

**75th OREGON LEGISLATIVE ASSEMBLY – 2009 Regular Session
BUDGET REPORT AND MEASURE SUMMARY**

JOINT COMMITTEE ON WAYS AND MEANS

MEASURE: HB 5017-A

Carrier – House: Rep. D. Edwards

Carrier – Senate: Sen. Monroe

Action: Do Pass as Amended and Be Printed A-Engrossed

Vote: 19 – 2 – 1

House – Yeas: Buckley, C. Edwards, D. Edwards, Garrard, Jenson, Kotek, Nathanson, Richardson, Shields, G. Smith

– Nays: Galizio, Gilman

– Exc:

Senate – Yeas: Bates, Carter, Girod, Johnson, Monroe, Nelson, Verger, Walker, Whitsett

– Nays:

– Exc: Winters

Prepared By: Bill McGee, Department of Administrative Services

Reviewed By: Paul Seibert, Legislative Fiscal Office

Meeting Date: June 22, 2009

Agency

Department of Higher Education

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Biennium

2009-11

Budget Summary*

	2007-09 Legislatively Approved Budget (1)	2009-11 Essential Budget Level	2009-11 Committee Recommendation	Committee Change from 2007- 09 Leg. Approved	
				<u>\$\$ Change</u>	<u>% Change</u>
General Fund	\$ 827,117,559	\$ 867,412,248	\$ 760,990,188	\$ -66,127,371	-8.0%
General Fund Debt Service	\$ 37,756,473	\$ 57,428,721	\$ 59,482,045	\$ 21,725,572	57.5%
Lottery Funds	\$ 12,683,423	\$ 13,038,559	\$ 9,665,082	\$ -3,018,341	-23.8%
Lottery Funds Debt Service	\$ 13,298,809	\$ 19,846,756	\$ 13,431,872	\$ 133,063	1.0%
Other Funds	\$ 1,292,211,576	\$ 1,270,911,684	\$ 1,446,581,411	\$ 154,369,835	11.9%
Other Funds Debt Service	\$ -	\$ -	\$ 26,733,019	\$ 26,733,019	100.0%
Other Funds Capital Improvement	\$ -	\$ -	\$ 41,000,000	\$ 41,000,000	100.0%
Other Funds Nonlimited	\$ 2,076,235,587	\$ 2,122,820,859	\$ 2,122,820,859	\$ 46,585,272	2.2%
Other Funds Debt Service Nonlimited	\$ 132,034,637	\$ 156,562,065	\$ 130,862,065	\$ -1,172,572	-0.9%
Total	\$ 4,391,338,064	\$ 4,508,020,892	\$ 4,611,566,541	\$ 220,228,477	5.0%

Position Summary

Authorized Positions	17,837	17,864	18,249	412
Full-time Equivalent (FTE) positions	12,566.58	12,594.10	12,907.76	341.18

(1) Includes adjustments through the December 2008 meeting of the Emergency Board

* Excludes Capital Construction expenditures

Summary of Revenue Changes

Most of the Department of Higher Education's General Fund appropriation is distributed through the Resource Allocation Model (RAM). The campuses receive funding based on student enrollment on a full-time equivalent basis. The remaining General Fund support to campuses, and all General Fund support for centralized services, is distributed through the RAM as targeted programs. Targeted programs are designed to address costs that are not directly related to enrollment levels. General Fund is also used to pay debt service on Article XI-G bonds, Certificates of Participation (COPs), and energy loans that fund Capital Construction projects and COPs sold for information technology projects.

Beginning in July 2007, one percent of Lottery Funds deposited into the Department of Administrative Services Economic Development Fund has been transferred to the Sports Action account to finance intercollegiate athletics and graduate student scholarships. Lottery proceeds are also allocated for debt service on Lottery-backed bonds.

The primary source of Other Fund revenues for the Education and General Services program unit is tuition and fees. Other sources include sales and charges for services, indirect cost recovery on grants, and other miscellaneous revenues. Nonlimited funds include gifts and sponsored

research financed by the federal government, private industry, and other private groups. These Nonlimited funds, the major source of support for research, also directly benefit and enhance the instruction and research programs supported by the General Fund and tuition revenue.

Other Funds supporting the Agricultural Experiment Station, Extension Service, and Forest Research Laboratory come from federal formula funds, sales and service fees, indirect cost recovery on federal grants, interest earnings, and miscellaneous income. Nonlimited gifts, grants, and contracts also support research activities of the three statewide public service programs. The Forest Research Laboratory also receives revenues from the Forest Products Harvest Tax. The Subcommittee approved an expenditure level for the Forest Research Lab that assumes extension of the sunset on this tax.

Most self-supporting Nonlimited revenue sources are dedicated to a specific purpose and are independent of General Fund and limited Other Funds supported programs. The revenue sources include student aid funds, food service and other enterprise sales, dormitory fees, health service fees, and course fees for non-credit continuing education programs, among others. Expenditure of these revenues is shown in the Other Services (Nonlimited) program unit.

Historically, all federal funding received by the department is budgeted as Other Funds; however American Recovery and Reinvestment Act revenues are budgeted as Federal Funds.

As a result of the 2007-09 biennium rebalance included in Senate Bill 5552 (2009), which shifted department expenditures from General Fund to Other Fund balances and updated revenue projections, the Subcommittee adjusted 2009-11 Other Funds beginning balances in several program units:

- Education and General Services reduced by \$48,879,703;
- Agricultural Experiment Station increased by \$404,970;
- Extension Service reduced by \$2,173,461; and
- Forest Research Laboratory reduced by \$2,290,098.

The Subcommittee approved an increase in tuition and fee revenues of \$260.2 million Other Funds and an increase in fee remissions of \$42.3 million to accommodate:

- Additional revenues from unbudgeted enrollment growth in the 2007-09 biennium and anticipated enrollment growth in the 2009-11 biennium;
- A tuition surcharge established by the University of Oregon in the 2008-09 academic year;
- Annual tuition increases of 3.6 percent per year needed to fund the essential budget level; and
- Additional tuition increases of 2.4 percent per year for resident undergraduates and 5.4 percent per year for non-resident and graduate students, resulting in a total increase of six percent for resident undergraduates and nine percent for all other students. Thirty percent of the revenues

received from the increase above 3.6 percent per year will be directed to need-based fee remission to assist lower income students with the increasing cost of enrollment.

A series of technical adjustments was included in Package 840 in the Education and General Services, Other Services Nonlimited, Debt Service, and newly created Capital Improvement program units to correctly account for the use of tuition and fee revenues in the payment of debt service on some Article XI-F (1) bonds and expenditures for certain facilities projects costing less than \$1 million.

The Subcommittee approved a \$1.7 million reduction in the Lottery Funds expenditure limitation in the Sports Action program unit to reflect a reduction in the May 2009 revenue forecast.

Summary of Education Subcommittee Action

The Department of Higher Education is the state agency name for the educational institutions, governing board, central administration, support services, and public services that make up the Oregon University System (OUS). The institutions consist of the University of Oregon, Oregon State University, Portland State University, the three regional universities (Eastern, Western, and Southern Oregon Universities), and the Oregon Institute of Technology. Funding for the three Oregon State University statewide public service programs, the Agricultural Experiment Station, the Extension Service, and the Forest Research Laboratory, is also included in the department's budget.

The Subcommittee approved an operating budget of \$820,472,233 General Fund, \$23,096,954 Lottery Funds, \$4,611,566,541 total funds, and 12,907.76 FTE. General Fund and Lottery Funds are reduced from the 2007-09 Legislatively Approved Budget through December 2008 (LAB) by 8.1 percent and 11.1 percent respectively. Total funds are reduced by 10.8 percent while FTE is increased by 2.7 percent. General Fund is reduced by 11.3 percent from the 2009-11 Essential Budget Level (EBL). Lottery Funds are reduced by 29.8 percent below EBL and total funds are increased by 1.4 percent above EBL. The department's Capital Construction budget will be considered in a separate bill.

The approved budget includes the following Subcommittee actions:

- Permanent General Fund reductions to balance the 2007-09 biennium were extended into 2009-11.
- Reductions in university operations were partially offset with increased tuition and fee revenues. The approved budget includes sufficient Other Funds expenditure limitation to accommodate increases of six percent per year for resident undergraduates and nine percent per year for all other students. The department plans to direct 30 percent of revenues from tuition increases in excess of 3.6 percent per year to need-based fee remission, to assist lower income students with increasing educational costs. The Subcommittee approved the following budget note regarding tuition increases for resident undergraduates.

Budget Note

In adopting the budget for the Department of Higher Education, the Legislature intends that increases in the rates for tuition and resource fees paid by resident undergraduate students at universities whose enrollment are at least 7,500 students shall

not exceed an average of 8% per year, and may not exceed 9% per year for any single institution. Increases in the rates for tuition and resource fees paid by resident undergraduate students at all other Department of Higher Education institutions shall not exceed an average of 5% per year, and may not exceed 6.5% per year for any single institution, except for Western Oregon University which may increase rates for new students entering the Western Promise program by 9% in the year of entry. The Department shall report to the Legislature by January 31, 2010 regarding increases in the rates for tuition and resources fees paid by resident undergraduate students. If the State Board of Higher Education proposes to increase rates in excess of the legislatively intended rates stated above, it shall report to the Emergency Board or Joint Committee on Ways and Means prior to approving such an increase.

- Additional reductions to a variety of targeted programs lowered the overall funding level for the Education and General Services program unit to 13 percent less than the 2009-11 EBL. Targeted programs affected include campus public services, various centers and institutes, supplemental funding for engineering programs, and state support for faculty research activities. No reductions were taken from targeted regional university support. The Subcommittee adopted the following budget note regarding reductions to public service institutes and campus programs.

Budget Note

In approving reductions to General Fund support for Public Service Institutes and Campus Programs, the Legislature intends that the Essential Budget Levels support levels for these targeted programs shall not be reduced more than the 5% reductions to estimated Essential Budget Level taken in the Education and General program area budget.

- The three Oregon State University statewide public service programs, the Agricultural Experiment Station, Extension Service, and Forest Research Laboratory, were reduced by 10 percent below EBL.
- Funding for the Chancellor's Office was reduced by 25 percent below EBL, allowing the Subcommittee to make smaller reductions in other department programs.
- The approved budget increases General Fund and Other Funds to accommodate enrollment increases experienced in the 2008-09 academic year and anticipated in 2009-11. Funding is available from tuition and fees received from the increased number of students.
- Dedicated Lottery Funds supporting athletics and scholarships are reduced by 25.9 percent below EBL, in part due to a projected decline in gaming revenues.
- Debt service on bonds, COPs, and energy loans used to finance previously approved Capital Construction and campus technology projects, including those in the 2009 stimulus package (Senate Bill 338), is included in the approved budget. No Federal Funds or Lottery Funds are included for new 2009-11 projects; the projects will be scheduled so that state-paid debt service is deferred until the 2011-13 biennium.

- The Subcommittee adopted the following budget note relating to matching department expenditure actuals with ORBITS, the state budget system:

Budget Note

The Department of Higher Education is directed to match its accounting program structure and budgetary structure (in ORBITS) for the execution of the 2009-11 biennium budget. This action will more easily link accounting with budgetary information as directed in the Statewide Financial Master Plan. The Budget and Management Division of the Department of Administrative Services and the Legislative Fiscal Office will approve these structures and work with the agency to ensure timely implementation.

Education and General Services

This program unit includes the instruction, research, public service, and operating costs of the seven institutions that make up the Oregon University System and the centralized administration and support services of the system.

The Subcommittee approved a budget of \$645,198,749 General Fund, \$3,149,642,251 total funds, and 10,044.69 FTE. General Fund is reduced from the LAB by 9.2 percent while total funds and FTE are increased by 5.2 percent and 4.3 percent respectively. General Fund is reduced by 13 percent below the 2009-11 EBL.

The Subcommittee took the following actions:

- Approved the base budget and essential packages. Other Funds revenue is increased to accommodate tuition revenues anticipated from enrollment growth in 2007-09, a tuition surcharge established by the University of Oregon in 2008-09, and a 3.6 percent annual tuition increase in 2009-11.
- Approved Package 104 that increases General Fund by \$6.9 million and Other Funds by \$128.5 million and establishes 570 positions (468.93 FTE) to accommodate actual enrollment growth in 2008-09 and projected enrollment growth in 2009-11.
- Approved Package 117 that includes \$8.8 million Other Funds for campus technology projects, to be funded with COPs. Debt service on these COPs will be paid with university funds and are budgeted in Package 118 in the Debt Service program unit. Following is a list of specific projects; use of the COP revenue for any other purpose requires prior approval of the Joint Committee on Ways and Means or the Emergency Board.

Campus	Project	Other Funds
OSU	Communications infrastructure upgrades	\$2,000,000
PSU	Storage and server expansion	\$600,000
PSU	Creation of virtual server environment	\$400,000

PSU	Backup and disaster recovery system upgrades	\$400,000
PSU	Desktop computer replacement and upgrades	\$400,000
UO	Classroom and laboratory upgrades	\$3,000,000
UO	Information technology equipment and software	\$2,000,000
Total		\$8,800,000

- Approved Package 804 that reduces General Fund by \$37.7 million and eliminates 77 positions (61.67 FTE) to roll up permanent reductions taken as part of the rebalance plan for the 2007-09 biennium included in Senate Bill 5552 (2009). This package does not include reductions in Central Services and Targeted Programs that are included in Packages 815 through 819.
- Approved Package 811 that shifts \$49.8 million from General Fund to Other Funds to be funded with annual tuition increases of six percent for resident undergraduates and nine percent for non-resident and graduate students. The package increases Other Fund revenues to accommodate increased tuition above the 3.6 percent per year included in the base budget. The package also accommodates a policy decision by the Board of Higher Education to apply 30 percent of tuition increases in excess of 3.6 percent per year to need-based fee remissions to limit the impact of higher tuition to lower income students.
- Approved Package 815 that reduces General Fund by \$1.8 million to accommodate a five percent reduction in support for central services, targeted programs, and campus public services. The Subcommittee expects that each of the following programs will be reduced from EBL by the same amount:
 - Central services and targeted programs, including the dispute resolution programs, the Natural Resources Institute, Oregon Solutions, the Climate Center, the Leadership Institute, Health Professions targeted programs, the Rural Access Initiative, the Veterinary Diagnostic Laboratory, the honey bee research targeted program, the Information Technology 5th Site, the Oregon Center for Advanced Technology Education, the Southwest Oregon University Center, and the Oregon Wide-Area Education Network. The cut to central services and targeted programs represents \$1,545,973 of the total reduction in this package.
 - All campus public service programs including the Rural Oregon Institute, the Population Research Center, Jefferson Public Radio, and the Labor Education Research Center. The cut to campus public services represents \$327,682 of the total reduction in this package.
- Approved Package 816 that reduces General Fund by \$4.2 million and eliminates 13 positions (10.42 FTE) in the Chancellor’s Office. This action reduces the Chancellor’s Office budget by 25 percent, a higher percentage than reductions taken in other Education and General Service programs, lessening the impact of the cuts on those programs.
- Approved Package 818 that reduces General Fund by \$7.3 million and eliminates 15 positions (11.98 FTE) to reduce targeted engineering programs by 15 percent. Programs affected include Industry Affairs, the Oregon Metals Institute, the Oregon Technology and Industry Council (ETIC), and supplemental funding for undergraduate and graduate engineering programs.
- Approved Package 819 that reduces General Fund by \$2.1 million and eliminates 4 positions (3.51 FTE), cutting targeted research support programs by 15 percent. Programs include Sponsored Research, Additional Research Support, and Signature Research/Oregon Council for Knowledge and Economic Development (OCKED).

- Approved Package 840 as a revenue-only package that increases transfers of tuition and fee revenues to the Debt Service program unit by \$25.7 million Other Funds and to the newly established Capital Improvement program unit by \$41 million Other Funds to correctly account for the funding source for these expenditures.

Agricultural Experiment Station

The Agricultural Experiment Station conducts research and demonstrations in the agricultural, biological, social, and environmental sciences. Research is conducted at a central station at Corvallis and at eleven branch stations in major crop and climate areas of the state.

The Subcommittee approved a budget of \$57,927,331 General Fund, \$129,546,741 total funds, and 620.04 FTE, reduced from the LAB by 7.2 percent, five percent, and 3.6 percent respectively. General Fund is reduced by 10 percent below the 2009-11 EBL.

The Subcommittee took the following actions:

- Approved the base budget and essential packages.
- Approved Package 070 that reduces Other Funds by \$4 million eliminates eight positions (8.00 FTE) to eliminate limitation for which no funding will be available in the 2009-11 biennium. The reduction is due to declining federal funding and elimination of one-time federal assistance.
- Approved Package 081 that increases General Fund by \$296,692 and establishes two positions (2.00 FTE). The package includes the full-biennial roll-up of costs for a honey bee health program approved by the Emergency Board at its June 2008 meeting. Funding for this program is split between the Agricultural Experiment Station and the Extension Service.
- Approved Package 804 that reduces General Fund by \$3.3 million and eliminates 11 positions (8.40 FTE) to roll up permanent reductions taken as part of the rebalance plan for the 2007-09 biennium included in Senate Bill 5552 (2009).
- Approved Package 810 that reduces General Fund by \$3.1 million and eliminates 10 positions (8.21 FTE) to supplement reductions in Package 804 and reduce support for the program unit by 10 percent from EBL.

Extension Service

The Extension Service is the educational outreach arm of Oregon State University in its capacity as Oregon's Land Grant and Sea Grant university. Extension faculty on campus and in county offices throughout the state work with researchers and volunteers to develop and deliver non-credit educational programs based on locally identified needs. The majority of Extension faculty are assigned to county locations. Extension Specialists are OSU faculty members who develop educational programs and serve as technical resources for county-delivered programs.

Extension Agents are OSU faculty assigned to county field locations. Generally, counties provide office space and operating expenses, including support staff. Programs are delivered with the assistance of thousands of volunteers.

The Subcommittee approved a budget of \$42,323,462 General Fund, \$69,485,716 total funds, and 389.10 FTE, reduced from the LAB by 6.3 percent, 10.3 percent, and 8.6 percent respectively. General Fund is reduced by 10 percent below the 2009-11 EBL.

The Subcommittee took the following actions:

- Approved the base budget and essential packages.
- Approved Package 070 that reduces Other Funds by \$5.8 million and eliminates 25 positions (25.00 FTE) to eliminate limitation for which no funding will be available in the 2009-11 biennium. The reduction is due to declining federal funding.
- Approved Package 081 that increases General Fund by \$197,589 and increases FTE by 0.30. The package includes the full-biennial roll-up of costs for a honey bee health program approved by the Emergency Board at its June 2008 meeting. Funding for this program is split between the Agricultural Experiment Station and the Extension Service.
- Approved Package 804 that reduces General Fund by \$2.4 million and eliminates eight positions (6.13 FTE) to roll up permanent reductions taken as part of the rebalance plan for the 2007-09 biennium included in Senate Bill 5552 (2009).
- Approved Package 810 that reduces General Fund by \$2.2 million and eliminates seven positions (5.78 FTE) to supplement reductions in Package 804 and reduce support for the program unit by 10 percent from EBL.

Forest Research Laboratory

The Forest Research Laboratory (FRL) at Oregon State University conducts research on sustainable forest yields, use of forest products, and stewardship of Oregon's resources. This research is conducted in laboratories and forests administered by the University and cooperative agencies and industries throughout the state. Research results are made available to potential users through educational programs and publications that are directed to forest landowners and managers, manufacturers and users of forest products, leaders of government and industry, the scientific community, the conservation community, and the general public.

The Subcommittee approved a budget of \$6,311,796 General Fund, \$36,170,213 total funds, and 219.94 FTE, reduced by 9.6 percent, 6.5 percent and 3.7 percent respectively. General Fund is reduced by 10 percent below the 2009-11 EBL.

The Subcommittee took the following actions:

- Approved the base budget and essential packages.

- Approved Package 070 that reduces Other Funds by \$3.8 million and eliminates 16 positions (16.00 FTE) due to the scheduled sunset of the Forest Products Harvest Tax and elimination of expenditure authority for which revenues will not be available. Restoration of a portion of the Forest Products Harvest Tax revenues is included in Package 116.
- Approved Package 116 that restores \$2.2 million Other Funds expenditure limitation and 10 positions (9.70 FTE) from the reductions in Package 070 in anticipation of the extension of the Forest Products Harvest Tax in House Bill 2214. The restoration is less than the reduction due to an anticipated loss in tax revenues due to the impact of recession on the forestry industry. If House Bill 2214 is not enacted, the expenditure limitation will be unscheduled.
- Approved Package 804 that reduces General Fund by \$363,986 and eliminates one position (1.11 FTE) to roll up permanent reductions taken as part of the rebalance plan for the 2007-09 biennium included in Senate Bill 5552 (2009).
- Approved Package 810 that reduces General Fund by \$337,324 and eliminates two positions (1.06 FTE) to supplement reductions in Package 804 and reduce support for the program unit by 10 percent below EBL.

Other Services (Nonlimited)

The Nonlimited expenditure authority included in this program unit consists of self-support activities such as residence halls, bookstores, parking, health centers, and food services; self-support instruction; and student aid and loan repayments. The program unit also includes: internal service activities such as campus printing services where funds are moved between campus departments in exchange for services; pass-through accounts for specific accounting purposes such as payroll activities; and authorized but vacant positions for which funding is not allocated to individual operating budgets. Most Nonlimited funds (including federal support for research) are shown in the appropriate program level (Education and General, the OSU statewide public service programs, or Debt Service), to provide a clearer picture of program costs and funding.

The Subcommittee approved a budget of \$931,866,473 Other Funds Nonlimited and 1,633.99 FTE. Expenditure authority is increased from the 2007-09 LAB by 2.4 percent. FTE is unchanged. The Subcommittee approved Package 840 as a revenue only package to eliminate a \$25.7 million Other Funds Nonlimited intra-agency transfer as part of technical adjustments in several program units to correctly account for tuition-funded debt service and capital improvement expenditures.

Debt Service

This program includes the cost of debt service on Capital Construction and information systems projects financed with general obligation bonds, lottery bonds, energy loans, and COPs. General Fund appropriations are made to pay the debt service on Article XI-G bonds, traditionally used to finance instructional and public service facilities, COPs approved for some capital and technology projects, and energy loans. Lottery Funds are allocated for debt service on lottery-backed revenue bonds. Nonlimited Other Fund revenues from self-supporting programs and student building fees are the sources of debt service for repayment of Article XI-F(1) bonds, which are traditionally a revenue source for construction of

student unions, dorms, parking structures, and similar self-supporting programs. Limited Other Fund revenues, including tuition and fees, are used to pay debt service on some Article XI-F (1) bonds.

The Subcommittee approved a budget of \$68,710,895 General Fund, \$13,431,872 Lottery Funds, and \$26,733,019 Other Funds, and \$135,314,279 Other Funds Nonlimited. General Fund and Lottery Funds are increased from the LAB by 74.5 percent and one percent respectively. Other Funds Nonlimited is reduced from the LAB by 2.7 percent, partly due to the establishment of an Other Funds expenditure limitation for debt service funded with tuition and other limited revenues; in prior biennia, tuition and fee paid debt service was included in the Other Funds Nonlimited expenditure authority. The Subcommittee took the following actions:

- Approved the base budget and essential packages.
- Approved Package 118 that increases Other Funds by \$1 million to accommodate debt service on COPs included in Package 117 that will be sold to finance campus technology projects.
- Approved Package 801 that reduces General Fund by \$5.3 million and Lottery Funds by \$6.4 million as a result of changes in timing of capital construction projects and reduced interest rates. The General Fund reduction is due to savings in capital projects funded with Article XI-G bonds, partially offset by increased debt service and loan repayments resulting from Article XI-G bonds and energy loans included in Senate Bill 338 (2009). The Lottery Fund reduction is due to the shift of \$31.1 million in COPs to Senate Bill 338 from the EBL which had assumed lottery bond financing in 2009-11. Debt service for the COPs is included in Package 812.
- Approved Package 812 that increases General Fund by \$8.4 million to accommodate debt service payments on COPs authorized by Senate Bill 338 (2009).
- Approved Package 840 that shifts \$25.7 million from Other Funds Nonlimited to Other Funds as part of technical adjustments in several program units to correctly account for tuition and fee funded debt service and capital improvement expenditures. The package is funded with a revenue transfer from the Education and General Services program unit.

Sports Action Lottery

This program unit includes one percent of Lottery Funds deposited into the Department of Administration Services Economic Development Fund transferred to the Sports Action account to finance intercollegiate athletics and graduate student scholarships. Prior to July 2007, the Department of Higher Education received revenues from the Sports Action lottery game, which was authorized by the 1989 Legislature. House Bill 3466 (2005) eliminated the game and established the one percent transfer.

Eighty-eight percent of the revenues deposited into the Sports Action Account, not to exceed \$8 million annually, are used to finance intercollegiate athletics. The remaining 12 percent are for graduate student scholarships that are not awarded on the basis of athletics. Of the athletic funds, 70 percent must be used for non-revenue producing sports, and at least 50 percent must be used for women's athletics. The Board of Higher Education determines allocation among the campuses.

The Subcommittee approved a budget of \$9,665,082 Lottery Funds, reduced from the LAB by 23.8 percent. The Subcommittee took the following actions:

- Approved the base budget and essential packages.
- Approved Package 801 that reduces Lottery Funds by \$1.7 million to accommodate the May 2009 revenue forecast.
- Approved Package 810 that reduces Lottery Funds by \$1.7 million to reduce the Sports Action program by 15 percent from the May 2009 forecasted levels and redirect the revenues to help address the state-wide funding shortfall. Necessary changes in the statute that dedicates a portion of lottery proceeds to this program will be included in a different bill.

Capital Improvement

The Subcommittee approved Package 840 that creates a new program unit for Capital Improvement expenditures with a \$41 million Other Funds expenditure limitation. The package is funded by a transfer of tuition and fee revenues from the Education and General Services program unit.

The Capital Improvement program unit includes capitalized expenditures less than \$1 million for improvement to land or existing buildings that increase the value, extend the useful life of the asset or make it adaptable to a different use. Land acquisition for a project that has total, complete project costs of less than \$1 million are included in this program unit.

Projects in excess of \$1 million that build, acquire, adapt, replace, or change the use of function of a facility are included in the Capital Construction program unit. All capital projects in excess of \$1 million require a separate Capital Construction expenditure limitation established by the Legislature or the Emergency Board.

Activities and projects that keep a facility operating without increasing asset value or operating life, such as maintenance, repairs, replacement of components, or adaption, are not capital projects. Projects that reduce maintenance costs or increase efficiency are generally not considered capital projects. These costs would be included in the appropriate program unit (Education and General Services, Agricultural Experiment Station, Extension Service, and Forest Research Laboratory).

Summary of Performance Measure Action

The Subcommittee approved performance measures as submitted by the department with the understanding that the department's ability to meet some of the targets may be challenged as a result of budget reductions. Measures and targets are shown on the Legislatively Adopted 2009-11 Key Performance Measures form attached.