goals. The internal audit activity’s plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.”*

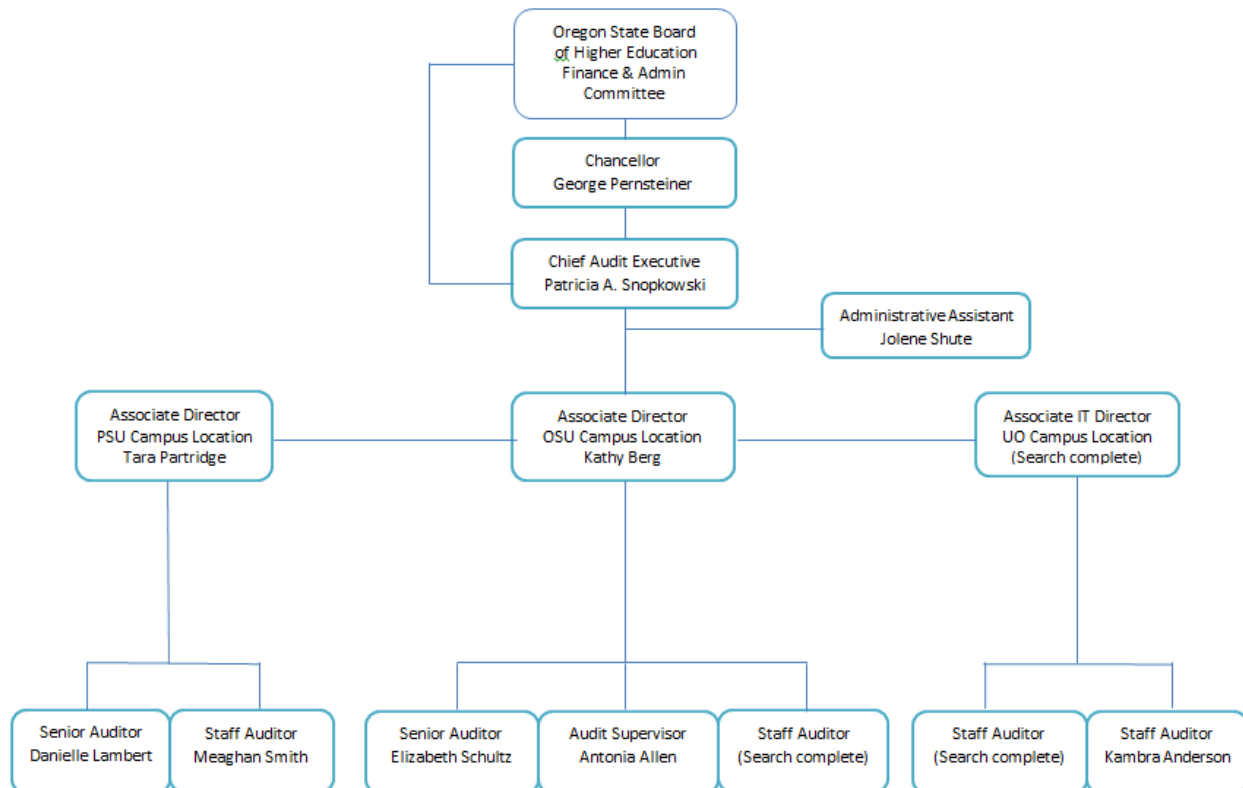
Standard 2020 *“The chief audit executive must communicate the internal audit activity’s plans and resource requirements, including significant interim changes, to senior management and the board for review and approval.”*

Standard 2060 *“The chief audit executive must report periodically to senior management and the board on the internal audit activity’s purpose, authority, responsibility, and performance relative to its plan.”*

The information provided documents how IAD works with management to mitigate risks and identify improvements to OUS operations. The audit report recommendations made over the past quarter are being adequately addressed by management.

II. Organizational Chart and Staff Profile

As of January 2013



Eight professional staff served all seven campuses, as well as the Chancellor’s Office. IAD’s three office locations foster greater understanding of the varied campus operations and reduce travel time. The staff possesses a variety of specialized subject matter expertise:

- 122 Years of Combined Professional Career Experience
- 16 Professional Audit Certifications, with all staff currently certified
 - 8 Certified Public Accountants
 - 5 Certified Internal Auditors
 - 2 Certified Information Systems Auditors
- 3 Open positions have been filled, employment will start February 2013

III. 2012 Audit Reports Issued - 4th Quarter

During the period from October 2012 through January 2013, IAD issued the following reports:

| Institution | Engagement Title | Assurance Provided Based Upon Procedures Performed |
|-------------|----------------------------------|---|
| WOU | Departmental Fiscal Review | Evaluated internal controls and monitoring activities over routine financial transactions. Determined that Business Services' review of departmental financial transactions appears to be effective. Control improvements are being made to prohibit business with employee-vendors. |
| EOU | Departmental Fiscal Review | Evaluated internal controls and monitoring activities over routine financial transactions. Determined that Business Affairs' review of departmental financial transactions appears to be effective. Control improvements are being made to strengthen the level of departmental programmatic review and improve the documentation for student group and student event expenses. |
| UO | Capital Construction Contracting | Reviewed identified contracts and capital construction contracting practices based upon complaint received. Found no evidence of noncompliance with the Oregon University System Contracting rules. Control improvements are being made to help strengthen contracting process, documentation practices and process flow. |

IV. Projects in Progress

Below is a listing of planned IAD engagements that will be discussed in further detail at future Board meetings.

| Engagement Title | Audit Objectives |
|--|--|
| OIT/SOU Departmental Fiscal Review | Determine whether central monitoring over routine financial transactions adequately ensures that appropriate departmental internal controls are in place and are functioning as intended. Conduct system-wide departmental testing to evaluate control effectiveness and reinforce best practices. |
| OSU/UO Research Compliance | Review campus compliance programs and evaluate whether program design includes elements to prevent and detect noncompliance with federal regulations over research. |
| OSU/UO Athletics Compliance | Review campus compliance programs and evaluate whether program design includes elements to prevent and detect noncompliance with NCAA Division I requirements. |

V. 2012 Calendar Year Audit Plan - Final Status

The following table outlines the status of IAD planned activities for calendar year 2012. These activities were presented and approved in February 2012.

Status of 2012 Activities

| | |
|---|---|
| <p>Scheduled Projects: Reports Issued</p> | <ul style="list-style-type: none"> • OSU and UO NCAA Football Attendance Certifications • PSU Health Center • UO International Programs • OUS Treasury/Internal Bank • OSU Human Resources Administrative Processing • UO President Transition • UO VP for Finance & Administration Transition • UO VP for Research and Innovation Transition • EOU Departmental Fiscal Review • WOU Departmental Fiscal Review |
| <p>Added Projects: Reports Issued</p> | <ul style="list-style-type: none"> • UO Psychology Department • UO Capital Construction |
| <p>2012 Projects In Progress</p> | <ul style="list-style-type: none"> • OSU/UO NCAA Compliance • OSU/UO Research Compliance • SOU Departmental Fiscal Review • OIT Departmental Fiscal Review |
| <p>Scheduled Projects: Postponed/Cancelled</p> | <ul style="list-style-type: none"> • OSU/PSU/UO Departmental Fiscal Reviews • OUS Departmental IT Audit • PSU Budget Office • PSU Human Resources |
| <p>Other Activities</p> | <ul style="list-style-type: none"> • Developed the OUS Code of Ethics • Expanded the OUS hotline • Recruited and hired staff for four positions • Internal control/fraud awareness trainings • Executive orientations • Hotline follow-up and investigations • Data breach advising • Management advising/consultation • NCAA Agreed-Upon Procedures coordination • External audit liaison (FS/A-133, Performance Audits) • Professional association leadership and presentations • Hosted the western higher education internal auditor conference |

VI. 2012 Calendar Year Goals and Accomplishments

IAD MISSION STATEMENT

The services of the Oregon University System Internal Audit Division (IAD) are designed to add value and improve the organization’s operations by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The Division is to adhere to standards set forth by the International Institute of Internal Auditors.

The IAD establishes annual goals in four strategic areas: Audit Engagements, Staffing, Quality Assurance, and Outreach. Accomplishments achieved in calendar year 2012 are outlined as follows:

| AUDIT ENGAGEMENT GOALS | ACCOMPLISHMENTS |
|--|---|
| <p>1. Effectively identify the best use of limited audit resources to maximize broad-based coverage in key risk areas.</p> | <p>Conducted a formal annual risk assessment to identify engagements. This process included meetings with campus executive management, industry analysis, and review of prior audit results. Presented the results of planning efforts to the Chancellor, campus executive management, and to the F&A Committee members. The plan was approved at the 2012 February F&A Board Committee meeting.</p> <p>Issued 21 reports, including follow-up recommendation reports. Audits were conducted on all seven campuses and the Chancellor’s Office.</p> <p>Made recommendations related to the selected fiscal operations of cash handling, payroll, budgeting, accounts payable, purchasing, and contracting in the areas of international programs, human resources, internal bank operations, student health center operations, athletics, and departmental information systems.</p> <p>Provided consultation regarding policy, governance, and organizational changes associated with SB 242.</p> |
| <p>2. Maximize benefit of all external audit services.</p> | <p>Acted as a liaison and assisted the Controllers’ Division with all external auditors in relation to federal compliance and financial statement audits. Coordinated the NCAA agreed-upon fiscal procedure engagements.</p> <p>Coordinated two performance audits being conducted by the Oregon Audits Division.</p> |

| AUDIT ENGAGEMENT GOALS (continued) | ACCOMPLISHMENTS |
|---|--|
| <p>3. Make value-added recommendations that identify strengths and system improvements to better meet objectives.</p> | <p>Completed follow-up of 69 open audit recommendations, noting that 57 were implemented, 11 were in-progress, and 1 in which management accepted the risk. Our implemented recommendations improved the efficiency and effectiveness of various operations within the Chancellor’s Office and the seven campuses of OUS as outlined under Audit Engagement Accomplishments, #1.</p> |
| <p>4. Identify and effectively respond to risks associated with waste, fraud, and abuse.</p> | <p>Developed the OUS Code of Ethics, taking into account best practices at universities around the country and input from key constituency groups within OUS.</p> <p>Expanded the OUS hotline services beyond financial matters. Discussed the expanded hotline categories with various OUS stakeholders.</p> <p>Responded to 48 complaints, which includes data breach notifications: 20 via the hotline and 28 through management notification. Resolution of the complaints are as follows:</p> <ul style="list-style-type: none"> • 9 open • 39 closed |
| STAFFING GOALS | ACCOMPLISHMENTS |
| <p>Employ highly-effective personnel that possess the skill sets necessary to ensure successful identification and implementation of value-added recommendations.</p> | <p>Developed staff training plans. All staff received training and development as required by auditing and certification standards. Training topics included fraud, higher education compliance, and related auditing topics. Staff meetings and two staff retreats were also held to review goals and provide specialized training sessions on software and communication skills.</p> <p>Two staff earned a Certified Internal Auditor (CIA) designation issued by the International Institute of Internal Auditors. Two staff earned a Certified Public Accountant designation issued by the Oregon Board of Accountancy.</p> <p>Recruited and hired two highly-qualified associate directors and two staff auditors. One associate director holds a Certified Information System Auditor (CISA) designation and the other holds a Certified Public Accountant (CPA) designation. One staff auditor has passed all parts of the uniform CPA exam and the other staff auditor passed all parts of the CISA exam. OUS experience will meet the requirements for licensure.</p> <p>Actively participated in professional organizations to remain current on industry and technical trends as well as to foster networking opportunities, which have proven beneficial in audit and consulting engagements. Staff members’ participation included Systems of Higher Education Chief Auditor and State of</p> |

| | |
|---|--|
| | <p>Oregon Chief Audit Executive forums, Association of College and University Auditors Board of Directors and presenter, International Institute of Internal Auditors (IIA) presenter, Salem IIA Chapter 2012-2013 Vice President and Treasurer positions.</p> |
| QUALITY ASSURANCE GOALS | ACCOMPLISHMENTS |
| <p>Employ internal operational practices that comply with auditing standards and promote efficient use of limited resources.</p> | <p>Addressed the 2011 peer review recommendations by obtaining an independent analysis of IAD staffing levels, hiring an Associate IT Audit Director and performing an NCAA athletic compliance review.</p> <p>Ongoing evaluation and refinement of TeamMate, our electronic workpaper software, to foster greater efficiencies.</p> |
| OUTREACH GOALS | ACCOMPLISHMENTS |
| <p>Provide valuable resources through system-wide communication and education to assist the campuses in meeting their objectives.</p> | <p>Visited all 7 campuses and completed 18 orientation meetings with new executive-level positions.</p> <p>Regularly attended board, executive councils, directors of business affairs, human resource, and other system-wide meetings to keep informed of changes and to provide consultation on current issues and initiatives.</p> <p>Provided fraud training and internal control guides and presentations to business manager groups, and joined OSU in presenting a fraud risk seminar to promote knowledge of risks and prevention.</p> |

VII. 2013 Calendar Year Audit Plan

As outlined in the Oregon University System Internal Audit Division Charter, IAD is an independent, objective, assurance, and consulting activity designed to add value and improve the organization's operations. In order to meet this responsibility, IAD annually develops an audit plan to provide comprehensive audit coverage and deploy audit resources in an effective and efficient manner.

IAD performed a macro-level risk assessment using industry trends, past audit experience, and management input in order to determine the audit plan for the upcoming year.

IAD has evaluated the risks across the nine major functions which consist of governance and leadership; instruction and academic support; research and development; student services; human resources management; fiscal and asset management; facilities management; auxiliary operations; and information technology. The nine functions represent 397 separate auditable units. Given the complexity and size of the Oregon University System, IAD coverage seeks to apply available resources to highest risks identified during the planning process. The following planned audits will be scheduled for 2013. The selected processes represent 19 of the 397 auditable units.

- Research compliance - program design (OSU, PSU, UO)
- NCAA compliance - program design (OSU, PSU, UO)
- NCAA ticket counts (OSU, UO)
- Departmental fiscal audits (OSU, PSU, UO)
- Athletics (EOU, OIT, SOU, WOU)
- Student Health Centers (UO, SOU)
- Advancement Offices (SOU, OIT, WOU, EOU)

In addition to completing the planned audits, IAD will perform a number of other activities in 2013. These activities are designed to add value and improve organizational effectiveness. These activities include:

- IT risk assessment
- Complaint investigations and management request audits
- Audit follow-up review for previously issued audit reports
- External audit liaison:
 - CliftonLarsonAllen, LLP – OUS financial statement and federal A-133 compliance audits
 - NCAA Agreed-Upon Procedures
 - Secretary of State Audits Division Performance Audits
- Internal control advising and training
- Executive management orientations
- Professional association leadership and presentations

Additional high risks were identified during our annual planning process based upon recent industry trends, organizational changes, or campus resource limitations. IAD will make changes to the plan as issues arise that are deemed of greater priority during the

year. Updates on plan progress will be provided to the Committee through quarterly progress reports.

STAFF RECOMMENDATION TO THE BOARD

Staff recommends that the Finance and Administration Committee of the Board approve the Internal Audit 2012 Final Progress Report and 2013 Annual Audit Plan.

(Committee Action Required.)

OUS, Outcome-based Budget Development Process and Timeline

BACKGROUND

The Governor's Balanced Budget indicates that in 2013-2015 budget allocation is to be centralized in the new Department of Postsecondary Education (DPSE) and is to be partially accomplished using an outcome-based methodology. Similarly, the Governor's Education Funding team recommended that OUS allocate 30 percent of its university support fund budget using an outcome-based methodology in 2013-2015. The specific language that was included in the Governor's Balanced Budget document regarding the role and function of the DPSE and allocation of university support fund is as follows:

"Post-Secondary Education Department Operations:

The new Department of Post-Secondary Education (DPSE) will consolidate the state's activities in supporting, coordinating, and funding post-secondary education. The new department will combine the Higher Education Coordinating Commission, the Department of Community Colleges and Workforce Development, and the Oregon Student Access Commission. In addition, state funding distributed in support of the Oregon University System and the Oregon Health and Science University will be appropriated to DPSE. Legislation introduced to align and streamline education governance and funding will create the department and make associated changes to existing boards and commissions. The Department will request any necessary adjustments resulting from a reorganization of these programs during the 2014 legislative session.

The Department includes the Higher Education Coordinating Commission (HECC), or its successor, and Governor's budget includes \$1.7 million General Fund and six positions for overall agency management and direction.

DPSE is directed to develop new funding formulas for distribution of support to the state's public community colleges and four-year institutions that are tied to student progress and success rather than enrollment. The new formulas are to include distribution of Oregon Opportunity Grants and account for institutional student aid, with a goal of providing affordable access to students receiving the new Oregon Diploma.

Public University Support Fund:

The Public University Support Fund within DPSE is the state's General Fund contribution to operation of the educational programs of the Oregon University System, its seven campuses, and one branch campus. Combined with student tuition and other revenues, the funds provide basic support to the educational institutions, governing board, central administration, and support services.

The Governor's budget includes \$483.9 million General Fund for operation of instructional and support services to students and faculty, support for research and

campus public service programs, and administrative support services. The Public University Support Fund includes state funding for OUS that has historically been distributed by the State Board of Higher Education to the campuses through the Resource Allocation Model on an enrollment basis, as well as targeted programs that fund student and institutional support. These include regional support, faculty research support, funding for the Chancellor’s Office, and other programs. Funding for centers, institutes, and programs addressing statewide economic development, natural resource, and other needs are included in the Department of Post-Secondary Education’s OUS Statewide Programs unit.

Funding for the Chancellor’s Office was reduced as a result of the shift of responsibility for coordination of post-secondary education to the Department of Post-Secondary Education and the Higher Education Coordinating Commission or its successor.

OUS institutions will focus on making progress on outcomes and measures of progress included in achievement compacts with the Oregon Education Investment Board. Measures included in the compacts document student success in completing bachelor’s and advanced degrees, the extent to which newly admitted freshmen enter with college credits, the success of community college transfers in obtaining four-year degrees, and success of OUS graduates in the workforce. Each of the measures will be disaggregated to show progress among underrepresented populations.”¹

Similarly, the Education Funding team’s recommendations on this topic are as follows:

“Post-secondary Formula Redesign recommendations

Over several biennia, and subject to continuing monitoring and review, the EFT recommends that the state transition away from enrollment-based funding and towards outcomes-based funding for community colleges and universities. To start, the EFT recommends that in the 13-15 biennium 30 percent of formula funding for community colleges and universities be allocated on the basis of the institutions’ success at achieving outcomes such as the following:

- Number of certificates
- Number of associate degrees
- Number of baccalaureate degrees
- Number of advanced degrees
- Transfers to 4-year institutions after accumulating at least a certain number of credit hours
- Momentum points such as:
 - Successful completion of first college-level math course
 - Successful completion of first college-level English course
 - Successful completion of 15 degree credits

¹ Source: 2013-2015 Governor’s Balanced Budget for the State of Oregon, pages B-21 – B-23.

- Successful completion of 30 degree credits
- Etc.

Extra weighting should be provided for underserved students who achieve these outcomes.

Formula design should reflect the distinct missions of community colleges and universities.

These changes should be accompanied by “stop-loss” provisions to ensure that institutions do not experience dramatic changes in funding upon implementation of the new formulas.

Finally, the EFT also recommends that priority be given to expanding need-based aid over “buying down” tuition increases, and that attention be paid to how the Oregon Opportunity Grant might be redesigned to more effectively target resources than today’s “first-come, first-served” approach. The high cost of post-secondary education remains a major barrier to achieving the 40-40-20 goal.”²

The specific components of the University Support Fund referenced above include the following funding elements. In reviewing this list you will note that some of these elements were allocated in the past via the enrollment driven aspects of the RAM Model, whereas other elements were considered targeted programs that were allocated to campuses using other criteria. Given the allocation criteria cited above in the Governor’s Budget document or in the Education Funding Team’s feedback, it may be necessary to either exclude some of the elements in this list, or add additional criteria to more appropriately handle allocations for graduate education, research, public service, economic development, or support activities:

| OUS: | 2013-2015 General Fund |
|--|-----------------------------------|
| Enrollment funding | \$379,903,638 |
| Regional support and regional university funding | 41,959,763 |
| Engineering programs – graduate and undergraduate | 8,629,134 |
| OSU 5 th site, PSU OCATE, EOU SWOUC, OWEN | 6,523,392 |
| EOU Rural Access | 496,234 |
| Health Professions | 6,330,992 |
| Research Funding – sponsored research/faculty salaries | 11,356,385 |
| PSU New Leadership Institute | 128,369 |
| OSU Veterinary Diagnostic Lab and phase-in funding | 2,404,073 |
| Campus public service programs | 3,810,905 |
| Chancellor's Office, Systemwide programs and expenses | 18,857,255 |
| OSU SWPS building maintenance | <u>3,499,647</u> |
| Subtotal University Support | \$483,899,785 |

² Source: Education Funding Team: Summary Recommendations to the Governor, October 4, 2012, Pages 10-11

Through discussions with Community College and Workforce Development (CCWD) leaders we have learned that they have hired the National Center for Higher Education Management Systems (NCHEMS) to assist them in developing an outcome-based budget allocation methodology. CCWD's plan is to allocate 30 percent of their college support fund funding using this new criteria in 2013-2015, moving to 40 percent in 2015-2017, and 50 percent in 2017-2019. The remainder of the funding each biennium would continue to be allocated as it is today, which uses enrollment as the primary driver. As both community college and university budget allocations are to be made by the Department of Postsecondary Education (DPSE) in the future, we are recommending that OUS also contract with NCHEMS to have them assist in the development of an outcome-based budget allocation methodology using similar precepts to that of the community colleges. Attachment 1 includes the design and implementation principles from NCHEMS' engagement with CCWD. This information is included only to give committee members a better understanding of the principles and process NCHEMS is using for CCWD.

In anticipation of this item, staff have contacted NCHEMS about helping OUS develop an outcome-based budget process. NCHEMS is happy to assist, has quoted \$60,000 for the engagement and outlined the following process and timelines to accomplish this work prior to June 30, 2013:

Process and timeline as suggested by NCHEMS:

1. An initial visit with the Committee to present information about what's going on nationally, review the OUS strategic plan to identify areas that should be reflected in the allocation model, and talk about the process for getting to end-game by June.
2. Develop a framework for a model and discuss with the Committee.
3. Put together specifications for acquiring the data needed to drive a proposed model.
4. Build an interactive model that lets the various factor weights be modified to see what happens to the resulting allocations and populates this model with the data agreed upon.
5. Conduct an additional two meetings with the Committee to work through the model and make agreed upon adjustments.
6. Document the model as finally agreed upon.

NCHEMS suggested time frame:

- First meeting—no later than 2/8
- Framework for the model and second meeting—by 3/8
- Data specifications—by 3/22
- Initial version of interactive model—by 4/19
- Additional committee meetings with revisions to model—by 5/15 and 6/15.
- Documentation of model/project completion—by 6/30.

STAFF RECOMMENDATION TO THE COMMITTEE

Staff recommend that the Finance and Administration Committee authorize the following actions:

1. Authorize the Chancellor, or designee, to establish an outcome-based budget working group with institutional representatives to include finance vice presidents, provosts, student affairs vice presidents, and student leaders. In order to keep the group a manageable size, we recommend that there be only one representative per campus, with student representatives being excluded from this limit.
2. Direct that the work of this working group be coordinated with the Finance and Administration and Academic Strategies Committees of the Board. This could be done through monthly updates and reports at committee meetings.
3. In order to have some consistent precepts in the development of an outcome-based budget process, direct staff to contract with Dennis Jones, NCHEMS, as he is assisting the CCWD with a similar project. Pending the completion of the seven day notice requirement, this procurement will be done using sole-source authority found in OAR 580-062-0020 (8) below:

Sole Source. A process where the Institutional President, the Chancellor or designee has made a Written determination that due to special needs or qualifications, only a Single Seller is reasonably available to provide such personal or professional services or goods or services. Sole source procurement will be avoided except when no reasonably available alternative source exists. (The written determination is included for reference in Attachment 2).

- (a) Each Institution will provide public notice of its determination that the person or professional services or goods or services are only available from a Single Seller. Public notice may be provided on the OUS procurement website. The public notice will describe the personal or professional services or goods or services to be acquired from the Single Seller, identify the prospective Contractor, and include the date, time and place that protests are due. The Institution shall give Entities at least seven (7) Days from the date of notice publication to protest the sole source determination.
- (b) An Entity may protest the Institution's determination that the personal or professional services or goods or services are available from a Single Seller in accordance with OAR 580-061-0145.
- (c) On an annual basis, Institution Presidents, or their designees will submit a report to the Finance and Administration Committee of the Board summarizing approved sole source procurements for the Institution for the prior fiscal year. The report will be made available for public inspection.

(Committee action required.)



Design Principles

1. Get agreement on goals before putting outcome funding in place
 - Goals need to be the driving force for outcome funding – not a rhetorical afterthought
2. Don't construct outcome metrics too narrowly
 - Important that all institutions have an opportunity (not a guarantee) to benefit by excelling at their different missions
3. Design the funding model to promote mission differentiation – use it to sharpen distinctions, not blur them
 - States are not differentiating within their community colleges (it is one-size-fits-all)



Design Principles

4. Include provisions that reward success in serving underserved populations. Among the possibilities
 - Low income
 - Minority
 - Adult
 - Academically at risk
 - Geographically hard to serve
5. Limit the numbers of outcomes to be rewarded
 - No more than 4 or 5
 - Too many and both institutional focus and the communication value are lost
6. Use metrics that are unambiguous and difficult to name
 - For example:
 - Numbers of graduates
 - Not
 - Graduation rates





Implementation Principles

1. Make the outcome funding pool large enough to command attention
2. Reward continuous improvement, not attainment of a fixed goal
 - For each institution, establish most recent year as baseline
 - Allocate performance funds on the basis of year-over-year improvements
3. Include a phase-in provision
4. Employ stop-loss, not hold-harmless provisions
5. Continue outcome funding in both good times and bad
6. Put in place a rigorous (outcomes-based) approach to assessing quality and monitor results on an ongoing basis
7. Involve institutional representatives at each stage of the process



A Starting Point for Discussion

1. Increase in number of Associate Degrees
2. Increase in number of Certificates (what certificates count?)
3. Increase in transfers to 4-year institutions after accumulating at least (24?) SCH
4. Include momentum points for
 - Successful completion of first college-level math course
 - Successful completion of first college-level English course
 - Successful completion of 15 degree credits
 - Successful completion of 30 degree credits
5. Extra weight for success of underrepresented students





Oregon
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January 10, 2013

MEMORANDUM

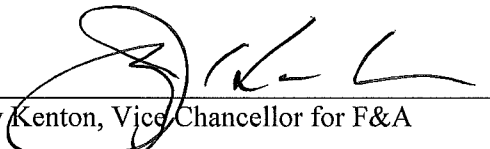
Prepared By: Hillary Bounds
Director of Contracting and Purchasing

Subject: Sole Source Exemption Request for Outcome Based Budgeting Services

The Oregon Education Investment Board (OEIB) proposed the establishment of the Department of Postsecondary Education (DPE) to be effective July 2013. The proposal would vest DPE with the authority to make budget allocations to both the Community College and Workforce Development Department (CCWD) and the Oregon University System (OUS) using an outcome based budgeting process for the 2013-15 biennium. This reform effort will require the development of a new outcome based budgeting process that would contain similar precepts and elements for both CCWD and OUS. The use of similar precepts is necessary to facilitate this reform in accord with the timeline established by the OEIB and enable DPE to accomplish the stated objectives.

The National Center for Higher Education Management Systems (NCHEMS) has unique qualifications and capabilities essential to support the development of an outcome based budgeting process by June 30, 2013. NCHEMS has been advising the OEIB, the Governor's Office, and members of the Oregon Legislature on the 40-40-20 goals adopted by the Oregon Legislature and on the proposed governance reforms for postsecondary education in Oregon. NCHEMS is also working with CCWD on a parallel outcome based budgeting project. The nature of their previous and ongoing work in this area, coupled with NCHEMS leadership and expertise in higher education finance and policy issues make NCHEMS uniquely qualified to do this work.

For these reasons, OUS has determined that a sole source exemption to contract with NCHEMS to assist OUS in the development of an outcome based budget process is necessary. Time is of the essence as this process will require significant deliberation and discussion with campus and student stakeholders and must be completed no later than June 30, 2013 when the Department of Postsecondary Education is proposed to be created.

 1-10-13
Jay Kenton, Vice Chancellor for F&A Date

OUS, Update on the 2013-2015 Governor's Balanced Budget

BACKGROUND

On November 30, 2012, Governor Kitzhaber released his recommended balanced budget for the 2013-2015 biennium. The Governor's Balanced Budget (GBB) further advances changes to the state's budgeting process and structure that began with the Governor's 10-Year Plan for Oregon. The proposed Department of Post-Secondary Education (DPSE) would distribute budgets for the Oregon University System (OUS), community colleges, Oregon Health & Science University (OHSU), and the Oregon Student Access Commission (OSAC) which includes Oregon Opportunity Grants. This department would also include the Higher Education Coordinating Commission (or its successor) including the Office of Degree Authorization and Private Career Schools.

Continuing the outcome focus of the 10-Year Plan, the OUS budget is presented in two sections of the GBB. Most of the OUS budget is located in the Education Outcome Area but the Agriculture Experiment Station (AES) and the Forest Research Laboratory (FRL) are included in the Jobs and Innovation Outcome Area. However, all budget distribution would be coordinated through the DPSE, regardless of outcome area assignment.

SIGNIFICANT CHANGES

- The proposed Department of Post-Secondary Education, in consultation with relevant boards/commissions, is directed to develop funding formulas for distribution of state support to the community colleges, OUS institutions, and OHSU that are outcome-based, including measures of progress and completion to replace those based solely on enrollment. OUS and CCWD staff have initiated discussions to both coordinate proposed models and utilization of the same consultant.
- The OUS *Education and General (E&G)* program is separated into two new programs:

The Public University Support Fund within DPSE is the state's General Fund contribution to operation of the educational programs of the Oregon University System, its seven campuses, and one branch campus. Combined with student tuition and other revenues, the funds provide basic support to the educational institutions, governing board, central administration, and support services. The Governor's budget includes funding for the operation of instructional and support services to students and faculty, support for research and campus public service programs, and administrative support services. The Public University Support Fund includes state funding for OUS that has historically been distributed by the State Board of Higher Education to the campuses through the Resource Allocation Model on an enrollment basis, as well as targeted programs that fund student and institutional support. These include regional support, faculty research support, funding for the Chancellor's Office, and other programs. This fund would be subject to any new outcomes-based funding formula. Funding for Chancellor's Office was reduced by approximately \$1.8 million in recognition of statewide planning and coordination responsibilities that will reside with other entities in the new structure.

OUS Statewide Programs include centers, institutes and other programs that address economic development, natural resource, and other statewide issues rather than support for OUS students and institutions. Specific programs itemized in this funding group include:

- Engineering and Technology Council (ETIC)
 - Dispute Resolution programs (UO and PSU)
 - Clinical Legal Education
 - Institute of Natural Resources (OSU and PSU)
 - Signature Research (OSU, UO, PSU)
 - Oregon Metals Initiative (OMI)
 - Industry Partnerships
- Complete elimination of the Sports Lottery funding is proposed in the GBB. Because this funding was legislatively established, this would require a statutory change. The Sports Lottery funding is distributed 88% for athletics and 12% for graduate scholarships. Of the portion for athletics, some institutions use a significant amount for athletic scholarships, thereby providing access and promoting degree attainment. The connection between the athletic funding and attaining the state's 40-40-20 goals is not commonly understood. This elimination would be particularly challenging for the campuses that more heavily rely on this funding. The Governor's Office subsequently indicated the proposed elimination of dedicated funding should not be interpreted as an intent or preference to end athletic opportunities but, given economic circumstances, reflect the position that athletic funding should compete alongside the academic and research missions.
 - None of the OUS new initiatives (policy option packages) were approved for inclusion in the OUS budget, but a few may progress through other entities.
 - A cross-sector proposal with Community Colleges and Workforce Development (CCWD) and the Oregon Department of Education (ODE/K12) regarding a longitudinal data base and educational research unit was submitted in the OUS budget request. The recommended budget for the Oregon Education Investment Board (OEIB) includes funding to establish a research unit to provide research and analysis of educational issues to assist policy makers make better decisions using the most recent and reliable data as well as \$10 million of debt financing for the development of the longitudinal database. The Department of Education's budget also includes funds to prepare a business case analysis for developing a statewide longitudinal database for early childhood through post-secondary education.
 - There may be an opportunity to apply for up to \$5 million through another agency in the Jobs and Innovation Outcome area that could be used to advance progress on the Research Collaboratory proposal.

- The GBB notes that the estimated savings of nearly \$52 million from proposed PERS benefit changes will offset anticipated increases in health benefits costs. This is in reference to the Board's November 5, 2012 request to the Governor for a \$20 million appropriation to defray expected PEBB increases in light of the OUS subsidization of the PEBB program in relation to other agencies.
- A placeholder amount of \$244 million was included for funding capital projects for both OUS and community college projects. The Governor requested that the colleges and universities reprioritize project requests based on expected contribution to the state's 40-40-20 goal. The OEIB is to review and make specific project recommendations prior to 2013 legislative session.

The following tables summarize the financial impacts of the GBB.

Table 1: Comparison of 2013-2015 Governor's Balanced Budget to the 2011-2013 Legislatively Approved Budget

| TABLE 1 | | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------------|-------------------|
| 2013-15 Governor's Balanced Budget Compared to 2011-13 & Prior Biennia | | | | | | | |
| Fund/Program | 2005-07 | 2007-09 | 2009-11 | 2011-13 | 2013-15 | | |
| | Final LAB | Final LAB | Final LAB | LAB | GBB | Comp to 11-13 LAB | Comp to 05-07 LAB |
| State General Fund | | | | | | | |
| E&G - GF only | 565,051,859 | 615,639,614 | 562,502,731 | 486,520,696 | | | |
| Public Univ Support Fund | | | | | 483,899,785 | | |
| OUS Statewide Prgms | | | | | 37,054,205 | | |
| E&G - Federal Stimulus | - | 55,636,352 | 70,823,654 | - | - | | |
| E&G Subtotal | 565,051,859 | 671,275,966 | 633,326,385 | 486,520,696 | 520,953,990 | 7.1% | -7.8% |
| AES | 51,860,395 | 58,937,209 | 53,498,403 | 51,793,494 | 51,793,494 | 0.0% | -0.1% |
| ES | 37,194,367 | 42,642,380 | 39,087,553 | 37,463,402 | 37,463,402 | 0.0% | 0.7% |
| FRL | 5,258,370 | 6,590,714 | 5,829,217 | 5,698,684 | 5,698,684 | 0.0% | 8.4% |
| SWPS Subtotal | 94,313,132 | 108,170,303 | 98,415,173 | 94,955,580 | 94,955,580 | 0.0% | 0.7% |
| Subtotal Operations | 659,364,991 | 779,446,269 | 731,741,558 | 581,476,276 | 615,909,570 | 5.9% | -6.6% |
| Debt Service | 30,275,204 | 39,384,932 | 68,736,956 | 86,788,277 | 92,706,573 | 6.8% | 206.2% |
| Capital Construction | 14,796,329 | 28,327,500 | - | - | - | | |
| Total General Fund | 704,436,524 | 847,158,701 | 800,478,514 | 668,264,553 | 708,616,143 | 6.0% | 0.6% |
| Lottery Funds | | | | | | | |
| Sports Lottery | 5,744,213 | 11,871,903 | 9,665,082 | 8,592,720 | - | -100.0% | -100.0% |
| Debt Service | 5,673,311 | 13,298,809 | 13,439,349 | 14,394,033 | 28,488,687 | 97.9% | 402.2% |
| Total Lottery | 11,417,524 | 25,170,712 | 23,104,431 | 22,986,753 | 28,488,687 | 23.9% | 149.5% |
| Grand Total | 715,854,048 | 872,329,413 | 823,582,945 | 691,251,306 | 737,104,830 | 6.6% | 3.0% |

Table 2: Alignment of E&G components used in the Resource Allocation Model (RAM) with the new appropriation programs proposed in the GBB

| TABLE 2 | | |
|--|---------------------------------------|-------------------------------|
| OUS - E&G RAM Detail Aligned with GBB | Public University Support Fund | OUS Statewide Programs |
| All Enrollment-based and Incentive Funding | X | |
| Regional Support Funding | X | |
| Regional University Funding | | |
| Statewide Access | X | |
| Regional University Support Adjustment | X | |
| Regional Access | X | |
| Collaborative OUS Nursing Program | X | |
| Industry Affairs / OMI | | X |
| ETIC Allocations | | X |
| Engineering Technology Undergraduate | X | |
| Engineering Graduate | X | |
| Sponsored Research | X | |
| Faculty Salaries - Research | X | |
| Signature Research/OCKED/Oregon Inc | | X |
| | | |
| Campus Public Service Programs | X | |
| EOU - Small Business Development Center | X | |
| EOU - National Writing Project | X | |
| EOU - Community School of Arts | X | |
| EOU - High School Outreach Program | X | |
| PSU - CAE Community University | X | |
| PSU - Pacific Historical Review | X | |
| PSU - MESA Program | X | |
| PSU - Institute for Tribal Government | X | |
| PSU - Institute of Portland Metro Studies | X | |
| PSU - Population Research Center | X | |
| SOU - Jefferson Public Radio | X | |
| SOU - Rogue Valley TV | X | |
| SOU - Small Business Development Center | X | |
| UO - Bach Festival | X | |
| UO - Labor Education Research Center | X | |
| UO - Museum of Art | X | |
| UO - KWAX | X | |
| UO - Museum of Natural & Cult history | X | |
| WOU - Resource Center For Deafness | X | |

Table 2 (continued)

| TABLE 2 | | |
|---|---------------------------------------|-------------------------------|
| OUS - E&G RAM Detail Aligned with GBB | Public University Support Fund | OUS Statewide Programs |
| Dispute Resolution | | |
| Appropriate Dispute Resolution Center (UO) | | X |
| Oregon Consensus (PSU) | | X |
| Institute for Natural Resources | | |
| OSU INR | | X |
| PSU INR (previously Oregon Natural Heritage) | X | |
| Oregon Solutions (PSU) | | X |
| Oregon Climate Change Research Institute Center (OSU) | | X |
| NEW Leadership Oregon (PSU) | X | |
| Health Professions Programs | X | |
| Rural Access (EOU) | X | |
| Clinical Legal Education (currently UO & L&C) | | X |
| OSU Veterinary Diagnostic Lab | X | |
| SWPS Bldg. Maintenance (OSU) | X | |
| IT Fifth Site (OSU) | X | |
| OCATE (PSU) | X | |
| SW Oregon UC (EOU) | X | |
| OWEN (UO) | X | |
| Chancellor's Office Operations | X | |
| | | |
| Systemwide Expenses | X | |
| Statewide Assessments | X | |
| Endowment Match | X | |
| Legal Services | X | |
| Faculty Diversity | X | |
| Services to Students with Disabilities | X | |
| ORBIS | X | |
| WICHE Dues | X | |

Table 3: Components of the Department of Post-Secondary Education (DPSE) in the Governor's Balanced Budget

| TABLE 3 | | | | |
|--------------------------------------|----------------------|----------------------|----------------------|---------------|
| 2013-15 GBB - DPSE Components | General Fund | Lottery Funds | Total | |
| OUS | | | | |
| Public University Support Fund | 483,899,785 | | 483,899,785 | |
| OUS Statewide Programs | 37,054,205 | | 37,054,205 | |
| Extension Service | 37,463,402 | | 37,463,402 | |
| Agricultural Experiment Station | 51,793,494 | | 51,793,494 | |
| Forest Research Laboratory | 5,698,684 | | 5,698,684 | |
| Debt Service | <u>92,706,573</u> | <u>28,488,687</u> | <u>121,195,260</u> | |
| Subtotal | 708,616,143 | 28,488,687 | 737,104,830 | 52.7% |
| CCWD | | | | |
| State Support for Community Colleges | 429,042,737 | | 429,042,737 | |
| Operations | 16,172,202 | | 16,172,202 | |
| Subtotal | <u>16,941,791</u> | <u>9,779,594</u> | <u>26,721,385</u> | |
| | 462,156,730 | 9,779,594 | 471,936,324 | 33.8% |
| OSAC | | | | |
| Operations | 1,836,405 | | 1,836,405 | |
| Grants and Scholarships | 939,227 | | 939,227 | |
| ASPIRE | 2,079,538 | | | |
| Opportunity Grants | <u>118,902,321</u> | <u>320,178</u> | <u>119,222,499</u> | |
| Subtotal | 123,757,491 | 320,178 | 121,998,131 | 8.7% |
| OHSU | | | | |
| OHSU Support Fund | 55,418,977 | | 55,418,977 | |
| CDRC and Poison Center | <u>10,177,201</u> | <u>-</u> | <u>10,177,201</u> | |
| Subtotal | 65,596,178 | - | 65,596,178 | 4.7% |
| Department Operations/HECC | 1,656,667 | | 1,656,667 | 0.1% |
| DPSE Total | 1,361,783,209 | 38,588,459 | 1,398,292,130 | 100.0% |

Attachment A provides excerpts from the GBB – the Education Area and Jobs and Innovation Outcome Area – that contain information on the Agricultural Experiment Station and the Forest Research Laboratory.

FUTURE CONSIDERATIONS

- Beginning February 4th, the 2013 Legislative Session will determine the actual resources appropriated for OUS, as well as consideration of the Governor’s requested structural changes.
- The Governor’s budget was predicated on two changes to the PERS system:
 - Limiting the annual cost-of-living increases for retirees
 - Eliminating some tax benefits for out-of-state PERS recipientsShould those changes not materialize, the entire state budget could be impacted.

Education

EDUCATION OUTCOME AREA

10-YEAR GOAL:

Every Oregonian has the knowledge, skills and credentials to succeed in life.

| | 2011-13 Leg Approved Budget | 2013-15 Governor's Budget* |
|----------------------------|--------------------------------|-------------------------------|
| General Fund | \$6,749,098,947 | \$7,617,818,240 |
| Lottery Funds | \$640,922,239 | \$395,593,608 |
| Other Funds | \$2,581,859,007 | \$273,026,724 |
| Federal Funds | \$1,070,159,432 | \$1,022,476,050 |
| Other Funds (Nonlimited) | \$2,326,021,909 | \$104,657,340 |
| Federal Funds (Nonlimited) | \$290,302,330 | 350,664,522 |
| Total Funds | \$13,658,363,864 | \$9,764,236,484 |
| Positions | 18,365 | 711 |
| Full-time Equivalent | 12,904.96 | 670.53 |

*Decrease in Other Funds, Other Funds Nonlimited, positions, and full-time equivalent due to transition of the Oregon University System from a state agency to a public university system.

2013-15 Budget Overview

This year's kindergarteners are the Class of 2025 – the year for which Oregon has set the ambitious “40-40-20” goal. The goal is defined as 40 percent of adult Oregonians have earned a bachelor’s degree or higher, that 40 percent have earned an associate’s degree or post-secondary credential, and that the remaining 20 percent or less have earned a high school diploma or its equivalent. To achieve this, the Governor’s budget combines cost-savings in PERS compensation with a significant increase in funding to reinvest in all levels of education, from early learning to K-12 to post-secondary education and training.

Key elements of the 2013-15 Governor’s budget for Education include:

- \$8,013.4 million General Fund and Lottery Funds for education – reversing the trend of cuts and layoffs and better integrating Early Learning, K-12 and post-secondary education and career training.
- \$6,151.4 million General Fund and Lottery Funds plus \$253 million in PERS savings for K-12, enough to hire 500 new teachers statewide and begin to restore previous cuts and reinvest in better outcomes for students.
- \$35.1 million in strategic investments in reading by third grade, educator diversity and effectiveness, guidance and support for post-secondary aspirations, science, technology, math, engineering and arts programs.
- Completing the realignment of childcare, health care and pre-school services to ensure all children are ready for kindergarten.

Education

- Expanding access to post-secondary education and training for all Oregonians by increasing funding for Opportunity Grants to \$113.4 million, providing more options for high school students to accrue college credit early and supporting tuition equity to ensure every qualified Oregon high school graduate, regardless of immigration status, has access to affordable higher education.
- Aligning and streamlining education governance and funding by combining agencies, consolidating boards, and following through on higher education restructuring for long term financial stability.

Outcome Area Overview

Programs in this outcome area operate or support all public educational activities from pre-kindergarten to post-secondary and life-long learning. These include agencies whose mission is primarily related to education outcomes, specifically the Oregon Education Investment Board, the Department of Education, a proposed Department of Post-Secondary Education, and the Teacher Standards and Practices Commission. They also include education related programs in other agencies, such as the Military Department's Youth Challenge and STARBASE programs, the Arts Commission in the Oregon Business Development Department, and others.

Legislation will be proposed to address changes to boards and commissions that guide the education outcome area to further the 40-40-20 Goal described above and support changes to agency structures and functions proposed in the Governor's budget.

The Oregon Education Investment Board was established by Senate Bill 909 (2011) to oversee a unified public education system that begins with early childhood services and continues throughout public education from kindergarten to post-secondary. The Chief Education Officer serves as the Board's executive officer in the creation, implementation, and management of an integrated and aligned public education system.

The Department of Education supports pre-kindergarten through 12th grade (PK-12) education. The agency includes support for school districts in the areas of school improvement, assessment, special education, professional/technical education, legal requirements, nutrition and transportation. State school funding for the public elementary and secondary school districts and education service districts is distributed by the Department of Education. The agency's budget also includes funds for the Oregon State School for the Deaf, education services at youth corrections facilities and youth detention centers, special education, child nutrition, educational programs for children of low-income families.

The Governor's budget transfers the following two policy organizations to the Department of Education.

The Early Learning Council was created to assist the OEIB in the creation of a unified system of early childhood services directed to children from birth to age six. The ELC has absorbed the responsibilities and many of the programs from the Commission on Children and Families, the Commission on Child Care and Oregon's official State Advisory Council on the Education and Care for Children mandated by the federal Head Start Act. The Governor's budget shifts the Child Care Division from the Employment Department and the Early Learning program currently in the Governor's Office, to a newly created Early Learning Division in the Oregon Department of Education.

Education

The Youth Development Council was established to create a coordinated system for services to school age children and youth up to age 20 that will support academic success and reduce criminal involvement. The Council oversees a continuum of programs and services for youth while taking on the responsibilities of Juvenile Justice Advisory Committee, the Juvenile Crime Prevention Advisory Committee and state efforts to prevent and intervene with gang violence across Oregon. The Governor's budget transfers the Council from the Governor's Office to a newly created Youth Development Division in the Oregon Department of Education.

The Governor's budget proposes creation of a Department of Post-Secondary Education to centralize coordination of the state's role in establishing policy for, and contributing to the funding of, the 17 community colleges, seven public four-year universities, and the Oregon Health and Science University. The new department will include the following entities:

The Higher Education Coordinating Commission or its successor, under direction and control of the OEIB, is responsible for developing goals and a strategic plan for the state's post-secondary education system, implementing accountability measures for achieving those goals, developing a finance model for a consolidated post-secondary education budget, and promoting policies addressing access to post-secondary education, student success and completion, and improved coordination of educational services. The Office of Degree Authorization and the Private Career Schools program are located in HECC.

Duties, staff, and funding for the Department of Community Colleges and Workforce Development is transferred to DPSE. Responsibilities include coordination of the efforts of the 17 community colleges and the state's workforce development activities. State support for general community college operations and for community college capital construction projects is distributed by this program. Administration of federal Workforce Investment Act programs, supporting local workforce investment boards and service providers, is also located in this program.

Oregon Student Access Commission duties, staff, and funding are also transferred to DPSE. Programs being shifted to DPSE include the Oregon Opportunity Grant, the ASPIRE mentoring program, the Student Child Care program, and administration of over 400 publically and privately funded grants and scholarships.

State funding to support the Oregon University System and the Oregon Health and Science University will be distributed by DPSE; currently the Department of Administrative Services is responsible for transferring state support to the campuses. State funds contribute to the operation of the seven OUS campuses, the Oregon State University Cascades campus in Bend, and the statewide public service at Oregon State University. At OHSU, the state supports operation of the schools of Medicine, Nursing, and Dentistry, the Office of Rural Health and the Area Health Education Centers, the Child Development and Rehabilitation Centers, and the Oregon Poison Center.

Other agencies/programs in the outcome area include the Teacher Standards and Practices Commission which works to ensure that every student in Oregon receives instruction from skilled and ethical educators, the Oregon Military Department Community Support programs (The Youth Challenge

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Program, serving 16 to 18 year old male and female dropouts who have struggled to succeed in a traditional high school environment and the STARBASE program exposing third to eighth graders to the fields of Science, Technology, Engineering and Mathematics (STEM) with the hopes of inspiring them to pursue a career in these fields), and the Arts Division of Oregon Business Development Department (includes the Oregon Arts Commission and the Oregon Cultural Trust), which promotes statewide and regional partnerships to increase arts education offerings and documenting and disseminating arts learning research and best practices to support all types of arts education opportunities.

Balanced Budget and Key Investments

The budget for the Education Outcome Area is \$9.8 billion total funds. General Funds and Lottery Funds total \$8 billion.

Key elements of the 2013-15 Governor's budget are:

- The State School Fund includes \$6,151.4 million General Fund. This amount is \$89.8 million above the 2013-15 Current Service Level, after adjusting for \$253.8 million in savings due to reduced Public Employee Retirement System rates anticipated from proposed changes in PERS benefit calculations.
- Initiatives proposed by the Chief Education Officer totaling \$35.1 million General Fund to advance early literacy (Oregon Reads), provide guidance and support for students' post-secondary aspirations, help students prepare for success in the workplace by focusing on STEM and the Arts (STEAM), and develop a representative corps of professional educators are included in the budgets of the Oregon Education Investment Board, the Department of Education, the Department of Post-Secondary Education, the Oregon State Library, and the Arts Division of the Business Development Department.
- The Chief Education Officer's initiative to develop a representative corps of professional educators includes modification to the State School Fund formula to redirect up to \$120 million from the 4.5 percent currently dedicated to Education Service Districts. The funds will be used to create between four and six regional Student Achievement Centers focused on promoting excellence in teaching and learning for teachers, faculty, childcare and other early education professionals, administrators, and instructional support personnel.
- Funding for the Oregon Education Investment Board includes establishment of a research unit that will provide research and analysis of educational issues to help policy makers make better decisions, based on the most recent and reliable data.
- The Department of Education's budget includes funds to prepare a business case analysis for development of a statewide longitudinal database reaching from early childhood through post-secondary education that encourages accountability for outcomes and provides better information for policy-makers, educators, students and their families to ensure progress along the entire educational path. The Governor's capital budget includes \$10 million in general obligation bond debt capacity to begin development of the database in the second year of the biennium, based on the business case analysis. The Governor's 10-Year Budget reserves additional debt capacity in future biennia to complete development of the database system.

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- Early Learning Program Investments. The Governor's budget invests an additional \$48 million General Fund in Early Learning programs and transfers programs from the Employment Department and the Governor's Office into the Early Learning Division at the Department of Education. The budget maintains and enhances existing investments, and positions Oregon to take the next step in developing an outcome focused system of early learning services leading to kindergarten. Key investments are made in the following programs.
 - Oregon Pre-K, Oregon's companion Head Start investment, provides comprehensive pre-school services to low-income children.
 - Relief Nurseries are proven models for supporting children and families to reduce exposure to adverse childhood experiences, trauma, and toxic stress. Relief Nurseries reduce entrance into foster care and strengthen families for the long term.
 - Employment Related Day Care provides support to families to access childcare, helping parents to stay employed and children to be well cared-for in stable child care arrangements. This budget increases ERDC support from the current 8,500 families to just over 9,000.
 - Early Intervention and Early Childhood Special Education offer services and supports to families with children diagnosed with developmental disabilities or experiencing developmental delays.

House Bill 4165 (2012) mandates that state funded early learning programs be full participants in the development of a coordinated, outcome focused and community-led system of early learning services to prepare children for kindergarten. In order to reward performance, incentivize collaboration and innovation, and move toward the outcome based contracting system described in Senate Bill 909, \$10 million in funds previously used for local commission administrative purposes is established as a flexible investment and performance fund, to be granted by the Early Learning Council to the newly established Community Based coordinators of Early Learning Services in 2014.

The budget also anticipates an investment of federal Race to the Top Early Learning Challenge funds in the Early Learning Council. Additionally, the Early Learning Division includes funding for a pilot demonstration of a Prevention Health and Wellness Project, using social impact financing.

- Youth Development Council's budget includes \$1 million General Fund in prevention and intervention services related to gang violence and gang involvement. To support the Youth Development Council goals, the Governor's budget invests an additional \$0.8 million in the Homeless and Runaway Youth program in the Department of Human Services.
- The Department of Post-Secondary Education is created, combining the Higher Education Coordinating Commission, the Department of Community Colleges and Workforce Development, and the Oregon Student Access Commission. Distribution of state support to the Oregon University System and the Oregon Health and Science University is shifted from the Department of Administrative Services.
- The Department of Post-Secondary Education, in consultation with relevant boards/commissions, is directed to develop funding formulas for distribution of state support to the community colleges, Oregon University System institutions, and the Oregon Health and Science University that are

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outcome-based, including measures of progress and completion to replace those based solely on enrollment. The formulas are to guide distribution of Oregon Opportunity Grants and account for institutional financial aid to students, with the aim of ensuring that all students who receive a new Oregon Diploma (high school) are able to afford to attend college.

- Recommended General Fund support for the Community College Support Fund is \$428.4 million. At an expected enrollment of 250,000 full-time students, this amount represents an 8.1 percent increase over per-student funding in the 2011-13 biennium. In addition, proposed changes to PERS benefit calculations will save community colleges over \$44 million system-wide, significantly lowering the Current Service Level for this fund.
- Funding the Oregon University System is separated into a Public University Support Fund that includes enrollment-based funding and targeted programs focused on student and institutional support and OUS Statewide Programs that include centers, institutes, and other programs with an economic development, natural resource, or other statewide mission.
- Savings to OUS from proposed PERS benefit calculations changes are estimated at nearly \$52 million and accrue entirely to OUS. The anticipated PERS savings are available to help offset increased health benefit costs in the 2013-15 biennium.
- The Public University Support Fund includes \$483.9 million General Fund. Funding for the Chancellor's Office is reduced from the 2011-13 Legislatively Approved Budget, as responsibilities for statewide planning and coordination for post-secondary education are shifted to the Department of Post-Secondary Education and its lead board/commission.
- Funding for OUS Statewide Programs, including Oregon Solutions, the Institute for Natural Resources, the Dispute Resolution Programs, and others is recommended at \$37.1 million General Fund. The Oregon State University Extension Service is budgeted at \$37.5 million General Fund. OSU's Agricultural Experiment Station and Forest Research Laboratory are included in the Jobs and Innovation Outcome Area, as are Oregon InC. investments in research and economic development activities.
- The OHSU Support Fund, which includes the education and rural programs of the Oregon Health and Science University, are budgeted at \$55.4 million General Fund, unchanged from the 2011-13 biennium. Savings from PERS policy changes will accrue entirely to OHSU.
- The Child Development and Rehabilitation Center and Oregon Poison Center at OHSU are funded at \$10.2 million combined. This is equal to the 2013-15 Current Service Level.
- Funding for the Opportunity Grant is increased to \$113.4 million General Fund and Lottery Funds. With average awards of about \$1,800, the Department of Post-Secondary Education is expected to make approximately 63,000 awards during the biennium.
- Funding for the ASPIRE mentoring program is increased to \$2.1 million General Fund to support an expansion to up to 295 schools and other sites by the end of the 2013-15 biennium.

Education

- A comprehensive workforce initiative is funded in the Department of Post-Secondary Education budget at \$10 million General Fund. The funds will increase the number of Oregonians who obtain National Career Readiness Certificates, certify most counties are work-ready, expand training opportunities in key economic sectors, and provide technical assistance to local workforce boards.
- The Governor’s budget includes \$275 million in General Fund and Lottery Fund backed debt-financed projects for 2013-15 for the education outcome area. This amount is equal to the full biennial allocation for the education outcome area in the 10 Year Budget capital plan. The budget includes three specific allocations: \$10 million for development of the OEIB statewide longitudinal database, \$6 million for the Student Achievement Centers proposed in the Chief Education Officer’s Corps of Professional Educators initiative, and an additional \$15 million for seismic remediation of K-12 school facilities. The remaining \$244 million is recommended for community college and OUS capital projects. The Governor, in consultation with the OEIB, is evaluating capital projects proposed by the colleges and universities based on their contribution to the state’s 40-40-20 goal and will make specific project recommendations prior to the 2013 legislative session.
- An additional \$269.4 million is recommended for Oregon University System projects that are financed with campus-paid debt, such as Article XI-F (1) bonds and OUS revenue bonds. Projects include student recreation centers, housing and dining facilities, information systems and communications infrastructure, land and building acquisitions, and other priorities.
- The distribution of Lottery proceeds to the Oregon University System in support of intercollegiate athletics and scholarships is discontinued. The funds are redirected for other programs in the education outcome area.
- Debt service on General Fund and Lottery Funds backed debt for OUS, community college, and Department of Education capital projects is increased by 6.8 percent from the 2011-13 Legislatively Approved Budget, to \$190.4 million.

Education Programs

| Page | Program | GF/LF | OF/FF | Total funds |
|------|--|-------|-------|-------------|
| B-8 | Arts Division | 4.5 | 8.5 | 13.0 |
| B-9 | ASPIRE | 2.1 | 0.2 | 2.3 |
| B-9 | Babies First! and Maternal & Child Health Block Grant | 1.4 | 8.3 | 9.7 |
| B-10 | Child Rehabilitation Center and Oregon Poison Center | 10.2 | - | 10.2 |
| B-11 | Common School Fund | - | 101.8 | 101.8 |
| B-11 | Community College and Workforce Devl Operations and Prog | 16.2 | 16.0 | 32.2 |
| B-11 | Degree Authorization, Office of | - | 0.9 | 0.9 |
| B-12 | Early Learning Division | 306.7 | 183.6 | 490.3 |
| B-14 | Education Debt Service | 42.5 | - | 42.5 |
| B-14 | Education Operations | 32.5 | 87.3 | 119.7 |
| B-15 | Employment Related Day Care | 19.4 | 99.0 | 118.4 |

Education

Education Programs (continued)

| Page | Program | GF/LF | OF/FF | Total funds |
|-------------|--|---------|---------|-------------|
| B-15 | Extension Service | 37.5 | - | 37.5 |
| B-15 | Oregon Health and Science University Support Fund | 55.4 | - | 55.4 |
| B-16 | K-12 Grant-in-Aid | 84.2 | 1,137.4 | 1,221.6 |
| B-18 | Opportunity Grants | 119.2 | 0.2 | 119.4 |
| B-19 | Oregon Education Investment Board | 7.2 | - | 7.2 |
| B-20 | Oregon University System Statewide Programs | 37.1 | - | 37.1 |
| B-21 | Oregon Youth Conservation Corps | - | 3.5 | 3.5 |
| B-21 | Post-Secondary Education Debt Service | 147.9 | 32.4 | 180.3 |
| B-21 | Post-Secondary Education Department Operations | 1.7 | - | 1.7 |
| B-22 | Private Careers Schools | - | 1.2 | 1.2 |
| B-22 | Public University Support Fund | 483.9 | - | 483.9 |
| B-23 | School for the Deaf | 11.1 | 4.2 | 15.3 |
| B-23 | State Library Development | 1.0 | 2.4 | 3.4 |
| B-23 | State School Fund | 6,151.4 | 0.4 | 6,151.8 |
| B-24 | State Support to Community Colleges | 429.0 | 0.0 | 429.1 |
| B-24 | Student Access Grants and Scholarships | 0.9 | 17.3 | 18.2 |
| B-25 | Student Access Operations | 1.8 | 2.6 | 4.4 |
| B-25 | Teacher Standards and Practices Commission | - | 5.0 | 5.0 |
| B-25 | Youth Challenge and STARBASE | 0.2 | 9.8 | 10.0 |
| B-26 | Youth Corrections Education | | 17.8 | 17.8 |
| B-26 | Youth Development Council | 8.4 | 11.2 | 19.6 |

Education Programs

Arts Division:

The Arts division of the Oregon Business Development Department includes the Oregon Arts Commission and the Oregon Cultural Trust. The Arts Commission provides leadership, funding and arts programs to arts organizations, artists and communities. The Oregon Cultural Trust is a statewide initiative that raises significant funds for investment in Oregon's arts, humanities and heritage. In addition to the creation of a long-term protected endowment, Trust funds are distributed annually through competitive grants to cultural organizations; to cultural coalitions in Oregon counties and within federally recognized tribes; and to statewide cultural agencies.

The Governor's budget for this program is \$13.0 million total funds. The General Fund portion of \$4.5 million supports the Arts Commission and provides the necessary state match for federal funds received. Other Funds represent funds received from the statewide One Percent for Arts Program and from private donations and license plate revenue. The 2013-15 budget allows the Arts division to issue over \$3.4

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million in grants to over 400 entities; reach 400,000 youth each year through funding of arts programs offered by nonprofits; provide training and technical assistance to more than 300 arts organizations; and support more than 150 nonprofit arts organizations offering public programs. As part of the Chief Education Officer's Connecting to the World of Work initiative, the budget includes \$0.5 million to expand arts education to underserved students.

ASPIRE:

ASPIRE (Access to Student assistance Programs in Reach of Everyone), transferred from Oregon Student Access Commission to the Department of Post-Secondary Education, provides information about education and training beyond high school to middle and high school students in Oregon. Through mentoring, ASPIRE volunteers provide resources to help students overcome financial, cultural, and academic barriers to post-secondary education by helping them set goals, learn about the college admission processes, and apply for financial aid.

As part of the Chief Education Officer's Guidance and Support for Post-Secondary Aspirations initiative, the Governor's budget increases the ASPIRE budget to \$2.1 million General Fund, \$0.2 million Other Funds, and 12 positions. These funds will allow ASPIRE to continue services at 145 middle schools, high schools, community-based organizations, and community colleges throughout the state. It will also allow expansion to up to an additional 150 sites by the end of the 2013-15 biennium. The 10-Year Plan for Oregon will phase-in funding and positions to fully service all 295 sites during the 2015-17 biennium.

Babies First! & Maternal and Child Health Block Grant:

This program, within the Oregon Health Authority, includes two distinct sub-programs: Babies First! and the Title V Maternal, Child and Adolescent Health Federal Block Grant. Both sub-programs improve early childhood learning. Delivery of these programs will be coordinated with the Early Learning Division.

The first sub-program, Babies First!, is a home visiting program that provides preventative in-home nursing interventions for infants and children under the age of five years and their families. During these home visits, county health department public health nurses provide evidence-based assessments of mother and infant attachment and the home environment; screening and referral for developmental delays, vision and hearing; and case management, advocacy and education for the families. Currently about 7,000 children receive this service each year. Babies First! is a powerful tool to significantly increase the chance high risk children in the program will grow up healthy and ready to learn.

The second sub-program, the Title V Maternal, Child and Adolescent Health Federal Block Grant is a federal program, administered by the Public Health Division of the Oregon Health Authority, that provides funding states' lead health agencies to provide preventive and primary healthcare services for pregnant women, children, adolescents, and children and youth with special health needs. By providing parents the support they need, the program improves their ability to ensure their children's health and mental health needs are met, that they are ready to learn at kindergarten and that they are successful throughout their school years.

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The Governor's budget is \$1.4 million General Fund for Babies First!, and \$8.3 million Federal Funds for Maternal and Child Health Block Grant. The Babies First! program is funded through state and county general funds together with federal Medicaid Targeted Case Management. The Block Grant is a non-competitive, 100 percent federal funds grant, allocated to all U.S. States and Territories on an annual basis using a per capita funding formula.

Research has demonstrated that the larger the number of home visits and the earlier they start, the greater the positive impact is on health and educational outcomes. In the 2011-13 biennium Babies First! anticipates that it will make roughly 60,000 visits serving roughly 11,000 children. In Oregon, 24 percent of new mothers report they were depressed during, or after pregnancy, one in five school children have cavities in seven or more teeth, and approximately 80 percent of 11th graders who ever drank alcohol reported first drinking at age 14 or younger. The Maternal and Child Health Block Grant resources will be used to fund a wide range of activities to improve healthy outcomes for women, children, adolescents and families across Oregon.

Child Rehabilitation Center and Oregon Poison Center:

The Child Development and Rehabilitation Center at the Oregon Health Sciences University provides interdisciplinary clinical health care services for children with health disabilities and complex special health care needs. Its mission is to ensure that children in Oregon with complex special health care needs are identified and receive coordinated health care services through programs of public health, clinical services, education, quality improvement, and research. The program's two main sites are located at the OHSU campus in Portland at Doernbecher Children's Hospital, and at the University of Oregon campus in Eugene; however it holds regularly scheduled clinical outreach programs in Grants Pass, Klamath Falls, Medford, Roseburg, and Bend. During fiscal year 2012, the program provided services for roughly 49,000 patients.

The Governor's budget for this program is \$7.7 million General Fund. The Child Development and Rehabilitation Center has also regularly received additional funding from Federal agencies such as the National Institute of Health, the Administration on Developmental Disabilities, the Maternal Child Health Bureau, the Center for Disease Control, and others. Programs funded by these additional resources include the University Center for Excellence in Developmental Disabilities, the Leadership Education in Neurodevelopmental and other Disabilities Training Program, and the Oregon Office on Disability and Health.

The Oregon Poison Center at OHSU is a 24-hour health care information and treatment resource serving the state. The Poison Center is staffed by doctors and nurses trained in toxicology who handle nearly 45,000 calls per year. While most calls come directly from the public, healthcare providers also use this service to seek expert opinions regarding the urgent care of their patients. Roughly 63 percent of patients receiving assistance from the Oregon Poison Center are children and teens.

The Governor's budget for this program is \$2.5 million General Fund. Approximately 75 percent of the individuals utilizing the Poison Center are able to remain at home, reducing healthcare costs by preventing an otherwise likely expensive emergency care visit.

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Common School Fund:

The act of Congress admitting Oregon to the Union in 1859 granted sections 16 and 36 in every township "for the use of schools." Congress granted roughly six percent of the new state's land (nearly 3.4 million acres) for the support of schools. Due to various circumstances, only about 700,000 acres remain in state ownership today. These lands and their mineral and timber resources, as well as other resources under the State Land Board's jurisdiction (including the submerged and submersible lands underlying the state's tidal and navigable waterways) are managed "with the object of obtaining the greatest benefit for the people of this state, consistent with the conservation of this resource under sound techniques of land management."

The State Treasurer and the Oregon Investment Council invest the Common School Fund. In recent years, fund values have ranged from \$600 million to \$1 billion, depending on market conditions. Twice per year the State Land Board distributes a portion of the funds to the Department of Education, which in turn distributes the funds to school districts. The Common School Fund revenues are considered local revenues. The Governor's budget assumes distributions totaling \$101.8 million.

Community College and Workforce Development Operations and Program:

The Department of Community Colleges and Workforce Development (CCWD) Office Operations unit, transferred to the Department of Post-Secondary Education, manages most programs historically administered by CCWD. These include the Community College Support Fund, the National Career Readiness Certificate program, federal Workforce Investment Act and Carl Perkins Career & Technical Education programs, the General Educational Development (GED) program, and the state's contribution to community college capital construction projects.

The Governor's budget includes \$16.2 million General Fund, \$32.2 million total funds, and 55 positions. This includes \$10 million General Fund and three positions for a workforce initiative that expands the Back to Work Oregon and National Career Readiness Certificate programs, funds a Certified Work Ready Communities program and sector-related workforce training, and provides technical assistance to local workforce programs.

Federal funding distributed to community colleges, local workforce agencies, and other entities is included in the Department of Post-Secondary Education budget, but is reported in the Jobs and Innovation outcome area.

Office of Degree Authorization:

The Office of Degree Authorization was transferred from the Oregon Student Access Commission to the Higher Education Coordinating Commission effective July 1, 2012 and will be incorporated into the Department of Post-Secondary Education. ODA reviews proposals by Oregon private institutions, non-Oregon colleges, and educational organizations seeking to offer academic degrees in the state. It also reviews proposals for new publicly-funded post-secondary education programs to ensure that publicly subsidized programs do not detrimentally impact other public or private institutions. ODA enforces state laws against presenting fraudulent or substandard academic degrees as a public credential. Workload has increased significantly, as the number of degree programs offered in Oregon on-site and on-line have grown exponentially. The Governor's budget includes \$0.9 million Other Funds and four positions to

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manage the growing workload. The level of funding is contingent on passage of legislation to restructure and increase fees.

Early Learning Division:

The Early Learning Council, within the Department of Education, was created in 2011 as part of the PK-20 Education system with a focus on efforts to integrate and streamline existing state programs to ensure children are ready to learn when they enter kindergarten. The newly created Early Learning Division in the Department of Education is a unified system of early childhood services for children from birth to age six. The Governor's budget of \$490.3 million combines several programs from the Employment Department and the former Commission on Children and Families with programs that continue in the Department of Education.

Strategies advanced by programs in this division include:

- Early Learning Council Programs - In 2012, programs previously administered in the Commission on Children and Families were transferred to the Early Learning Council in the Governor's Office with the Oregon Education Investment Board. These programs include Healthy Start-Healthy Families, Relief Nurseries, Family Preservation and Support, Children Youth and Families and Great Start. These programs serve high-risk families and their children with intensive home-visiting services, evidence-based best practices prevention and intervention services, and education services. The Governor's budget includes a \$31 million investment in Early Learning Programs with the Department of Education. The majority of the funding for these programs is General Fund, however some programs are able to use Medicaid for matching funds, Federal Title IV-B(2), private grants and local match. Many programs are able to leverage local funding streams and community donations.

The Governor's budget includes a strategic \$3 million investment in Relief Nurseries above the current budget. Relief Nurseries are comprehensive therapeutic family support programs serving children under age six in families experiencing multiple stresses related to abuse and neglect. Relief Nurseries are a proven model for supporting children and families and work to stop the cycle of child abuse and neglect through interventions that strengthen parents. This additional investment will fund the start-up and continuation of eight Relief Nursery Satellites and address wait lists for current Relief Nurseries.

House Bill 4165 (2012) mandates that state funded early learning programs be full participants in the development of a coordinated, outcome focused and community-led system of early learning services to prepare children for kindergarten. In order to reward performance, incentivize collaboration and innovation, and move toward the outcome based contracting system described in Senate Bill 909, \$10 million in funds previously used for local commission administrative purposes is established as a flexible investment and performance fund, to be granted by the Early Learning Council to the newly established Community Based coordinators of Early Learning Services in 2014.

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- Early Intervention - The Department of Education serves nearly 3,000 infants and toddlers living with disabilities through a state-mandated special education program called Early Intervention (EI). Children, ages birth to three, receive coordinated health and educational services such as physical and cognitive therapies to help lessen the impact of the disability on the child's development and education and to help parents prepare for future steps in education. Most children receive services in their home or child care setting. The program is administered by the Department of Education through contracts with nine Education Service Districts.
- Early Childhood Special Education - Early Childhood Special Education (ECSE) is a federally mandated special education program for preschoolers, age three to kindergarten, with disabilities or developmental delays. Currently the state serves about 8,400 through these programs. All children who qualify receive services. Most children receive services in their home or child care setting. The program is administered by the Department of Education through contracts with nine Education Service Districts. It is administered in conjunction with the Early Intervention program, providing administrative efficiency while also aligning the two programs.

Funding of the program has not kept pace with the costs. The number of children needing ECSE services continues to increase. The Governor's budget is primarily General Fund. However there are also federal Individuals with Disabilities Education Act funds and Medicaid reimbursement funds. This level of General Fund investment funds expected caseload growth to serve children eligible for ECSE.

- Oregon Pre Kindergarten - The Oregon Pre-Kindergarten (OPK) program provides preschool education, child health and nutrition, and family support services throughout the state to lowest income and highest need preschool children ages three to five years. Currently more than 19,000 children qualify for the services, but state and federal funds only support 13,368 children and there is a growing waiting list.

OPK is modeled after and designed to work side by side with the federal Head Start program. These services are available in all 36 counties, with 21 programs receiving federal and state funds and seven programs receiving state funds only. OPK is funded entirely with General Fund. Federal Head Start funds do not flow through the state budget. They are sent directly to local providers by the federal Department of Health and Human Services.

- Early Head Start - The Oregon Early Head Start program provides comprehensive services to children under age three and expectant mothers living at or below the federal poverty level. The services are a critical link for children to gain necessary skills to be successful in school; to assist families in understanding the needs of their children; and to encourage families to be involved in their child's education.

The Governor's budget of \$1.5 million General Fund will continue to fund the current program level of 59 enrollment slots.

- Child Care Division - The Child Care division, which was transferred from the Oregon Employment Department, promotes safe, quality and accessible child care for Oregon parents and their children. The Governor's budget provides funding to continue to promote and enforce child

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care quality standards for health and safety of the children in child care facilities and makes an additional investment in order to better inform parents to make child care decisions and developing incentives for high quality child care.

The programs administered by the Child Care division are primarily funded through the Federal Child Care Development Fund, much of which is transferred to the Department of Human Services to provide day care subsidies for low-income families, and other licensing and fees funds.

- Included in the Governor's budget is \$800,000 for the Early Learning division for the Pilot Prevention Health and Wellness Demonstration Project for Social Impact Financing. This project was organized to advance concrete models of service delivery and sustainable financing to ensure the healthy development of all children – specifically that every Oregon child enters school ready and able to learn. The project is pioneering the development of new service delivery and financing systems to improve life-long outcomes for at-risk children and families and envisions public and private investments in comprehensive detection, intervention, education, care and support. The funding supports the start-up costs for the pilot project.
- Race to the Top Early Learning Challenge Grant – The Governor's budget anticipates funding from the U.S. Department of Education and the U.S. Department of Health and Human Services of \$11.1 million federal funds.

Education Debt Service:

The Debt Service program, within the Department of Education, provides debt service on lottery-backed bonds. The 1997 Legislature approved House Bill 3411; that established a lottery bond program to help meet the needs of Oregon school districts. Proceeds were intended for “state education projects”, which are defined in statute as projects for the acquisition, construction, improvement, remodeling, maintenance or repair of public school facilities. The legislation was subject to voter approval, which occurred with the November 4, 1997 Special Election. Bonds totaling \$150 million were sold. In House Bill 2567, the 1999 Legislature authorized the issuance of an additional \$127 million in lottery-backed bonds for state education projects.

The estimated debt service remaining on all outstanding debt as of July 1, 2013 will be approximately \$45 million. The Governor's budget for debt services is \$42.5 million in Lottery Funds.

Education Operations:

Department of Education Operations includes those functions and activities that benefit a broad range of programs. They are often referred to as “indirect costs” or “administration” because their *precise* benefits to a *specific* project are difficult or too complex to track. Regardless, these programs provide valuable and necessary services to a wide variety of internal and external stakeholders as well as programs that support the goal of having Oregonians prepared for lifelong learning, rewarding work, and engaged citizenship.

The Governor's budget for Operations equals \$119.7 million (\$32.5 million General Fund). Costs have been reduced by \$3.7 million total funds through program reductions, administrative efficiencies, and controlling PERS costs. However, new investments include funding to plan the development of a

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statewide longitudinal database reaching from early childhood through post-secondary education. The system would encourage accountability for outcomes and provide better information for policy-makers, educators, students and their families to ensure progress along the entire educational path. Investments in this program include authority to build out the data system and for facilities and equipment needs for student achievement centers. These projects would be funded through bond financing.

Employment Related Day Care:

The Employment Related Day Care program (ERDC) helps very low-income working families from a variety of cultural and linguistic backgrounds arrange and pay for quality child care. ERDC provides low-income families with the same opportunity to access quality child care as other families with higher incomes. Quality child care nurtures a child's learning and development so the child is better prepared to succeed in school. ERDC helps parents stay employed and gain self-sufficiency by assisting with the consistent, stable child care parents need to remain on the job. ERDC also supports care for children with special needs, and offers providers who come from diverse cultural backgrounds. Providers are required to register with the state and must meet a set of health and safety standards, and all are required to complete background checks. They also have access to additional training and education. Providers employed by ERDC clients are contributing members to local economies throughout the state.

The Governor's budget of \$118.4 million total fund continues current program structure and supports over 9,000 cases, an increase from the current budget of 8,500. The program is primarily funded through Child Care and Development Block Grant that is transferred from the Child Care division, now within the Oregon Department of Education.

Extension Service:

The Oregon University System Extension Service within DPSE connects Oregonians to research-based knowledge through on-the-ground expertise and education. Programs include food safety, food security and hunger, childhood obesity, climate change adaptation and mitigation, and sustainable energy as well as 4-H youth development activities. Extension places faculty and other staff throughout the state in county offices and branch Agricultural Experiment Stations. Many counties assist with office space, assistance with travel and other costs, and support staff.

The Governor's budget includes \$37.5 million General Fund to support the Extension Service. The program will attempt to provide the same number of educational contacts and engage the same number of trained and supported volunteers as achieved in the current biennium.

The OUS Agricultural Experiment Station and the Forest Research Laboratory are included in Department of Post-Secondary Education's budget but reported in the Jobs and Innovation outcome area.

Oregon Health and Science University Support Fund:

The Oregon Health and Science University (OHSU) Support Fund within in DPSE provides state support for the OHSU's four public missions: education, clinical care, research, and statewide outreach. The university educates Oregon's next generation of health care professionals and biomedical scientists; creates new knowledge; translates scientific research into therapies for disease; provides compassionate, evidence-based patient care; and improves health statewide through access and policy initiatives. OHSU

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offers professional degrees in dentistry, nursing, medicine, pharmacy, other health professions, and PhD and Master's degrees along with certificate programs in sciences. As part of the university's outreach mission, OHSU oversees the Office of Rural Health and the Area Health Education Centers, and engages in numerous K-20 pipeline programs.

The Governor's budget for this program is \$55.4 million General Fund. OHSU receives state funding for the Schools of Dentistry, Medicine, and Nursing; and for the Office of Rural Health and Area Health Education Centers. During fiscal year 2011, OHSU awarded 78 D.M.D degrees, 102 MD's, and 308 Bachelor's degrees in Nursing.

K-12 Grant-in-Aid:

The Department of Education receives and administers dozens of grants through its K-12 Grant-in Aid Program. Most of these grants come from the U.S. Departments of Education and Agriculture and are distributed primarily to local education programs. However, the Department will also distribute about \$84 million in state General Fund to local education programs – not including the State School Fund or early childhood/youth development grants. The Governor's total funds budget of \$1.2 billion is 2.1 percent above the level necessary to support current programs.

Grants budgeted through this program advance a number of strategies:

- Special Education - ODE and school districts have an obligation to ensure that students with disabilities receive a free, appropriate public education in the least restrictive environment. Special education is a broad spectrum of programs and services offered by districts and the state for the education of students with disabilities. Without programs and services, students with disabilities will not be able to meet the 40-40-20 goal and will continue to have achievement gaps when compared with their non-disabled peers.

Programs and services include meeting the individual educational needs of resident students with disabilities at the district level and, also, regionally; meeting the needs of students in day and residential treatment facilities and hospitals; and providing educational services to students who are blind or visually impaired. School districts receive funds for special education primarily from the State School Fund (SSF) and federal Individuals with Disability Education Act (IDEA) funds. Regional programs receive funds from the Department of Education and IDEA funds from school districts. Long Term Care and Treatment programs, hospital education programs and state-level operations receive a mix of state General Fund, State School Fund, federal IDEA funds and other federal grants. The Blind and Visually Impaired Student fund is made up, entirely, of state General Fund. The Governor's budget of \$44 million General Fund for non-SSF Special Education programming is only slightly less than the level necessary to support current programs.

- Compensatory Education - According to the 10-Year Plan for Oregon, the most pressing issue faced by Oregon is the improvement of academic achievement rates for low-income earners, English Language Learners, special education students and students of color. Compensatory programs target high-needs students in these and other subgroups. The desired outcome is that

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these students have a fair, equal, and significant opportunity to obtain a high-quality education and reach proficiency on state academic assessments.

Compensatory Education programs are funded at \$364 million, almost entirely through the federal Elementary and Secondary Education Act. These are, primarily, formula grants to school districts.

- **Teacher and Administrator Support** - Investing in the development and support of effective teachers and leaders is one of the most significant strategies towards improving student achievement in which the state can engage. Consistent and significant investment in this area will yield highly qualified teachers guided by effective leaders in every school, which will translate into effective learning and improved outcomes for all students. The Governor's budget includes General Fund for strategic investments in developing and supporting effective teachers and administrators. In addition, federal funds totaling \$56.7 million are available to support teacher and principal quality programs.
- **Child Nutrition** - Children who are hungry are at higher risk for developmental and academic problems, frequent illness and nutritional inadequacies. A well-nourished child is ready to learn, with energy to play, exercise, and learn; better able to form social relationships; and given a solid foundation to succeed in school and in life.

The Oregon Department of Education's Child Nutrition Programs address the hunger issue through the administration of federal and state funds

- reimbursing organizations for serving nutritious meals and snacks to eligible participants in schools and community-based programs;
- providing training and oversight to ensure compliance with state and federal requirements;
- increasing fresh fruit and vegetable consumption in low-income areas;
- supporting child care wellness activities related to nutrition and physical activity;
- supporting purchase of fresh, locally-grown products in schools; and,
- encouraging expansion of afterschool programs through administration of mini-grants.

All of these investments support the outcome indicators: ready for school; ready to apply math and reading skills; ready for college and career training; and ready to contribute in career and community.

Nearly all funding for meal reimbursements is federal (over \$350 million). State funds for programs such as Farm to School, Summer Food Service and School Breakfast total about \$2.8 million.

- **Career and Technical Education** - Career and Technical Education (CTE) provides high school and community college students with career-focused, industry-aligned academic and technical knowledge and skills, personalized career development, and structured pathways for seamless transitions to postsecondary education and/or to employment, industry apprenticeships and training, or the military. CTE supports Oregon's overarching education outcome: Oregonians are prepared for lifelong learning, rewarding work, engaged citizenship. It relates to the following education indicators: on track to earn a diploma; ready for college and career training; and ready to contribute to career and community. These comprehensive programs support the Oregon education funding team Results: 1) investing in outcomes, 2) support & accountability, 3) support and elevate education, 4) standards & assessments, and 5) engaged communities.

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The Governor's budget of \$36.8 million is primarily supported by federal funds from the Carl D. Perkins Act. In addition, General Fund is budgeted for the required administrative match for Perkins allocations and for strategic investments.

- **Miscellaneous Programs and Strategies** - These programs include strategies that make education more relevant to students such as accelerated learning, the Advanced Placement Test Fee Program, and physical education grants as well as programs that ensure the safety of students such as pupil transportation, fingerprinting and background checks. Some of these activities address the following indicators: ready to apply math and reading skills; on track to earn a diploma; and ready for college and career training.

The Governor's budget for this program totals \$13.7 million. More than half is supported by Federal Funds, primarily Carl D. Perkins career and technical education funds. The General Fund is used for physical education grants, and pupil transportation. Fingerprinting and criminal background checks are paid for by fees charged to applicants.

New initiatives in the Governor's budget include grants targeted at improving reading skills. These include grants for expanded opportunities for reading, and funding to expand Response to Intervention networks. Also included is funding for helping students prepare for success in the workplace by focusing on Science, Technology, Engineering, the Arts, and Mathematics (STEAM). Also included is support and intervention for middle school and high school, and funding to create models for flexibility, individualized learning, and seamless transitions.

Opportunity Grants:

The Oregon Opportunity Grants program within the Department of Post Secondary Education is Oregon's only state-funded, need-based grant program to help low- and middle-income Oregon residents achieve academic success and become productive members of their communities and the state's workforce. Opportunity Grants are awarded to Oregon residents who show financial need and attend a community college or public or private nonprofit four-year postsecondary institution. Students attending a college or university on a half-time basis are eligible for a reduced award amount.

The Governor's budget includes \$113.4 million General Fund, \$0.3 million Lottery Funds, and \$0.2 million Other Funds for Opportunity Grants. With average awards anticipated to be approximately \$1,800, approximately 63,000 awards will be made in the 2013-15 biennium, an increase of about 3,400 awards from 2011-13.

An additional \$5.5 million General Fund is included in the Opportunity Grant program as part of the Chief Education Officer's Guidance and Support for Post-Secondary Aspirations initiative. The funds will be used for early college credit programs, scholarship opportunities, and other college success initiatives.

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Oregon Education Investment Board:

The Oregon Education Investment Board (OEIB), chaired by the Governor, oversees the state's effort to create a seamless, unified system for public education from early childhood through high school and college.

The OEIB will maintain achievement compacts with all K-12 school districts, education service districts, community colleges, as well as the Oregon University System and its individual institutions, and Oregon Health and Science University. These two-way partnership agreements challenge educators across Oregon to set targets for key student outcomes and encourage broad collaboration to adopt transformational practices, policies and budget to help students achieve targeted educational outcomes.

The Governor's budget includes \$7.2 million General Fund and 19 positions for the Board and the office of the Chief Education Officer. It includes funding for a PK-20 education research unit to provide data and analysis to inform policy and practice for the improvement of educational outcomes. It also provides funding for a statewide reading campaign as part of the Oregon Reads initiative and for convening meetings of school districts, community colleges, and four-year institutions for the development of regional achievement compacts.

The OEIB and Chief Education Officer are responsible for coordinating the following PK-20 initiatives to improve student success. Funding for these initiatives is largely contained in the budgets of the Department of Education and the Department of Post-Secondary Education.

OregonReads includes \$9.2 million General Fund for a multi-agency initiative to improve third grade reading skills. The OEIB and the Early Learning Council will launch a statewide reading campaign focused on ensuring that parents, educators, and caregivers of young Oregonians support development of early literacy skills. The Department of Education's Response to Intervention Network, that provides mentoring and support to more than 50 Oregon districts, will be expanded to 125 districts. Grants and contracts will be awarded by the Department of Education to school districts, non-profit organizations, afterschool providers, libraries, newly created early learning hubs, or other entities that will provide expanded and individualized learning time for students who are not proficient in reading. Funding for the State Library's library development program is increased to expand access to books, computers, and other materials in public and other libraries throughout the state.

The Guidance and Support for the Post-Secondary Aspirations initiative addresses the growing gap in achievement among underserved students particularly in the areas of high school graduation and post-secondary enrollment and completion. The Governor's budget includes \$11.4 million for development of a culture of expectations of opportunity and success. Funds will be provided to the Department of Education for programs that identify students, grade six through 10, who are at risk of dropping out or failing, and provide them systematic, individualized monitoring and mentoring. Funding for the ASPIRE mentoring program in the newly created Department of Post-Secondary Education is increased to allow the program to serve up to 295 sites by the end of

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the 2013-15 biennium. Funding is also provided to DPSE for early college credit programs, scholarship opportunities, and other college success initiatives.

The Connecting to the World of Work initiative is intended to provide students with the skills, knowledge, and experience necessary for success in the workplace by investing in science, technology, engineering, math, and the creative arts. The Governor's budget includes \$13.5 million for this initiative. The Department of Education budget includes funds for STEAM lab schools for students in grades six through 14, as well as formal and informal STEAM opportunities that provide hands-on, real world education programs for students from underserved populations. Funds are also provided for development of three to six models to overcome current inflexible and fragmented approaches to delivery of education in grades nine through 14.

The Developing a Representative Corps of Professional Educators initiative focuses on educator recruitment, preparation, and support. The initiative funds establishment of four to six regional Student Achievement Centers, to promote excellence in teaching and learning for teachers, faculty, early education professionals, administrators, and instructional support personnel. The centers will partner with colleges and universities to improve teacher preparation programs and strengthen clinical placements. A PK-20 Professional Development Network will provide mentoring and support to new teachers and administrators, assist with curriculum and assessment development, promote professional development and training for early learning and primary grade educators, and assist districts with the implementation of continuous improvement systems for educators. The centers will be part of a statewide virtual research network that studies best practices, disseminates evidence-based models and helps schools and districts implement these models and practices at scale.

The Governor's budget recommends reallocation of up to \$120 million currently provided to education service districts through the State School Fund formula to the new Student Achievement Centers. The Governor's budget also includes the sale of \$6 million in general obligation bonds for facilities and equipment needs of the centers.

The OEIB is also responsible for development of a statewide longitudinal database designed to track students through the educational process and into the workforce.

Oregon University System Statewide Programs:

Oregon University System Statewide Programs within DPSE includes a variety of institutes, centers, and programs that address economic development, natural resource, and other issues rather than provide support for OUS students and institutions. The \$37.1 million General Fund in the Governor's budget is distributed as follows:

- Engineering and Technology Industry Council: \$29 million
- Dispute Resolution Program: \$2.4 million
- Oregon Solutions Program: \$2.2 million
- Clinical Legal Education Program: \$0.3 million
- Climate Change Research Institute: \$0.3 million

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- Natural Resources Institute: \$0.4 million
- Signature Research Centers: \$1 million
- Oregon Metals Initiative: \$0.7 million
- Industry Partnerships: \$0.6 million

These amounts do not include funding for other Oregon InC initiatives, which are included in the Oregon Business Development Department budget.

Oregon Youth Conservation Corps:

The Oregon Youth Conservation Corps provides conservation employment and earning opportunities for youth through environmental projects that enhance Oregon communities throughout the state. These programs serve to ensure that youth, including high school dropouts, can build their skills to meet the educational, economic and/or social expectations of their communities. The Governor's budget includes \$2.4 million Other Funds, \$1.1 million Federal Funds, and three positions. The program anticipates continuing to serve over 900 youth in community stewardship projects during each school year and over 500 students in summer conservation programs. The program is transferred from the Department of Community Colleges and Workforce Development to the Department of Post-Secondary Education.

Post-Secondary Education Debt Service:

The Department of Post-Secondary Education will assume responsibility for managing the state's role in supporting debt-financed projects at community colleges and public universities.

Debt service on state-backed bonds sold to finance capital construction projects for community college, OUS institutions, and OHSU is included in the Department of Post-Secondary Education budget. For 2013-15, this includes \$109.6 million General Fund, \$38.3 million Lottery Funds, and \$180.3 million total funds. This amount covers debt on previously-approved projects for which bonds will have been sold prior to the end of the 2011-13 biennium. Debt service payments on projects approved or reauthorized in 2013-15 will be deferred until the 2015-17 biennium.

The state's contribution to construction and maintenance of post-secondary education facilities has grown significantly over the past ten years. In the 2003-05 biennium, state debt service on community college, OUS facilities, and OHSU capital projects was \$51.2 million. The Governor's 10 Year Capital Investment Plan is designed to provide a sustained and consistent process for using limited capital resources to finance projects that align with the state's long-term goals and outcomes and generate the highest return on investment of those resources.

Post-Secondary Education Department Operations:

The new Department of Post-Secondary Education (DPSE) will consolidate the state's activities in supporting, coordinating, and funding post-secondary education. The new department will combine the Higher Education Coordinating Commission, the Department of Community Colleges and Workforce Development, and the Oregon Student Access Commission. In addition, state funding distributed in support of the Oregon University System and the Oregon Health and Science University will be appropriated to DPSE. Legislation introduced to align and streamline education governance and funding will create the department and make associated changes to existing boards and commissions. The

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Department will request any necessary adjustments resulting from a reorganization of these programs during the 2014 legislative session.

The Department includes the Higher Education Coordinating Commission (HECC), or its successor, and Governor's budget includes \$1.7 million General Fund and six positions for overall agency management and direction.

DPSE is directed to develop new funding formulas for distribution of support to the state's public community colleges and four-year institutions that are tied to student progress and success rather than enrollment. The new formulas are to include distribution of Oregon Opportunity Grants and account for institutional student aid, with a goal of providing affordable access to students receiving the new Oregon Diploma.

Private Career Schools:

The Private Career Schools program was transferred to the Higher Education Coordinating Commission from the Department of Education, effective July 1, 2013 and will be incorporated into the Department of Post-Secondary Education. The program is responsible for the licensing of private businesses offering career training at the certificate level as post-secondary institutions of study. The program regulated about 240 career schools that enrolled more than 15,000 students in 2010. The budget includes \$1.2 million Other Funds and Federal Funds and six positions. Included in the transfer from the Department of Education is a federally funded program to assist veterans enrolled in this educational sector. Funding for the program is contingent on a legislative proposal to increase fees.

Public University Support Fund:

The Public University Support Fund within DPSE is the state's General Fund contribution to operation of the educational programs of the Oregon University System, its seven campuses, and one branch campus. Combined with student tuition and other revenues, the funds provide basic support to the educational institutions, governing board, central administration, and support services.

The Governor's budget includes \$483.9 million General Fund for operation of instructional and support services to students and faculty, support for research and campus public service programs, and administrative support services. The Public University Support Fund includes state funding for OUS that has historically been distributed by the State Board of Higher Education to the campuses through the Resource Allocation Model on an enrollment basis, as well as targeted programs that fund student and institutional support. These include regional support, faculty research support, funding for the Chancellor's Office, and other programs. Funding for centers, institutes, and programs addressing statewide economic development, natural resource, and other needs are included in the Department of Post-Secondary Education's OUS Statewide Programs unit.

Funding for the Chancellor's Office was reduced as a result of the shift of responsibility for coordination of post-secondary education to the Department of Post-Secondary Education and the Higher Education Coordinating Commission or its successor.

OUS institutions will focus on making progress on outcomes and measures of progress included in achievement compacts with the Oregon Education Investment Board. Measures included in the compacts

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document student success in completing bachelor's and advanced degrees, the extent to which newly admitted freshmen enter with college credits, the success of community college transfers in obtaining four-year degrees, and success of OUS graduates in the workforce. Each of the measures will be disaggregated to show progress among underrepresented populations.

School for the Deaf:

The Department of Education provides a comprehensive school (residential and day program) for students, ages five through 21, who are deaf and hard of hearing. The program serves about 100 students from throughout the state on a 52-acre campus located in Salem. It supports the goal of ensuring these students are prepared for lifelong learning, rewarding work and engaged citizenship.

The Governor's budget is \$11.1 million General Fund. In addition to General Fund, the school also receives revenue from the State School Fund (based on a double-weighting of the number of students), leasing of space at the campus, reimbursements from districts for certain services to students, minor grants, and miscellaneous receipts. Federal Funds include federal Individuals with Disabilities Education Act funding and reimbursement from the U.S. Department of Agriculture for nutrition programs. The total funds budget is 1.8 percent above the level required to continue current services.

State Library Development:

The Library Development program of the Oregon State Library provides leadership, grants, and other assistance to public, academic, school, and tribal libraries and community leaders to improve library services. The program supports the outcome that Oregonians are prepared for lifelong learning, rewarding work, and engage citizenship. Staff provides consulting to local libraries on youth services in libraries, library technology, and statistical analysis. Grants to improve library services for children are available through this program to every legally established public library in Oregon.

The 2013-15 Governor's budget is primarily funded from the federal Library Services and Technology Act (LSTA). State General Fund provides the required matching funds for the LSTA grants. In addition General Fund is used to provide Ready-to-Read grants that support library programs for early literacy services to families and care providers and summer reading programs for youth. The recommended budget expands the Ready-to-Read program to include programs for 15 to 17 year olds, as a part of the Chief Education Officer's "Oregon Reads" initiative.

Only one year of budget authority (\$3.4 million) is included in this budget. Allocation of the second year funds will be approved upon reorganization of the Oregon State Library, prior to June 2014.

State School Fund:

The State School Fund (SSF), within the Department of Education, supports the education of more than 560,000 Oregon children in kindergarten through the 12th grade by distributing 11 monthly payments annually to 197 school districts and 19 education service districts (ESDs). State General Fund and Lottery Funds provide about two-thirds of the revenue distributed through the SSF funding formula. Local property taxes make up the bulk of the remaining one-third. Together, these moneys pay for public school districts' general operating expenses, student transportation costs and other specific purposes. In

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addition to the SSF revenue, public school districts also receive certain categorical grants and other revenues that, in total, add nearly 20 percent more to schools' budgets.

The Governor's budget includes a State School Fund amount (\$6.151 billion) that, together with policy changes to control PERS costs, will give schools about \$90 million more than is required to continue the current level of services through 2013-15. Four and one-half percent of the formula funding is allocated to education service districts, consistent with current statutory requirements. However, in the coming biennium up to \$120 million of these ESD funds are to be invested in four to six regional student achievement centers that are focused on promoting excellence in teaching and learning for teachers, faculty, childcare and other early education professionals, leaders and instructional support personnel at all levels.

State Support to Community Colleges:

The Community College Support Fund (CCSF), transferred to the Department of Post-Secondary Education, is the state's General Fund contribution to operation of the educational and general programs of Oregon's 17 community colleges. Combined with local property tax revenues and student tuition, the funds support comprehensive educational programs at the colleges, including lower division college courses, career and technical programs, basic literacy, workforce preparation, GED and adult high school diplomas, English as a second language and community enrichment.

The Governor's budget includes \$429.0 million General Fund and \$25,308 Other Funds for the CCSF. Colleges will focus on making progress on outcomes and measures of progress included in achievement compacts with the Oregon Education Investment Board. Measures in the compacts document student progress and completion at the colleges and their connections with high schools, and public four-year institutions, and their success in the workforce. Each of the measures will be disaggregated to show progress among underrepresented populations.

An additional \$0.7 million General Fund is included for training of community care workers. Increasing the supply of trained health care workers is critical to the success of the state's health care system transformation effort. This amount will not be subject to the formula redesign.

Student Access Grants and Scholarships:

Oregon Student Access Commission's Scholarships and Grants programs is moved to Department of Post-Secondary Education. These programs provide financial aid that enable students, many in underserved populations, to afford to attend college and universities. Programs include Oregon Student Child Care grants, federal Chafee Education and Training Grants available to former foster youth, and over 420 private scholarships. As part of the Governor's early learning initiative, delivery of services in the child care program will be coordinated by the Early Learning Division in the Department of Education to focus on improving literacy and other childhood education goals.

The Governor's budget includes \$0.9 million General Fund and \$17.3 million Other Funds. At this level of funding, approximately 200-220 students will received child care grants during the biennium. Approximately 30,000 applications are expected to various grant and scholarship programs and about 8,000 students will receive awards.

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Student Access Operations:

The Oregon Student Access Commission (OSAC) Office Operations unit, transferred to the Department of Post-Secondary Education, includes general administration and operation of Opportunity Grants and other grants and scholarship programs. Staff for the ASPIRE program who were included in this program at OSAC are shifted to a separate budget unit in DPSE.

The Governor's budget includes \$1.8 million General Fund, \$2.6 million Other Funds, and 19 positions. During the 2013-15 biennium, the program anticipates receiving over 300,000 Opportunity Grant applications and making about 63,000 awards. It will work with nearly 500 donors to process about 30,000 applications for other grants and scholarship programs, making approximately 8,000 awards.

The budget includes \$0.2 million General Fund for the development of a business case analysis of the agency's antiquated financial aid database. The analysis will evaluate and recommend ways to improve security for the approximately 350,000 Free Application for Federal Student Aid (FAFSA) forms received annually year and to increase efficiency in providing services to students and post-secondary institutions. Depending on the results of the analysis, additional funds may be requested to improve or replace the existing system.

Teacher Standards and Practices Commission:

The Teacher Standards and Practices Commission ensures that public school students' education is delivered by qualified and competent professional educators, that our accredited universities and colleges are held to high educator preparation standards, and that students are protected from educators who engage in misconduct. There are approximately 65,000 educators in the state licensed by the Commission and 21 public, private colleges, universities, and other entities that the Commission has approved to offer licensure preparation programs in the state. Beginning in 2012 the agency started to see a downturn in licensing activity and revenues. The agency has made several modifications to their operations to address this revenue shortfall in the 2011-13 biennium.

The Governor's budget for this program is \$5.0 million total funds. The Teacher Standards and Practices Commission is funded by Other Funds, primarily derived from application, fingerprinting and licensing fees charged to educators and organizations offering licensure preparation programs in the state. During 2012, the agency has been able to process complete applications within 25 to 30 calendar days, which is a significant improvement from the 12 to 14 week turnaround during the summer of 2011. The Governor's budget reflects the anticipated continuation of reduced revenues and takes necessary steps to allow the agency to operate within its forecasted revenues during the 2013-15 biennium. The Commission will attempt to maintain its progress in the turnaround time of applications, however it is unknown if it will be able to do so with the current revenue constraints.

Youth Challenge and STARBASE:

The Military Department's Community Support Program offers education, structure, and support for at-risk youth in Oregon through the Oregon Youth Challenge Program (OYCP) in Bend and the STARBASE programs in Portland and Klamath Falls. The OYCP serves 16 to 18 year old male and female dropouts who have struggled to succeed in a traditional high school environment. The program is

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Oregon's only public statewide quasi-military based high school, which includes supervised work experience in community service and conservation projects. It graduates more than 200 students per year. STARBASE stands for Science and Technology Academies Reinforcing Basic Aviation and Space Exploration program. This federally funded program exposes more than 2,000 third to eighth graders per year to the fields of Science, Technology, Engineering and Mathematics (STEM) with the hopes of inspiring them to pursue a career in these fields.

The Governor's budget for this program is \$10 million, which includes \$0.2 million General Fund as well as \$1.9 million in educational support for the OYCP from the Bend-LaPine School District and \$7.9 million Federal Funds. The budget will fund 46 positions and will continue the program at its current level of operations.

Youth Corrections Education:

The Youth Corrections Education Program, within the Department of Education, exists to provide a standard education to all youth (ages 12-21) incarcerated in Oregon Youth Authority close custody correctional facilities. All programs are accredited to offer credits and high school diplomas. Approximately 580 youth are served on an average day.

The Juvenile Detention Education Program provides education to youth held in county juvenile department detention centers. Approximately 209 students are served on an average day, with about 4,300 students served annually.

The Governor's budget for these programs comes primarily from the State School Fund and is spent as Other Funds. However, a relatively smaller amount of federal funds from the Elementary and Secondary Education Act and the Individuals with Disabilities Act is available for these programs. The total funds budget at \$17.8 million, is 5.5 percent above the level necessary to support current programs.

Youth Development Council:

The Youth Development Council, within the Department of Education, was established in 2012 to assist the Oregon Education Investment Board in overseeing a unified system that provides services to school age children through youth 20 years of age in a manner that supports academic success, reduces criminal involvement and is integrated, measurable and accountable. The Youth Development Division with the Oregon Department of Education supports the Youth Development Council and administers programs that were previously in the Commission on Children and Families, including the Juvenile Crime Prevention and Youth Investment – Title XX programs. The Council prioritizes funding for prevention and intervention services related to the reduction of gang violence and gang involvement. The Governor's budget includes a \$1 million General Fund investment for the use in funding statewide initiatives aimed at gang prevention and intervention. The initiative will be delivered in local jurisdictions seeking to prevent and reduce gang-related activities. Grants will be issued to support local services for gang-affected, gang involved youth. Local community partners experienced in gang prevention and intervention along with national and /or regional program models and experts will be utilized to help guarantee the success of the program.

The Governor's budget is \$19.6 million (\$8.4 million General Fund) which funds current programs with a six percent increased General Fund investment and makes the \$1 million strategic investment in gang

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prevention and intervention. In addition to General Fund, these programs utilize local funding and community donations.

Jobs and Innovation

JOBS AND INNOVATION OUTCOME AREA

10-YEAR GOAL:

Oregon has a diverse and dynamic economy that provides jobs and prosperity for all Oregonians.

| | 2011-13 Leg Approved Budget | 2013-15 Governor's Budget |
|----------------------------|--------------------------------|------------------------------|
| General Fund | \$324,757,822 | \$375,346,341 |
| Lottery Funds | \$213,508,647 | \$235,457,776 |
| Other Funds | \$3,148,309,190 | \$3,447,299,541 |
| Federal Funds | \$809,683,076 | \$718,736,468 |
| Other Funds (Nonlimited) | \$2,727,093,063 | \$2,257,345,552 |
| Federal Funds (Nonlimited) | \$1,043,757,360 | \$150,590,361 |
| Total Funds | \$8,267,109,158 | \$7,184,776,039 |
| Positions | 5,943 | 4,796 |
| Full-time Equivalent | 5,204.92 | 4,294.93 |

2013-15 Budget Overview

The Governor's budget addresses the immediate challenge of creating jobs now while positioning Oregon to be more competitive in the global economy of the 21st century. It is fully aligned with the goals and strategies of the Oregon Business Plan, with an emphasis on driving the state's per capita income back up above the national average.

It seeks to erase the troubling income disparities which have existed for far too long in our communities of color and between urban and rural communities. Additionally, it aims to ease private investment and job creation in Oregon by expanding access to capital, streamlining the regulatory process and elevating local community priorities.

The budget supports an emerging economy of innovation in Oregon that is rooted in our strengths – our solid base in agricultural, timber and advanced manufacturing industries, our promising technology research and development and our strategic location on the Pacific Rim with access to world markets.

Key elements of the 2013-15 Governor's budget for Jobs and Innovation include:

- **Over \$1 billion for core infrastructure projects** – funds the Interstate 5 Bridge replacement, multi-purpose water projects, university buildings, airport, marine and rail improvements, seismic upgrades, and technology infrastructure projects that get Oregonians back to work.
- **\$90 million for proven innovation partnerships** – increases funding for the Oregon Innovation Council, Oregon's Signature Research Centers and maintains university-based innovation, agriculture and forestry research initiatives.

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- **Increases the Earned Income Tax Credit by 30 percent** – helps working families keep more of what they earn.
- **Redesigns workforce training** – \$10 million to better align programs with employers needs.
- **Implements regulatory reforms** – streamlines permitting and removes barriers to private investment and job creation.

Outcome Area Overview

Though the private sector creates jobs, the public sector shapes the fertile environment that the private sector needs to build a vibrant and innovative economy based on Oregon values. Policy makers must be intentional about creating opportunities for Oregon’s small and medium homegrown businesses, Oregon’s entrepreneurs, Oregon’s universities and spin-offs from traded-sector companies – strengthening Oregon’s economy from the bottom up.

A robust economy with ample mid-to-high income jobs is the foundation for Oregon’s high quality of life and is necessary to fund quality education and other public services. Adequate public infrastructure and services in turn, are necessary to support Oregon’s growing economy. This virtuous “circle of prosperity” will be the foundation upon which the state will build all initiatives to improve Oregon.

Policymakers will accomplish this by engaging the private sector through the Oregon Cluster Network and the Oregon Business Plan, Oregon’s research institutions, which drive innovation, and the formal structure of economic development agencies and networks. The network of entities that support economic development include Business Oregon (and related entities, such as the Oregon Innovation Council), the Oregon Department of Agriculture, Regional Solutions Centers, Small Business Development Centers, regional economic development entities, ports, chambers of commerce, federal agencies such as the U.S. Department of Agriculture, the Small Business Administration, universities, community colleges, and workforce entities, including the Oregon Entrepreneurs Network and local development funders.

To support the private sector in Oregon, the chain of innovation must begin with Oregon’s research institutions and related efforts, such as commercialization efforts through the Oregon Innovation Council (Oregon InC). The state supports these efforts by helping with deployment of new technologies, fostering a strong environment for manufacturing and marketing, and helping train a skilled workforce. With less enhanced public resources on the horizon, policy makers must ensure this cycle is integrated and streamlined.

Building a world class workforce development and training program in Oregon is one of the best ways for the public sector to get Oregonians back to work in the short term and sustain a vibrant economy over the long term. The current array of programs is insufficient to meet the demands of the future, and this budget, with associated future reforms, marks the start of building a workforce development system that has the capacity and flexibility to meet the needs of Oregon’s employers.

In addition, Oregon must protect, preserve and invest in its infrastructure assets. The state has a backlog of improvements it must make to its existing traditional infrastructure, as well as an interest in growing investment in new infrastructure capacity, such as smart grid and broadband data capacity, water resources, transportation and sophisticated waste management. Ensuring stable and modernized

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manufacturing and transport infrastructure for the forest products and agricultural industries is also critical to maintaining Oregon's strong resource-based economy that is pivotal for our rural communities as well as forest and rangeland health.

Solving deficits of available funding in these areas will require Oregon to use its public dollars to leverage much more private capital. In order to do so, policy makers must identify opportunities and capital gaps and develop a mechanism for aggregating resources. This will involve state agencies with significant roles in infrastructure development, such as the Oregon Department of Transportation and Business Oregon, engaging in a new structure and a broader, all encompassing view of public infrastructure.

Recommended Budget and Key Investments

The Governor's Balanced Budget for Economy and Jobs is \$7.2 billion total funds, \$611 million General and Lottery Funds. While the total funds budget is \$1.1 billion less than the 2011-13 Legislatively Approved Budget (LAB), because of the decreased unemployment insurance funds, the General Fund/Lottery Funds budget is \$78 million above the 2011-13 LAB. Highlights of the Governor's Economy and Jobs investments include:

Interstate 5 Bridge Replacement – The Governor's budget invests \$450 million of highway revenue bond proceeds towards the replacement of the bridge between Oregon and Washington on Interstate 5 (I-5). The investment advances Oregon's portion of the project. The bridge replacement is a long-term comprehensive solution to problems on I-5 near the Columbia River. The project will provide new travel options and an improved highway to support jobs, the regional economy and future growth.

ConnectOregon V – The Governor's budget includes \$60 million of Lottery and General Fund-backed bond proceeds for *ConnectOregon V*. *ConnectOregon V* is designed to build upon the success of previous *ConnectOregon* programs I – IV. This program advances multi-modal transportation in Oregon to improve the freight, rail, marine, aviation, and transit systems to support and improve Oregon's economy.

Oregon InC – The Governor's budget invests \$25 million Lottery funds in the Oregon InC, housed at Business Oregon. Oregon InC is a public-private board that brings together leaders from private business and the state's research universities to develop and drive the state's innovation strategy. Oregon InC develops, champions and implements strategic initiatives that help make existing Oregon companies more profitable, competitive and sustainable.

Oregon Investment Act – The Governor's budget provides \$5 million Lottery funds to provide seed capital for the Oregon Growth Board to leverage and invest in qualified Oregon businesses. This funding could include support for investments across the capital continuum, including early stage companies, venture capital and later-stage growth investments.

Regional Solutions – The Governor's budget provides \$56 million in Lottery-backed bond proceeds to fund local, regional and statewide economic development projects in infrastructure investments. Regional Solutions will develop a regional, multi-state financing mechanism that can attract and leverage private funds to invest in identified infrastructure projects.

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Water Supply Strategy – The Governor’s budget provides \$22 million of bond proceeds and \$2.4 million of General and Lottery funds for water resources development and management, moving Oregon into a proactive role in identifying and guiding major opportunities for new storage, conservation, and habitat improvement. The Healthy Environments outcome area contributed \$1.1 million to this investment.

Workforce System Innovation – The Governor’s budget provides \$10 million for initiatives specifically designed better align the skills of those seeking work with the needs of businesses interested in hiring. These initiatives will assure that more Oregonians have the foundational and problem solving skills to compete for jobs in growing businesses, are able to gain industry specific training, and build industry partnerships to better align all investments into a skilled workforce.

Temporary Assistance for Needy Families (TANF) – The Governor’s budget provides \$46 million General Fund to replace one-time federal revenues, used in 2011-13 for the TANF and Job Opportunity and Basic Skills (JOBS) programs. This funding level implements a three-year eligibility time limit.

Earned Income Tax Credit (EITC) – The Governor’s budget provides an additional \$22 million for the EITC. Low income working families will now have more money in their pockets. Oregon’s EITC is currently six percent of the federal EITC, one of the lowest in the country. This increase brings Oregon’s EITC up to eight percent of the federal, a long overdue increase since the EITC was established in 1997. This is money that gets spent by working families in local communities. The EITC rewards work, reduces income tax liability for low income families and reduces poverty.

Seismic Grants – The Governor’s budget provides \$30 million of Seismic Rehabilitation Grant Bond proceeds to fund seismic rehabilitation of public education buildings and of emergency services buildings. These bonds will be repaid with General Fund, although no debt service is anticipated in the 2013-15 biennium due to the bonds’ sale late in the biennium. The rehabilitation projects strive to prevent loss of life in schools and continued operations of emergency services buildings during and following a large earthquake.

Wildfire Protection Act – The Governor’s budget invests up to \$3.6 million of General Fund as part of an increase in resources to control forest fires while they are still small. The proposal also includes a phased-in increase in General Fund responsibility for payment of large-fire costs over several biennia. The proposal results in a reduction of Eastern Oregon landowner assessments for fire prevention in order to help sustain that segment of the state’s forest products industry while efforts to increase timber harvests in that area are developed.

Gilchrist State Forest Acquisition – The Governor’s budget invests \$0.8 million Lottery funds for debt service and \$7.6 million of Lottery bond proceeds that will be added to an existing \$2.0 million of Lottery bond proceeds to purchase 25,754 acres of forestland adjacent to the existing Gilchrist State Forest. This purchase completes the acquisition of 69,143 acres of Central Oregon forestland that will be managed to maintain and improve environmental conditions and to support the timber industry and recreation.

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Forest Collaboratives – The Governor’s budget provides \$4.5 million of Lottery-backed bond proceeds to fund the implementation of forest collaborative projects to increase timber supply to mills in central and eastern Oregon. The state intends that this funding will be contingent on commitments by the U.S. Forest Service to provide land-term supply agreements for key mills in this part of the state. The budget also provides \$1.6 million in Lottery-backed bond proceeds for efforts to provide a sustainable supply of timber from federal Oregon California Revested Grantlands (O&C lands).

State Fair – The Governor’s budget maintains funding of \$3.8 million Lottery funds for the operations of the Oregon Exposition Center (State Fairgrounds).

Jobs and Innovation Programs

| Page | Program | GF/LF | OF/FF | Total funds |
|------|--|-------|-------|-------------|
| E-7 | Agricultural Experiment Station | 51.8 | - | 51.8 |
| E-7 | Agriculture Market Access and Development | 4.4 | 20.9 | 25.3 |
| E-8 | Aircraft Registration | - | 0.1 | 0.1 |
| E-8 | Airport Capital Construction | - | 0.4 | 0.4 |
| E-8 | Airport Pavement Maintenance | - | 2.0 | 2.0 |
| E-9 | Alcoholic Beverage Public Safety Services Prog | - | 17.0 | 17.0 |
| E-9 | Aviation Operations and Oversight | - | 4.1 | 4.1 |
| E-10 | Basic Rehabilitative Services | 16.4 | 66.9 | 83.3 |
| E-10 | Blind Rehabilitative Services | 0.5 | 7.9 | 8.4 |
| E-11 | Bridge Inspection and Preservation | - | 372.3 | 372.3 |
| E-11 | Business and Employment Services | - | 105.4 | 105.4 |
| E-12 | Business Development Lottery Bond Debt Service | 56.4 | 5.0 | 61.4 |
| E-12 | Business Enterprises for the Blind | - | 0.7 | 0.7 |
| E-12 | Business, Innovation, Trade | 70.4 | 32.0 | 102.4 |
| E-13 | CCWD Federal and Other Support | - | 112.5 | 112.5 |
| E-13 | Clean Water Revolving Fund | - | 111.9 | 111.9 |
| E-14 | Construction Contractors Board | - | 15.9 | 15.9 |
| E-14 | Distilled Spirits Program | - | 21.9 | 21.9 |
| E-15 | Energy Development Services | 3.4 | 198.5 | 201.9 |
| E-15 | Environmental Quality Cross Program/Regional Solutions | 0.7 | 1.2 | 1.9 |

Jobs and Innovation

Jobs and Innovation Programs (continued)

| Page | Program | GF/LF | OF/FF | Total Funds |
|------|---|-------|---------|-------------|
| E-16 | Film and Video | 1.2 | - | 1.2 |
| E-16 | Fish & Wildlife Debt Service | 0.4 | 2.4 | 2.8 |
| E-16 | Fish Hatchery Management | 5.1 | 51.8 | 56.9 |
| E-17 | Fishery Capital Improvements | 0.1 | 4.3 | 4.4 |
| E-17 | Food Safety and Consumer Protection | 6.1 | 18.5 | 24.6 |
| E-17 | Forest Fire Protection | 38.3 | 79.7 | 118.0 |
| E-18 | Forest Research Laboratory | 5.7 | - | 5.7 |
| E-18 | Forestry Debt Service | 6.2 | 1.8 | 8.0 |
| E-19 | Forestry Capital Construction | - | 10.1 | 10.1 |
| E-19 | General Aviation FAA Entitlement Program | - | 4.2 | 4.2 |
| E-19 | Highway Modernization | - | 824.6 | 824.6 |
| E-20 | Highway Preservation | - | 249.3 | 249.3 |
| E-20 | Infrastructure Financing Authority | 4.7 | 372.3 | 377.0 |
| E-21 | Labor Apprenticeship and Training | 2.8 | 2.1 | 4.9 |
| E-21 | Labor Commissioner's Office/Program Support | 3.5 | 3.1 | 6.6 |
| E-22 | Liquor Facility Capital Improvements | - | 0.2 | 0.2 |
| E-22 | Liquor Store Operating Expenses | - | 95.2 | 95.2 |
| E-22 | Local Government Transportation Funds | - | 367.3 | 367.3 |
| E-23 | Marine Facility Programs | - | 10.8 | 10.8 |
| E-23 | Nonlimited Unemployment Fund | - | 1,758.9 | 1,758.9 |
| E-24 | Oregon Exposition Center (State Fair) | 3.8 | 12.2 | 16.0 |
| E-24 | Orientation Center for the Blind | 0.3 | 2.1 | 2.4 |
| E-24 | Public Transit | 2.0 | 98.2 | 100.2 |
| E-25 | Racing Commission General Program | - | 5.4 | 5.4 |
| E-25 | Self Sufficiency - TANF/JOBS Programs | 203.8 | 230.9 | 434.7 |
| E-25 | Siting Energy Facilities | 0.5 | 5.7 | 6.2 |
| E-26 | State Forest Lands Management | - | 90.2 | 90.2 |
| E-26 | State Police Gaming Division | - | 9.9 | 9.9 |
| E-27 | Transportation Capital Construction | - | 18.2 | 18.2 |
| E-27 | Transportation Debt Service | 96.0 | 485.7 | 581.7 |
| E-27 | Transportation Infrastructure Fund | - | 0.0 | 0.0 |
| E-28 | Transportation Program Development | - | 242.3 | 242.3 |
| E-28 | Transportation Special Programs | - | 224.0 | 224.0 |
| E-29 | Unemployment Insurance Administration | - | 132.4 | 132.4 |
| E-29 | Veterans' Home Loan Program | - | 15.3 | 15.3 |
| E-30 | Veterans' Services Program | 7.8 | 0.9 | 8.7 |

Jobs and Innovation

Jobs and Innovation Programs (continued)

| Page | Program | GF/LF | OF/FF | Total Funds |
|------|---|-------|-------|-------------|
| E-30 | Water Development Loan Program | - | 13.7 | 13.7 |
| E-30 | Water Resources Administrative Services | 5.4 | 11.9 | 17.3 |
| E-31 | Water Resources Field Services | 9.7 | 2.1 | 11.8 |
| E-31 | Water Rights and Adjudications | 3.4 | 4.3 | 7.7 |
| E-31 | Workforce and Economic Research | - | 15.4 | 15.4 |

Jobs and Innovation Programs

Agricultural Experiment Station:

The Oregon University System Agricultural Experiment Station (AES) is the principal agricultural and related natural resources research agency of the State of Oregon. Its mission is to conduct research to solve problems and generate innovations in the agricultural, biological, social, and environmental sciences for the social, economic, and environmental benefit of Oregonians.

AES' research stations are located in Astoria, Aurora, Burns, Central Point, Corvallis, Hermiston, Hood River, Klamath, Madras, Moro, Newport, Ontario, Pendleton, Powell Butte, Portland, and Union. The stations provide local research capacity and on-going partnerships with local and regional communities to help ensure the sustainability and enhance the resilience of Oregon's agricultural, fisheries, food systems, rangelands, and related industries and communities that depend on them.

The Governor's budget includes \$51.8 million General Fund, unchanged from the 2011-13 Legislatively Approved Budget level. At this level of funding, the program will attempt to maintain staffing levels, stations, and external grant support using federal grants and revenues from sale of products and services.

Agriculture Market Access and Development:

The Market Access, Development, Certification/Inspection Policy Area in the Department of Agriculture assists Oregon's agricultural producers successfully sell and ship products to local, national and international markets. The marketing portion of the program works to promote and create demand for Oregon agricultural products. The inspection and certification portion of the program adds value by providing services to facilitate product movement and overcome trade barriers and technical constraints that affect the agriculture traded sectors. The policy area functions statewide across rural and urban areas alike to create jobs and sustainable opportunity for the state's \$5.3 billion agricultural sector.

The Governor's budget for this program is \$25.3 million, which includes \$4.4 million General Fund as well as license and registration and service delivery fees and federal funds. The recommended budget will fund 205 positions and will continue the program's current level of operations while also adding the Predator Control and Livestock ID programs that transferred from the Food Safety/Consumer Protection

Jobs and Innovation

fires helps to maintain a stable environment for ongoing investment in forest ownership. It also protects public safety and natural resource values.

The Governor's budget for this program is \$118.0 million, which includes \$38.3 million General Fund, \$15.7 million Federal Funds, and \$64.0 million primarily from private forest landowner assessments. The budget will fund 694 positions, almost unchanged from the 2011-13 biennium. In addition to the program's budget, \$5 million is reserved in a Special Purpose Appropriation in the Emergency Fund budget to pay for severity resources and catastrophic fire insurance premiums. The program's budget invests up to \$3.6 million of General Funds as part of a three-biennium plan to increase resources used to extinguish forest fires while they are small and to phase in an increase in General Fund responsibility for payment of large-fire costs. Landowner assessments will pay for up to \$6.0 million of additional severity resources each biennium to extinguish forest fires while they are small.

Forest Research Laboratory:

The Forest Research Laboratory within the Department of Post-Secondary Education provides research and development services to Oregon's forest sector, serving 141,000 family forestland owners, 73,000 forest industry workers, and the state's \$13 billion industry. In addition to research in campus laboratories and on university forests, studies are conducted cooperatively in public and private forests, in laboratories and manufacturing facilities throughout Oregon and the world. The program provides knowledge about the science and management of forests and related natural resources, the connections of people to forests, and the uses of renewable materials to help sustain businesses, communities and ecosystems.

The Governor's budget includes \$5.7 million General Fund, unchanged from the 2011-13 Legislatively Approved Budget. The program will attempt to continue to provide current services, using Forest Harvest Tax revenues and federal grants.

Forest Debt Service:

The Oregon Department of Forestry's Debt Service program contains funding to repay long-term financial obligations acquired through the issuance of bonds or Certificates of Participation to fund the Department's capital construction projects and business system improvement initiatives. These include debt service on the Department's Salem headquarters facilities, its Business Systems Improvement Initiative, John Day and Sisters office replacement projects, and Gilchrist State Forest land purchase.

The Governor's budget for this program is \$8.0 million, of which \$2.9 million is General Fund, \$3.3 million is Lottery Funds, and \$1.8 million is from transfers from other programs in the Department. The budget includes \$0.8 million Lottery Funds for debt service on \$7.6 million of bond proceeds for the purchase of additional lands to be added to the Gilchrist State Forest. It also includes a small amount of debt service for the \$2.5 million replacement of a Fire Protection Program warehouse building in eastern Lane County.

Capital Budgeting

CAPITAL CONSTRUCTION

Capital Construction projects are presented in appropriation bills separate from agencies' budget bills for ongoing operations. "Major Construction" projects are distinguished from "Capital Improvements" based on a cost in excess of \$1 million, and must receive approval by the Legislature before spending begins. Capital Improvements less than \$1 million do not require specific legislative approval and are included in an agency's operating budget.

The following tables show the major projects proposed by the Governor for the 2013-15 biennium. They also show identified major project costs for the four years in the subsequent two biennia as submitted by each agency. This data on projected future project cost is referred to as the "six-year plan" and is a required component of the Governor's recommended budget under Oregon law (ORS 291.224).

The recommended major construction projects are included in one appropriation bill. Subsequent to enactment of Senate Bill 242 (2011), individual Oregon University System (OUS) capital construction projects no longer require separate approval by the Governor and Legislative Assembly. Expenditure limitations will no longer be established for OUS capital construction projects; however, a portion of funding authorized for OUS will support capital projects. The Governor anticipates a commitment of approximately \$275 million in General Fund supported financing for new OUS and community college projects in the 2013-15 biennium. Executive Order No. 12-17, signed on November 13, 2012 sets forth the Governor's expectation to finance approximately \$275 million per biennium going forward for OUS and community college projects (including information technology systems). This commitment however is not reflected in the tables that accompany this section of the Governor's Budget.

Projects may be funded with proceeds from bonds that are repaid over time or on a "pay-as-you-go" (i.e. without borrowing) basis. Sources for bond repayment and "pay-as-you-go" include General Fund, Other Funds, Lottery Funds and Federal Funds. Income taxes are the primary source of General Fund resources. Other Funds are moneys dedicated by Oregon Law or Constitution. Other Fund revenues are derived from a variety of sources including taxes on fuels, rents, fees for services, grants, and donations. Lottery Funds are net revenues derived from operations of the Oregon Lottery. Federal Funds are moneys from the U.S. Government to pay for specific projects such as armories and airport improvements. Important investments in this budget will:

- Improve Oregon University System and local community college facilities;
- Provide construction funds for new State Hospital facilities in Junction City; and
- Make improvements to state office buildings, including establishment of a new statewide infrastructure fund that will be available to address long outstanding deferred maintenance needs and promote best practices in facilities management.

Although construction projects for roads and bridges do not require approval in the capital construction bill, bonding authority for the proposed I-5 bridge over the Columbia River between Portland and Vancouver is authorized in the Governor's budget.



Oregon State Board of Higher Education



Appendices

Appendices:

Minutes, December 21, 2012
Minutes, January 9, 2013.....

Oregon State Board of Higher Education

Finance & Administration Committee

December 21, 2012

Minutes

Committee members present included: Chair Kirk Schueler, Lynda Ciuffetti, Orcilia Forbes, Allyn Ford, and Farbodd Ganjifard. Director Jim Francesconi also attended.

Chancellor's Office staff present included: Chancellor George Pernsteiner, Vice Chancellor Jay Kenton, Michael Green, Ryan Hagemann, Karen Levear, Jan Lewis, Patricia Snopkowski, Marcia Stuart, and Charles Triplett.

Others present included: Presidents Mary Cullinan (SOU), Bob Davies (EOU), Mike Gottfredson (UO), Chris Maples (OIT), Ed Ray (OSU), and Wim Wiewel (PSU); Vice Presidents, Jamie Moffitt (UO), Craig Morris (SOU), Monica Rimai (PSU), Lon Whitaker (EOU), Eric Yanke (WOU), and Mary Ann Zemke (OIT); Provosts Steve Adkison (EOU), Sona Andrews (PSU), Jim Bean (UO), Brad Burda (OIT), Kent Neely (WOU), and Sabah Randhawa (OSU). Other campus personnel present included Sherman Bloomer (OSU) and Steve Scheck (WOU). Mr Doug Goe, bond counsel, from Orrick, Herrington, & Sutcliffe, LLP, attended by telephone.

1. CALL TO ORDER/ROLL CALL/WELCOME

Chair Schueler called the meeting of the Finance & Administration Committee to order at 8:30 a.m.

2. APPROVAL OF MINUTES

a. Approval of November 2012 minutes

ACTION: Chair Schueler called for a motion to approve the November 2012 minutes; Directors Ciuffetti and Forbes made the motion and second, respectively. Motion carried.

3. ACTION ITEMS

a. OUS, Resolution for the Sale of Articles XI-F(1) and XI-G Bonds

Chair Schueler called upon Ms. Karen Levear to present the item. Ms. Levear welcomed Mr. Goe, Orrick Bond Counsel to the meeting and introduced him to the Committee. She then noted the University of Oregon's Erb Memorial Union Partial Renovation West (lower level) listed in Tables A and C was better suited to use XI-F Capital Renewal dollars and directed Board

staff to re-label the project as: “UO: Capital Renewal/Code Compliance and Safety-Erb Memorial Union” in both tables of the docket.

The Committee agreed to take each motion individually while reviewing the proposed projects for inclusion in the bond sale.

1. **ACTION:** To find that the proposed new money bond sale meets the legal requirements of the State’s constitution. Directors Ford and Forbes made the motion and second, respectively; motion carried.
2. **ACTION:** To accept the Director of Treasury Operation’s determination that the renovations (or partial renovations) of Hoke Hall (EOU), Parking Structure One (PSU), and Erb Memorial Union (UO), each of which has an expected total cost of less than \$5 million, are financially viable without considering any amounts appropriated by the legislative assembly from the State’s General Fund, as defined in the Board’s policy on debt. Directors Ford and Forbes made the motion and second, respectively; motion carried.
3. **ACTION:** To find that the other proposed capital projects funded with Article XI-F(1) bonds, whose total cost is expected to be \$5 million or more, are financially viable based on the attached proformas without considering any amounts appropriated by the legislative assembly from the State’s General Fund. Directors Ganjifard and Forbes made the motion and second, respectively; motion carried.
4. **ACTION:** To find that the resulting debt burden ratios for each institution comply with Board policy based on the analysis provided and that no debt burden ratio exceeds 7 percent. Directors Forbes and Ford made the motion and second, respectively; motion carried.
5. **ACTION:** To adopt standing resolution #2012-01 to authorize refundings when sufficient savings are present, as drafted by Orrick to replace the existing standing resolution drafted by previous bond counsel. This resolution covers the legalities needed to issue the bonds, designates who has authority to sign the documents, and permits OUS to do all necessary work to affect the sale. Directors Ganjifard and Forbes made the motion and second, respectively; motion carried.
6. **ACTION:** To adopt resolution #2012-02 authorizing the sale of new Articles XI-F(1) and XI-G bonds to fund the projects shown in Tables A (as modified) and B, based upon estimates that sufficient revenues exist to pay the debt service of the XI-F(1) bonds and operate the projects financed with the XI-F(1) bonds, without considering any amounts appropriated by the legislative assembly from the State’s General Fund. Directors Forbes and Ford made the motion and second, respectively; motion carried.

4. RECESS INTO EXECUTIVE SESSION

At the conclusion (8:52 a.m.) of Committee business, Chair Schueler recessed the open meeting into executive session by declaring that pursuant to ORS 192.660(2)(f), the Committee will be reviewing records that are exempt by law from public inspection. In accordance to ORS 192.660(4), representatives of the news media were asked to identify themselves and requested that any discussion conducted in executive session remain undisclosed.

The following were in attendance for the executive session: Chair Kirk Schueler, Lynda Ciuffetti, Orcilia Forbes, Allyn Ford, Jim Francesconi, and Farbodd Ganjifard; Chancellor George Pernsteiner, Vice Chancellor Jay Kenton, Michael Green, Ryan Hagemann, Jan Lewis, Patricia Snopkowski, Marcia Stuart, and Charles Triplett; Presidents Mary Cullinan (SOU), Bob Davies (EOU), Mike Gottfredson (UO), Chris Maples (OIT), Ed Ray (OSU), and Wim Wiewel (PSU); Vice Presidents, Jamie Moffitt (UO), Craig Morris (SOU), Monica Rimai (PSU), Lon Whitaker (EOU), Eric Yanke (WOU), and Mary Ann Zemke (OIT); Provosts Steve Adkison (EOU), Sona Andrews (PSU), Jim Bean (UO), Brad Burda (OIT), Kent Neely (WOU), and Sabah Randhawa (OSU). Other campus personnel present included Sherman Bloomer (OSU) and Steve Scheck (WOU).

The executive session convened at 8:52 a.m. and adjourned at 3:30 p.m.

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Oregon State Board of Higher Education

Finance & Administration Committee

January 9, 2013

Committee members present included: Chair Kirk Schueler, Lynda Ciuffetti, Orcilia Forbes, and Farbodd Ganjifard.

Chancellor's Office staff present included: Chancellor George Pernsteiner, Vice Chancellor Jay Kenton, Michael Green, Karen Levear, Jan Lewis, Marcia Stuart, and Charles Triplett.

Others present included: Presidents Mike Gottfredson (UO), and Ed Ray (OSU); Vice Presidents, Jamie Moffitt (UO), Craig Morris (SOU), Monica Rimai (PSU), Lon Whitaker (EOU), Eric Yanke (WOU), Mary Ann Zemke (OIT); and Becky Johnson (OSU-Cascades) and Liz Shelby (SOU). Mr. Ben Cannon, Governor's Office, also participated.

1. CALL TO ORDER/ROLL CALL/WELCOME

Chair Schueler called the meeting to order at 8:31 a.m.

2. ACTION ITEMS

a. 2013-2015 Capital Budget – 40-40-20 Re-Prioritization

Chair Schueler called upon Vice Chancellor Kenton to present the revised 2013-2015 capital budget. This reprioritization was initiated at the request of the Governor's Office to better align the initial capital request with the state's 40-40-20 goal. Kenton noted that in order to achieve 40-40-20, the System has to serve significantly more students, with some estimates suggesting a minimum 2 percent annual growth per year for OUS. In the reprioritization exercise, significant weight was placed on serving more students and serving students better. Kenton noted several challenges with reprioritizing the capital request exclusively on 40-40-20, including questions about research, public service, graduate education and non-residents.

Considerations such as philanthropic giving for capital projects and required capital repair and maintenance are also challenged under a strict 40-40-20 reprioritization. Historically, Article XI-G bonds are used to leverage donors to support campus growth and attract a greater philanthropy base. Similarly, although capital repair does not increase overall instructional space, it is essential to improving existing spaces and to continuing to serve student bodies with quality facilities that are accessible and code compliant.

Mr. Ben Cannon, Governor's Office, acknowledged the work put into creating the first budget submission and the challenge this revision presented, given the short time frame. Supporting

the state's 40-40-20 goals is a high priority criteria but not the only criterion under consideration. Other factors including research, economic development, etc. are also important. Cannon acknowledged that there is not a "perfect list" noted that the revision does provide a clear indication of the weighting of the priorities in support of the 40-40-20 goals and he feels confident to inform the Governor that the list has been reorganized with a strong support of the Governor's expressed goals. Committee members discussed whether or not the Governor and/or legislature will reprioritize the request; Cannon agreed that further reprioritization is possible. There are many competing capital requests outside of education that will impact what funds are available for the PK-20 budget.

Chair Schueler called upon campus representatives to provide brief comments.

- **EOU** Vice President Whitaker stated that he supports EOU's reprioritization.
- **OIT** Vice President Zemke expressed disappointed in the reduction of their project in the ranking, from 6 to 10, as this will impact the donor gifting schedule.
- **OSU** President Ray commented that there are OSU projects that have been given lower ranking based on the new criteria.
- **PSU** Vice President Rimai suggested that the timing issues of the revision has changed the ranking of projects and may impact donor giving. She noted that every student, regardless of discipline or level of education, will be sorely impacted with the delay of the renovation and upgrades of Neuberger Hall.
- **SOU** Vice President Morris said that he was disappointed that Craig Hall was lower in the ranking from the original ranking. He noted that the Co-Generation Power Plant project has been deferred to the 2015-2017 biennium.
- **UO** President Gottfredson noted that as evidenced by everyone's comments, there are too many deserving projects and too little money. He expressed his own concern regarding the ranking of the Science Commons and Research Library expansion and remodel, explaining that the project is a modernized facility that supports teaching more than the reprioritization suggests.
- **WOU** President Weiss spoke in support of the prioritization and WOU's priority on the new College of Education building.

Director Ciuffetti thanked Dr. Kenton for his efforts and suggested that research should also be categorized as teaching. Having instructional space alongside research space is essential to attracting faculty and serving both undergraduate and graduate students. Chair Schueler agreed and stated his support for the original ranking which better reflected that point.

Chair Schueler requested that the original ranking be included along with the revised, so that the more detailed analysis is provided to the Governor. Dr. Kenton agreed and advised that Appendix A and the original rankings will be provided; Cannon urged that a description of the change in ranking be included, noting that teaching may not be the only consideration moving forward.

ACTION: Chair Schueler called for a motion to approve the revised capital budget priorities as based on evaluation criteria outlined the in the December 6, 2012 memorandum. Director Forbes made the motion, to include the original rankings, description of the projects, and the impact to the campuses; Director Ganjifard seconded. Motion carried.

Vice Chancellor Kenton commented that a more definitive description of the 40-40-20 criteria is needed not only for the capital but also the operating budget for compilation of the System budget requests.

3. ADJOURNMENT

With no further business proposed, Chair Schueler adjourned the meeting at 9:26 a.m.