2009 Regular Session FISCAL ANALYSIS OF PROPOSED LEGISLATION Prepared by the Oregon Legislative Fiscal Office

MEASURE NUMBER: HB 2208 STATUS: A Engrossed

GOVERNMENT UNIT AFFECTED: Department of Higher Education

PREPARED BY: Erica Kleiner **REVIEWED BY:** Paul Siebert **DATE:** February 17, 2009

EXPENDITURES: DHED – Other Funds	<u>2009-2011</u>		<u>2011-2013</u>	
	\$	13,918,248	\$	13,918,248
REVENUES:				
State General Fund DHED – Other Funds	\$ \$	(13,918,248) 13,918,248	\$ \$	(13,918,248) 13,918,248

EFFECTIVE DATE: July 1, 2009

GOVERNOR'S BUDGET: This bill is anticipated by the Governor's recommended budget.

LOCAL GOVERNMENT MANDATE: This bill does not affect local governments' service levels or shared revenues sufficient to trigger Section 15, Article XI of the Oregon Constitution.

ANALYSIS: This measure changes the names of the Oregon Department of Higher Education (DHED) to the Oregon University System (OUS). The measure would establish the Oregon University Fund and the Oregon University System Appropriations Fund in the State Treasury. The measure moves most of the funds collected by DHED to these newly established funds. The measure allows DHED to retain most of the accrued interest that currently goes into the General Fund. Finally, this measure declares an emergency.

Under current statute the interest accrued on some DHED funds is credited to the General Fund. This measure would redirect the interest accrued on some funds to DHED instead of the General Fund. DHED reports that the fee revenue that it collects that is referenced in the bill is principally comprised of tuition and mandatory fees (except the student incidental fee), housing and food service fees, and parking fees. Revenues from tuition and mandatory fees are used to pay faculty/staff salaries and benefits, utilities, repair/maintenance of facilities, supplies for the purposes of instruction, and public service. Revenues from housing, food service, and parking fees are used to pay debt payments related to construction and renovation of related facilities, as well as, salaries and benefits of staff in those departments and the related utilities, maintenance repairs, and supplies to provide housing, parking, and food services. Passage of this legislation is assumed in the Governor's Recommended Budget for 2009-11. Under the proposal included in the Governor's budget, interest on General Fund appropriations would continue to accrue to the General Fund, while interest on all other cash balances like tuition payments would be kept by the Department of Higher Education. In order to offset the General Fund revenue reduction of the change, the agency proposed, and the Governor agreed in his budget, to reduce General Fund expenditures by \$13.9 million to offset lost General Fund revenues and add \$13.9 million in Other Funds expenditure limitation for the interest that would now be retained by DHED. The interest rate amount used in the Governor's budget was calculated using 10 year average returns earned by the Oregon Short Term Fund (OSTF), which is 3.8% -3.9%. The Department of Higher Education is concerned that in the current financial environment the OSTF may not achieve these average returns. Using a two-year projection of expected OSTF returns of 1.86% provided by the State Treasurer, the Department estimates that the General Fund revenue reduction would be closer to \$7 million for 2009-11, with a corresponding increase in Other Funds revenue to the DHED of \$7 million.