The Opportunity Initiative

Senate Joint Resolution 1 / Senate Bill 11

Goal:

Cover the postsecondary education "needs gap" for Oregon students by creating a permanent fund to finance student assistance needs.

- **Maintain a highly skilled workforce for Oregon**
- **Raise per capita income**
- **Lower public services costs**

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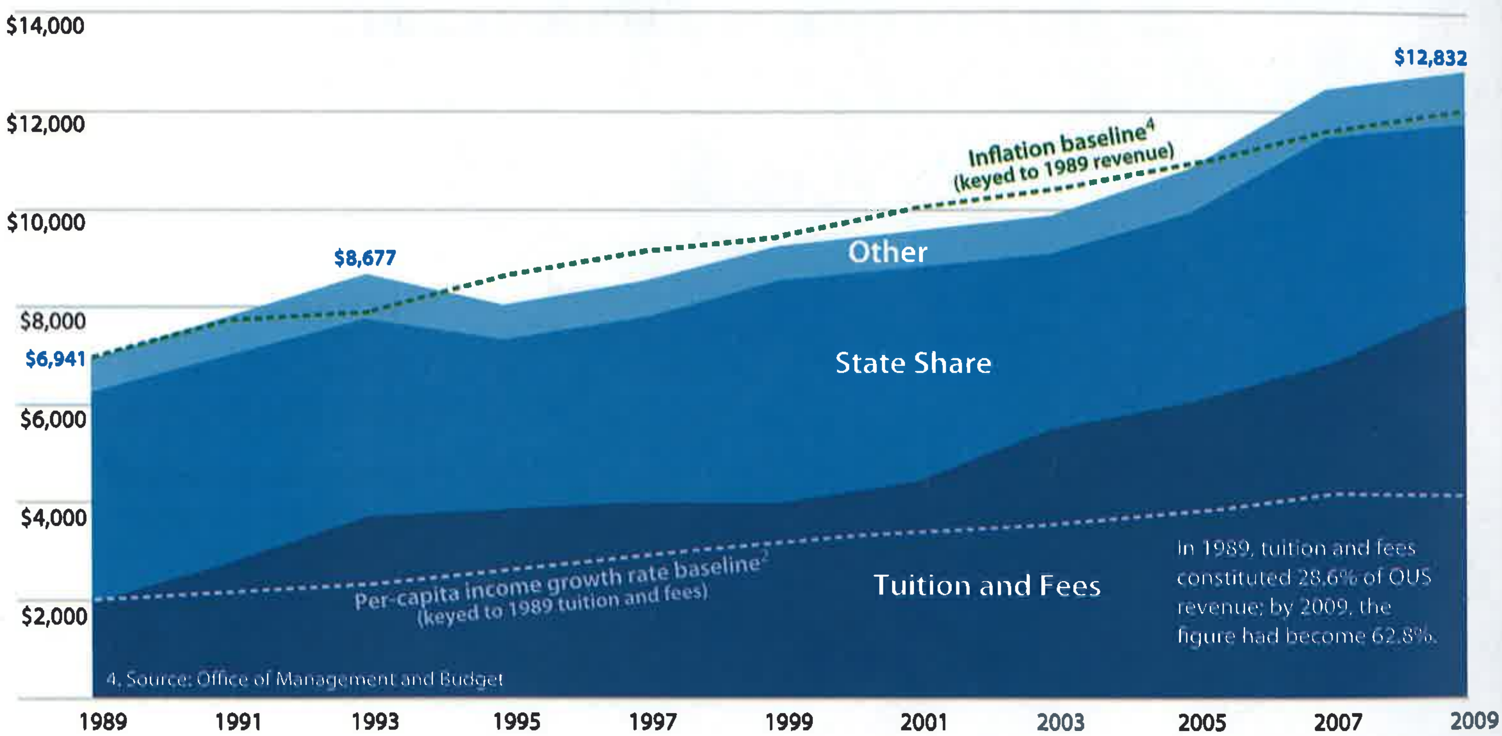
Oregon's future depends on maintaining a skilled workforce

The cost to students of a college education in Oregon is rising rapidly. From 2004-05 to 2011-12, OUS tuition and fees rose 50%[1], while per-capita income in Oregon increased only 20%[2]. That means OUS tuition has increased two and a half times faster than per capita income in Oregon over the six-year period. Although the underlying per-student costs to institutions remain relatively stable, **students feel the pinch as a greater share of those costs are shifted their way.** The amount of assistance per eligible Oregon student has declined at an annualized rate of 5% over the last seven years[3].

1. Source: Oregon University System 2. Source: Bureau of Economic Analysis. 3. Source: Oregon Student Assistance Commission

OUS Revenue Per Student[1]:
Costs to students is outpacing the ability to pay

Although total revenues generally track inflation, the gap between costs to students (tuition and fees) and income growth is widening as more costs are shifted that way.



Oregon's student assistance efforts have lagged the national average by 20%[5,6], and Oregon students who attend OUS or Oregon community colleges pay 18% more in tuition and fees than the U.S. average.

One result is that student debt is soaring for those students that do attend. The average student borrower graduating from an Oregon four-year college in 2010 had almost $24,000 in debt, 21% more than five years ago[7].

This problem needs to be addressed now for three main reasons:

- As tuition and fees increase, post-secondary education and training opportunities will become increasingly limited for all but the most affluent Oregonians.

- Oregon's per-capita income, which is already low compared to other states, will be driven even lower as more people miss out on the higher earning potential that comes from post-secondary education.

- Oregon students who do attend higher education will be saddled with ever-larger debt loads, just as they are starting out in an unstable job market.

5. Source: National Association of State Student Aid Grant Programs 6. Source: *State Higher Education Finance 2011*, State Higher Education Executive Officers
7. Source: *Student Debt and the Class of 2010*, Project on Student Debt

Solution: The Opportunity Initiative

The Opportunity Initiative creates a Constitutionally-dedicated permanent fund that will be invested to generate income. Income from the investment returns will both increase student assistance in the short-term, and also put Oregon on a path toward a lasting solution.

The fund will be created by issuing General Obligation Bonds. The Act anticipates an issue of $500 million in the coming biennium (likely split between two $250 million sales). These bonds would be backed by the State's general fund and come well within the State's prudent debt limits. The fund may accept deposits from other sources as well.

The fund itself isn't spent, but rather invested – with the earnings dedicated to student assistance programs. After the first year of earnings, student assistance can be increased by $25 million per year and growing. After 30 years, that revenue will be over $40 million per year.

To maximize the impact of the grants, the administrators of the program would be asked to design incentives for:

- Critical degree programs in STEM fields.
- Vocational training and other workforce development programs.
- On-time graduation (measured by credits), to reduce infrastructure needs as well as student debt.

Outcomes

Over 30 years, bonding for $500 million could mean total debt service costs of $940 million. Over that period of time, the Opportunity Initiative would produce that much in new student assistance, in addition to creating a permanent and growing fund of $810 million, for a financial benefit to the State of over $1.7 billion.

Costs

$500 M
BOND PROCEEDS

$440 M
INTEREST
(OVER 30 YEARS)

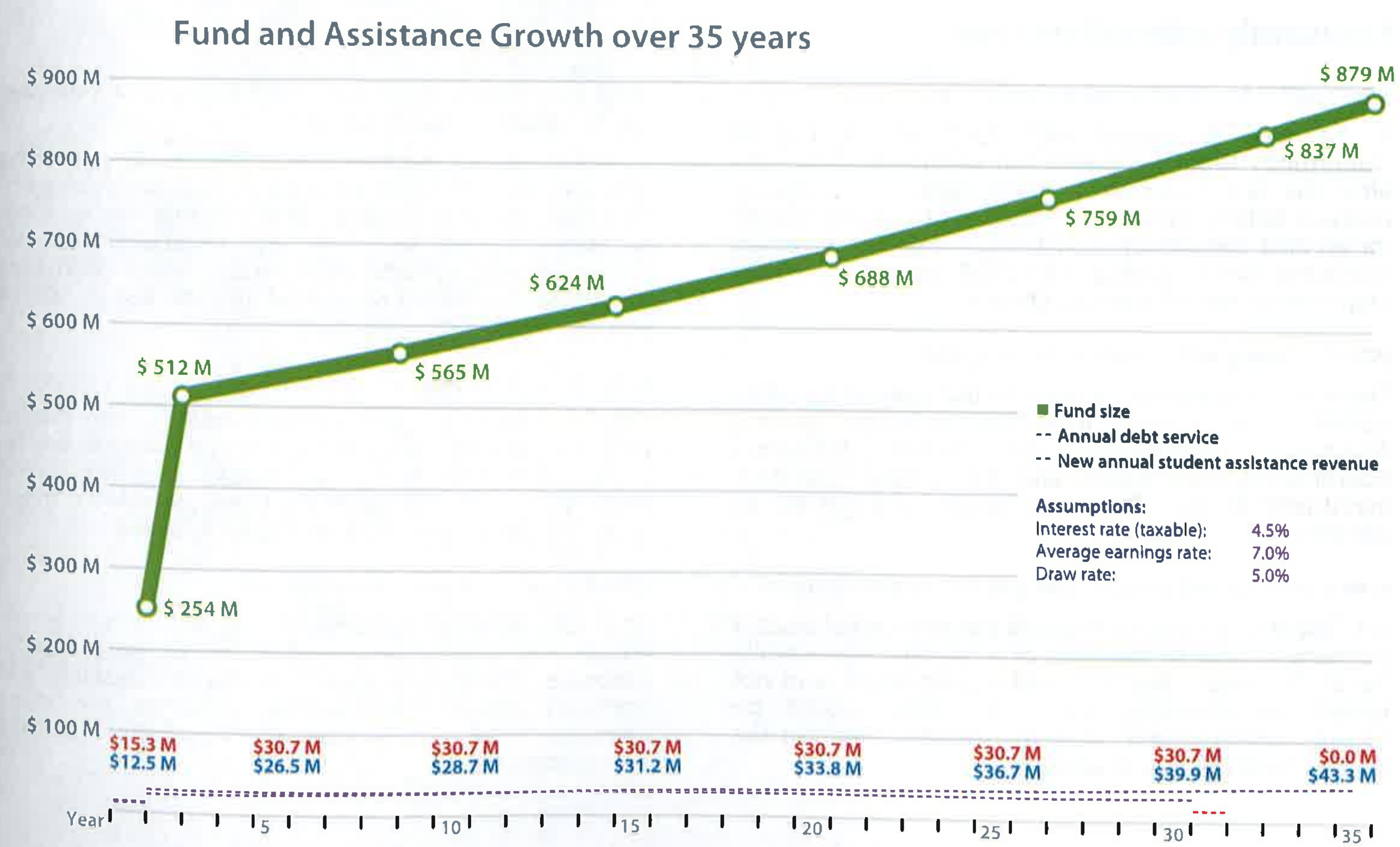
Benefits

$940 M
ADDITIONAL STUDENT ASSISTANCE
(OVER 30 YEARS)

$940 M
FUND BALANCE

Future Deposits

Various long-term financing plans show what it would look like to continue to actively support the growth of the fund over 30 years. Some of these plans involve direct deposits, while others involve additional bonds in smaller increments. Each plan provides a net benefit to the State.



Legislation: The Opportunity Initiative

The Opportunity Initiative will be presented to the 2013 Legislature in the form of two measures, Senate Joint Resolution 1 (that will head to the ballot) and Senate Bill 11, which will implement the program after the ballot measure passes:

Senate Joint Resolution 1

Asks voters to approve an amendnent to the Constitution that would:

- Create a permanent Student Opportunity Fund that is constitutionally locked and protected, and
- Allow the State to issue general obligation bonds into that fund and use earnings for student assistance.

If passed by the Legislature, this measure will head to the voters at some point in 2013 or 2014 to be determined.

Senate Bill 11

- Implementation language for bonds to be issued for deposit into the Student Opportunity Fund.
- Fund is managed by an existing administering agency and invested by the Oregon Investment Council.
- The administering agency will adopt rules and criteria for disbursement and to report back to the 2015 Legislature regarding development of various incentives.
- Authorizes $500 million in bonds to seed the Student Opportunity Fund.

This statutory measure will not take effect if SJR 1 fails at the ballot.

Frequently Asked Questions

What will this plan do in the short-term?

If the fund is seeded with $500 million, current Opportunity Grant assistance can be increased by 50% after the first biennium. Additionally, the statutory measure calls for the administrators to develop incentives for on-time completion (which will cut down on capital needs and student debt) and for STEM degrees (which will help attract new industries to Oregon).

Which agency will manage the program?

There are several existing agencies that may be suited to administer the program, including the Oregon Student Assistance Commission, the Higher Education Coordinating Commission, and the Oregon Education Investment Board. The State Treasury will not ask to administer the program.

Is this using bond proceeds to pay for operaing costs?

No. These bond proceeds would create a capital asset: a permanent fund in the form of a Student Opportunity Fund. To ensure that the fund is permanent (and not raided for operating costs) the fund would be constitutionally-locked. Only the earnings (and not the corpus) would be drawn upon.

Why use State resources? Isn't this just a personal finance problem for students?

A highly-trained workforce is a net positive for the economy and can help save costs of other public services. This plan applies not only to college-bound students, but to apprenticeship programs and vocational training. Studies show that states with better-trained workforces have healthier economies, and devote less to social service and public health costs.

Can the State really afford this?

Yes, this plan comes well under the state's conservative debt targets. This plan anticipates that the fund will be built up over multiple decades, spreading costs out over many years. As time goes on, Oregonians incur much more in financial benefits than the initial outlay.

What if we need to change course?

The Opportunity Initiative does not bind future legislatures to any course of action or to a specific outcome. The plan provides a way to lock in stable and adequate postsecondary student assistance, but future Legislatures may decide independently whether to make new commitments.