To:	Joint Ways & Means Capital Construction Subcommittee
From:	Oregon Council of Presidents
Re:	Questions that arose during May 3, 2019 hearing
Date:	May 19, 2019

Co-Chairs Girod and Holvey,

Thank you for the opportunity to answer questions that arose during the May 3, 2019 presentation to the Capital Construction Subcommittee.

Speaker Kotek asked for information on the implementation of a revised Capital Improvement & Renewal (CI&R) formula for distribution of funds to universities. Specifically, she wanted to know how campuses have reacted to the revisions. We can report that the changes have been well received which is likely due to the collaborative and thorough work group process employed by the Higher Education Coordinating Commission (HECC) pursuant to a budget note to House Bill 5005 (2015):

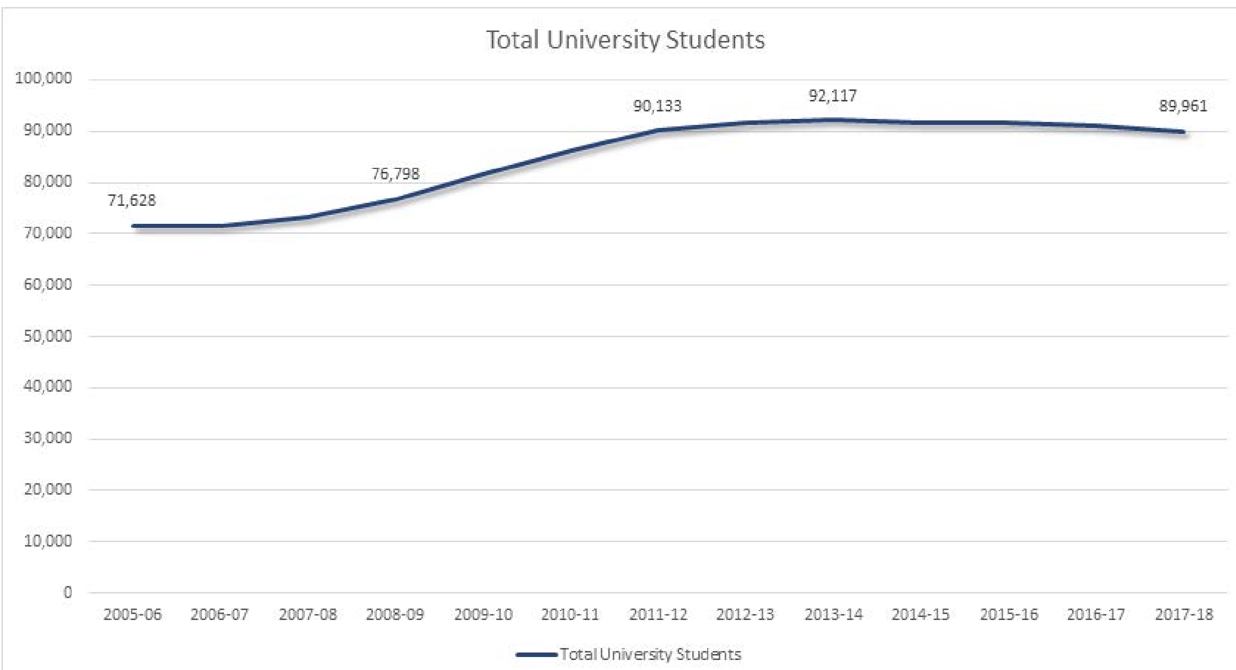
> *The Higher Education Coordinating Commission, in collaboration with the seven public universities and the Department of Administrative Services, shall submit a report by December 31, 2015 to the Legislative Fiscal Office that identifies whether and how revisions in statute and/or administrative rules are needed to better enable universities to use capital repair and renewal funds to implement disability access improvements.*

After submitting the required report, the HECC staff continued to convene the inter-institutional work group on a monthly basis to assess various capital renewal factors in light of best practices, available data sets, and discussion of institutional context. The charge to that work group which has been meeting since April 2018 is provided as Attachment A.

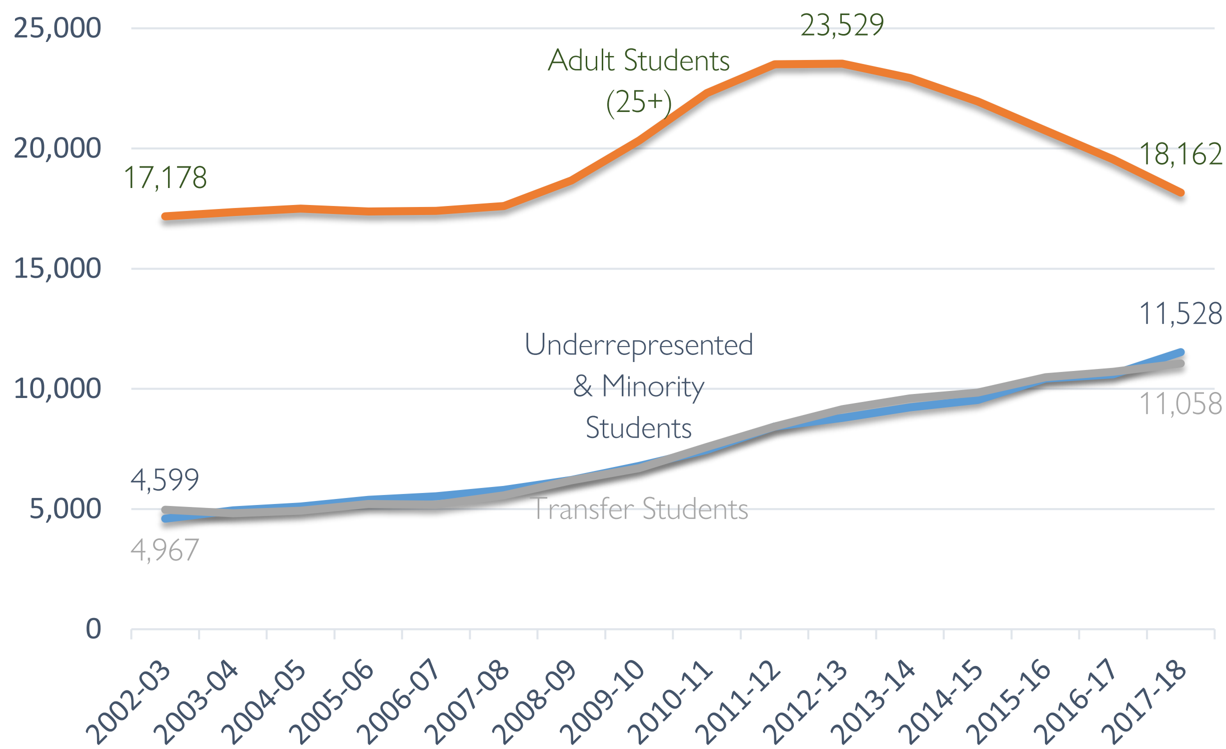
Speaker Kotek requested information on the relative amount of deferred maintenance that universities have, compared to other state facilities. It is our understanding the LFO staff will be providing the Subcommittee information on state facilities. In answer to the Speaker's question, the universities completed an analysis of projects, provided as Attachment B, that were requested during the 2017 Session and determined that full funding of the 2017 request would have avoided $110 million in future CI&R costs. More specifically, of the $284.4 million requested, $65 million would have been used directly toward CI&R and an additional

$46 million in future CI&R would have been avoided, meaning that 39% of the overall request would have been used to address CI&R.

Senate President Courtney asked for information on the enrollment trends at public universities. The information from the universities presentation on this topic is provided immediately below and Attachment C provides resident and non-resident enrollment information by institution. Enrollment at Oregon's public universities is aligned with national and regional trends across all institutions of post-secondary education, including community colleges and private universities. Many factors influence enrollment, including the strength of the economy and job market (i.e. enrollments decline when job growth is strong, but increase during recessions), tuition costs, and provision of state support that impacts availability of financial aid and scholarships.



The information that was provided did not reflect the increasing diversity of the students that we serve. Nearly one-third of resident students are the first in their families to attend a post-secondary institution and, since 2008, Oregon's public universities have nearly doubled the number of students who identify as students of color. As the following chart shows, enrollments for resident, underrepresented and minority students has grown more than 65% over the last 20 years.



Understanding the changing nature of today's student and university enrollments is important because we continue to learn about and adapt to what it takes for all of our students to be successful. We believe that the long-term capital study that the HECC has commissioned will help the state better understand the available learning spaces and quantify the capital capacity that is needed to serve students in Oregon. We encourage the Subcommittee to allow that information to inform its decisions on capital investments.

Co-Chair Girod asked why public universities were not utilizing their own capacity to issue XI-F bonds in order to avoid making requests for state support of campus facilities. The capacity to repay XI-F bonds is dependent on whether universities have the available net revenues, which cannot include state appropriations, to repay the debt. In fact, until FY2012, universities were prohibited from using state education and general (E&G) funds to address deferred maintenance and capital construction needs. Traditionally, XI-F debt has been used to construct or renovate capital assets that are used in the operations of self-supporting, auxiliary units, like housing and dining, that have available net revenue streams tied to the specific financial capacity of the projects. While tuition revenues qualify as a source of repayment, the public universities are committed to keeping tuition rates as low as feasible and have generally not shifted these costs directly onto students through increased tuition. Most of the public universities have limited available net revenues from other E&G activities to support self-paid debt and have found that committing to the additional long-term fixed cost of new debt, given the outlook for rising employee benefit costs and other factors, would put the university's financial health at risk. Due to these restrictions, currently only two universities, the University of Oregon and Oregon State University, are participating in the public bond market.

From 2015-2018, the UO issued $170 million in revenue bonds to support renovations of their student union building, resident halls, research labs and their health services center. Over the same period, UO received about $85 million in bonding capacity from the state for capital renewal and renovations to classrooms, academic offices and utilities infrastructure.

From 2015-2019, OSU issued $311.5 million in revenue bonds to support renovations and new construction of classroom and research buildings, infrastructure, residence halls and dining facilities, IT infrastructure, and parking facilities, and deferred maintenance needs. Over this period, OSU received about $143.2 million in bonding capacity from the state for capital renewal and renovations and construction of needed new facilities to address enrollment growth (exclusive of the CI&R funds allocated via the HECC model). OSU is also making deeper operating budget cuts in order to provide additional funding that, coupled with university and state bonding, will significantly reduce the deferred maintenance at OSU over the next 10-years.

In summary, universities that have the capacity to issue their own bonds are taking advantage of that option.

For your reference, we are also providing, in Attachment D, our current Gross Square Footage and total amount of CI&R by campus. If you have any questions, please contact Dana Richardson at richardsond@wou.edu.

Attachment A

Higher Education Coordinating Commission
Office of University Coordination Budget & Finance
255 Capitol Street NE, Third Floor Salem,
OR 97310
www.oregon.gov/HigherEd

Capital Improvement and Renewal Technical Workgroup Charge

Charge:

The Higher Education Coordinating Commission (HECC) has directed through its Funding and Achievement (F&A) Subcommittee formation of a Capital Improvement and Renewal Technical Workgroup (CIR) to aid the Commission in fulfilling its Capital Program duties specified in ORS 350.075. The CIR will formulate a methodology for the Commission to use in its allocation of Capital Renewal and Improvement dollars among the public universities. An allocation formula is needed for the Article XI-Q $50 million general obligation capital improvement and renewal bonds that are scheduled to be sold in March 2019.

According to ORS 350.075(3):

The Higher Education Coordinating Commission shall:

> *(a) Develop state goals for the state post-secondary education system, including community colleges and public universities listed in ORS 352.002 (Public universities), and for student access programs.*
> *(b) Determine strategic investments in the state's community colleges, public universities and student access programs necessary to achieve state post-secondary education goals.*
> *(c) Coordinate the post-secondary elements of data collection and structure, with the advice and recommendation of the state's independent institutions, community colleges and public universities, as appropriate, in order to construct a state longitudinal data system.*
> *(d) Adopt a strategic plan for achieving state post-secondary education goals, taking into consideration the contributions of this state's independent institutions, philanthropic organizations and other organizations dedicated to helping Oregonians reach state goals.*

In support of these duties, and to complete this work, the CIR will be facilitated by HECC Office of University Coordination staff, will convene regularly, and will include selected multi-disciplinary representatives of public universities.

The CIR will systematically assess various capital renewal factors including but not limited to those mentioned below to determine appropriateness for inclusion in a proposed CIR Allocation model. The CIR will additionally identify specific factors that will reduce risks to the institutions and the Commission. Finally, the CIR will develop and identify optimal recommendations to the HECC Staff and demonstrate the merits of alternative capital renewal allocations.

Process:
The CIR Subcommittee will be comprised of the following members:

- HECC University Coordination, Budget & Finance staff (workgroup chair)
- Representatives of the public universities selected in coordination with the VPFAs
- DAS Capital Finance Analyst representative

The CIR will examine those items included in the HECC Timeline and Capital Renewal Factors cited below and also review those definitions, data elements, and calculation revisions identified by staff. This examination may include research into best practices, review of data sets, and discussion of institutional context. Each institution will maintain and contribute to the CIR selected data sets based on the Capital Renewal Factors derived and approved by the Workgroup.

Timeline:
The CIR roster will be established in April 2018 with its inaugural meeting to be held in May 2018 if possible. The CIR will consider, but will not be limited to, the following potential Capital Improvement and Renewal allocation factors:

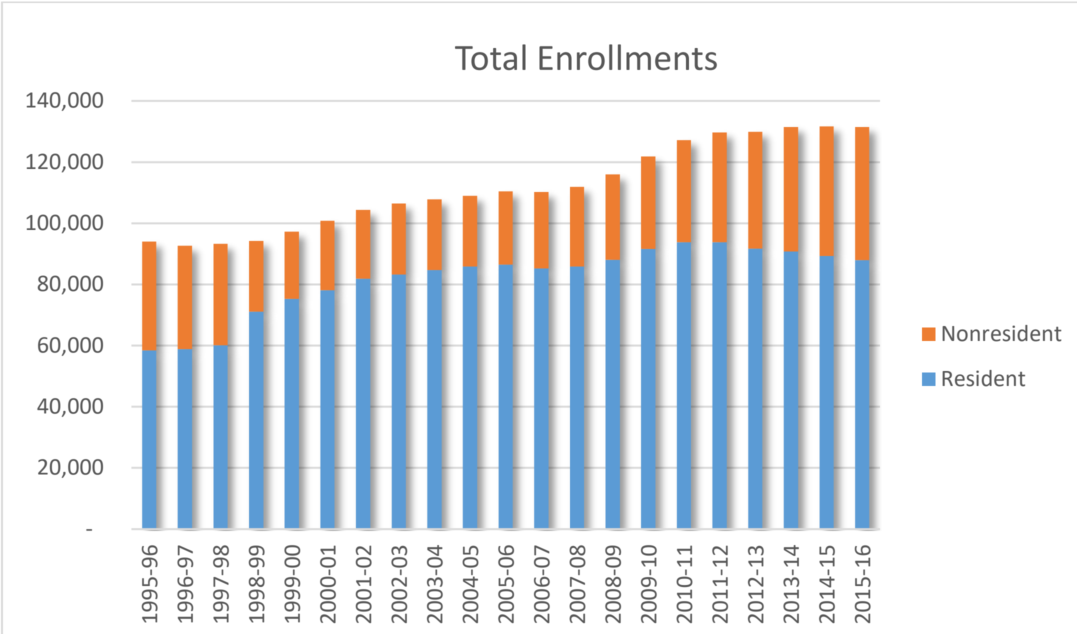
Capital Renewal Factors:

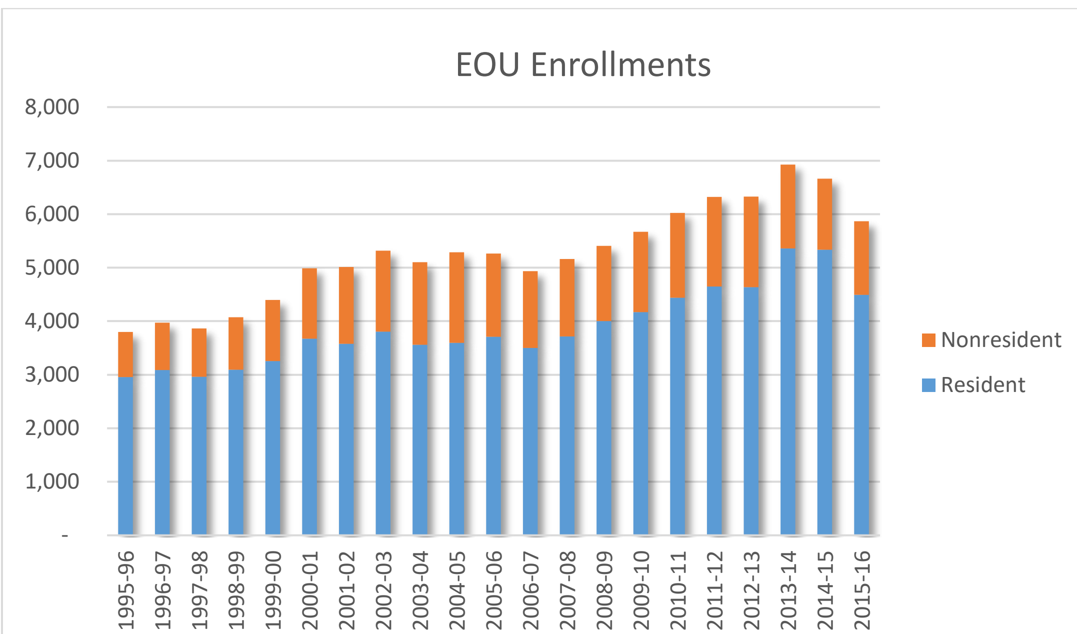
- Education & General Square Feet
    - Classroom and Lab
    - Faculty, Staff and Graduate Student Offices
    - Library/Study
- Age of the Asset
    - In reverse order of oldest to newest in ten year segments
    - New buildings should require less maintenance
- Building Size and Complexity
    - Examples: equipping medical and laboratories
- ADA Risks
    - Examples: ramps, bathrooms, elevators
- Life and Safety Risks
    - Examples: security, fire-alarms, ventilations, fire-wall doors
- Seismic Compliance Risks
    - Number of floors in building
- Sustainability
    - LEED Designations or potential for LEED Designations
- Cost - Deferred Maintenance
- Cost - Current Replacement Value
- Facilities Condition Index
    - Deferred Maintenance/Current Replacement Value

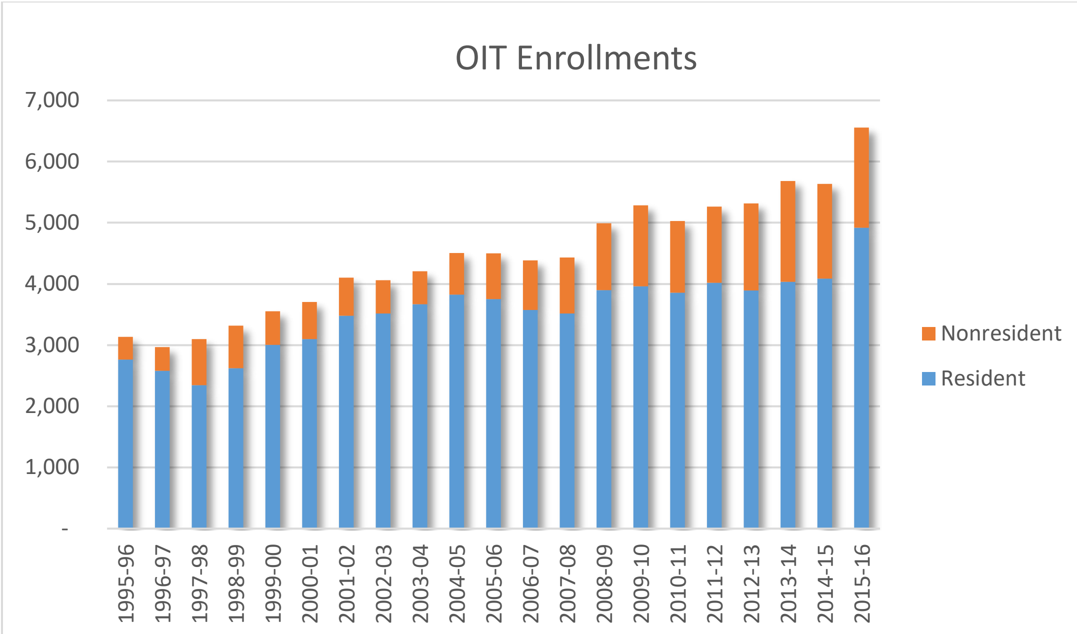
Attachment B

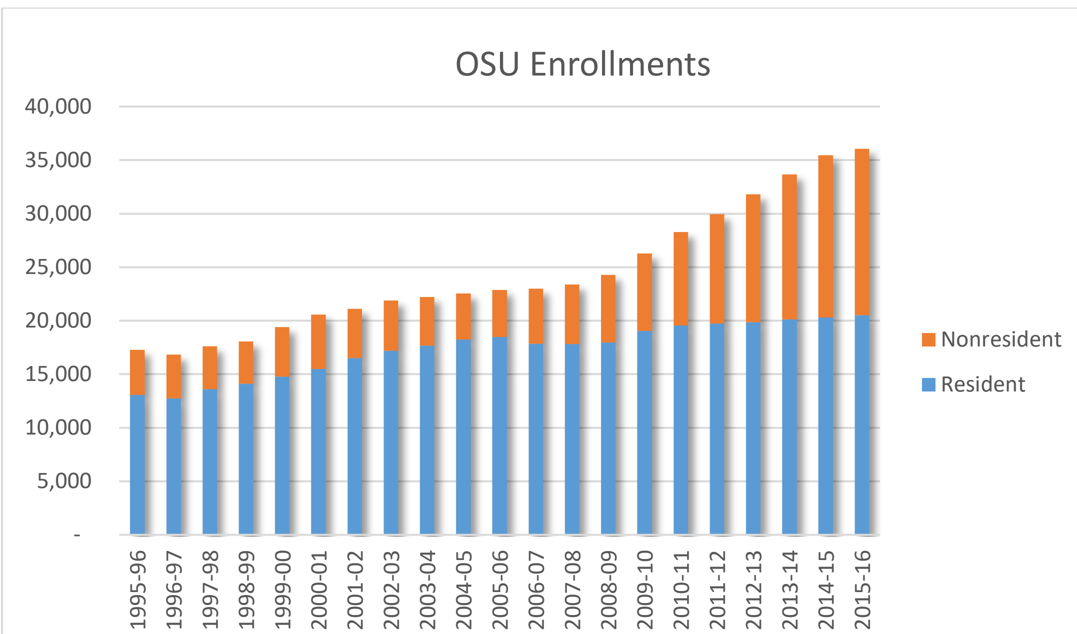
Institution	Project Name	State Request	Identified DM Eliminated
ALL	Capital Improvement & Renewal	$ 65,000,000	$ 65,000,000
PSU	Grad School of Education	$ 45,000,000	new construction
EOU	IT Equip Facility	$ 1,200,000	$ 900,000
OSU	Gilkey Hall Renovation	$ 3,000,000	$ 2,000,000
OSU	Oregon Quality Food & Beverage Ctr	$ 9,000,000	new construction
OSU	Cordley Hall Renovation	$ 15,000,000	$ 10,000,000
OT	Center for Excellence in Engineering Phase II	$ 40,000,000	$ 5,000,000
UO	Classroom Bldg	$ 55,000,000	$ 6,000,000
SOU	Central Hall Modernization	$ 6,000,000	$ 6,000,000
WOU	Military Academy	$ 7,700,000	$ 1,500,000
WOU	IT Ctr Renovation	$ 5,500,000	$ 1,000,000
EOU	Loso Hall Renovation	$ 5,500,000	$ 4,000,000
OSU	Fairbanks Renovation	$ 11,000,000	$ 9,500,000
EOU	Fieldhouse	$ 6,000,000	new construction
OSU-CC	Cascades Site Reclamation	$ 9,000,000	new construction
OSU-CC	Cascades Grad & Research Ctr Renovation	$ 500,000	-
Totals		**$284,400,000**	**$110,900,000**
			39.0%

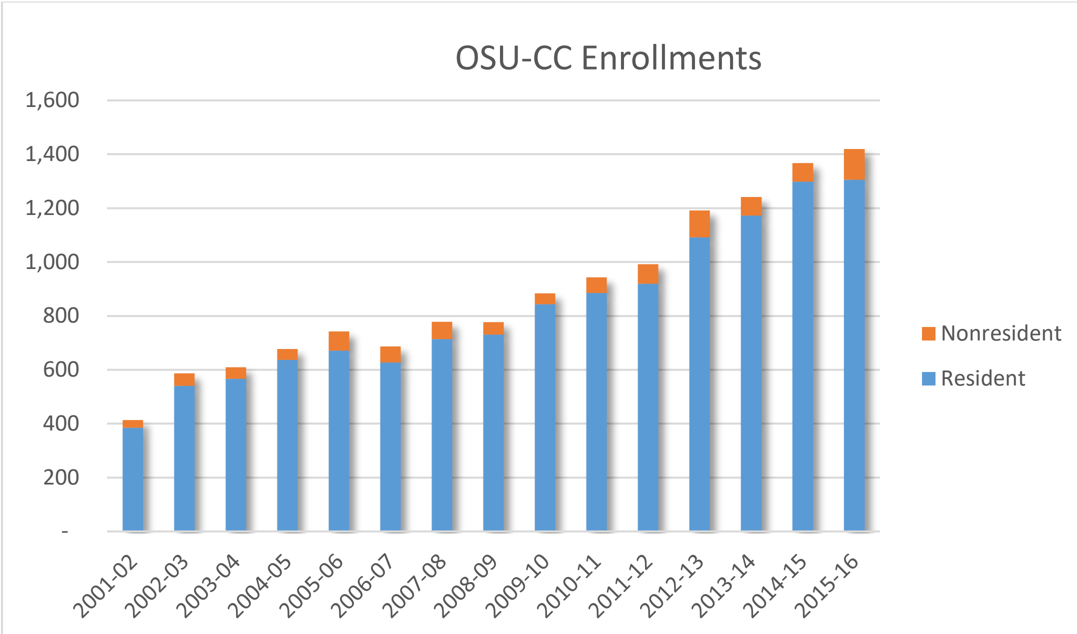
Attachment C

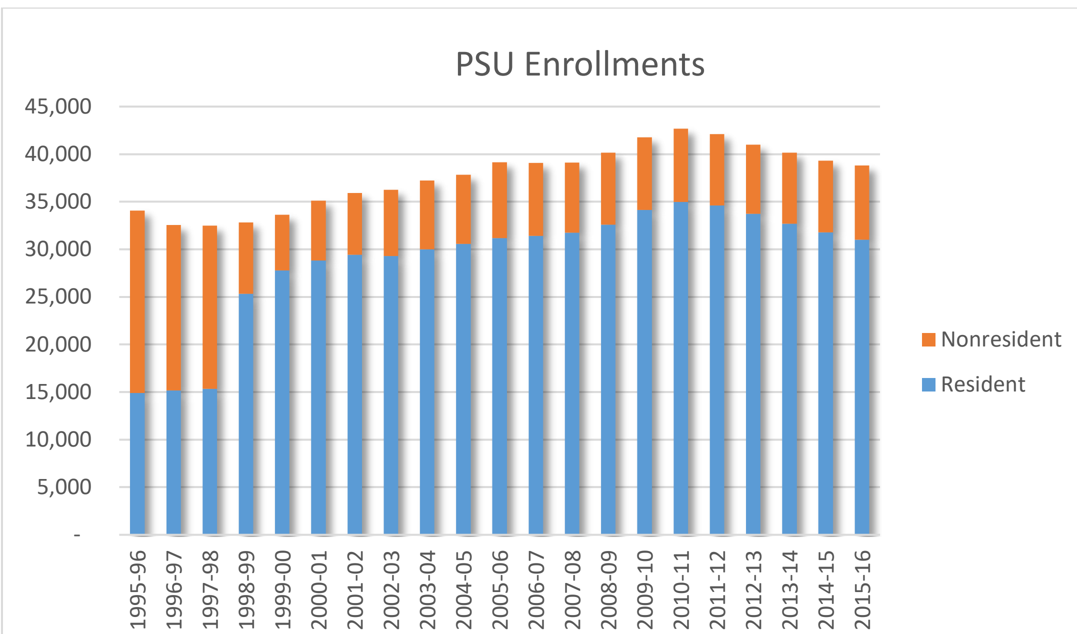


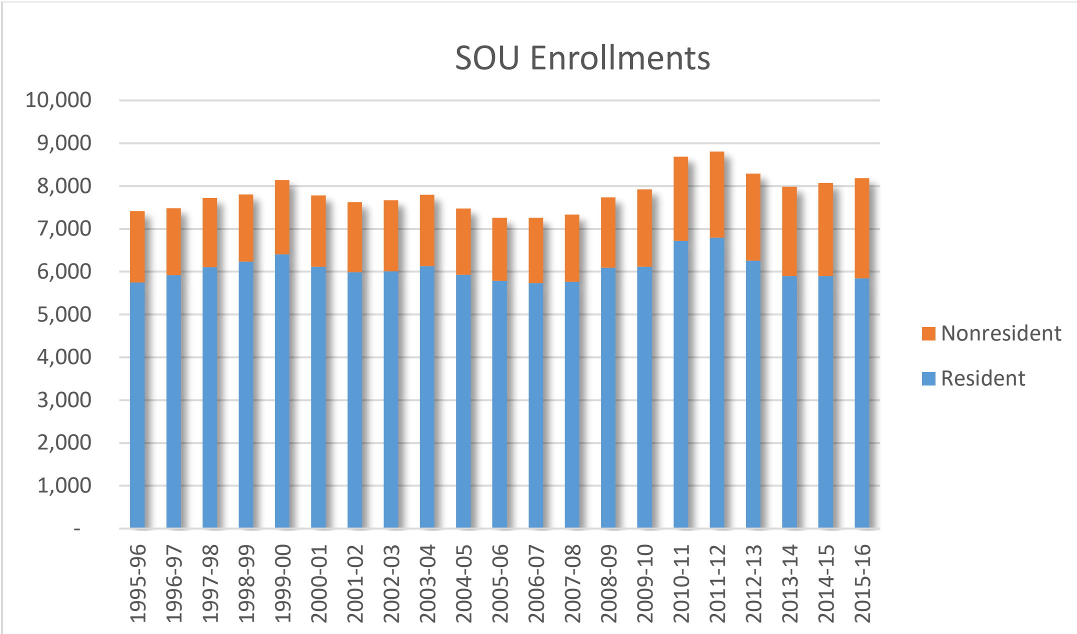


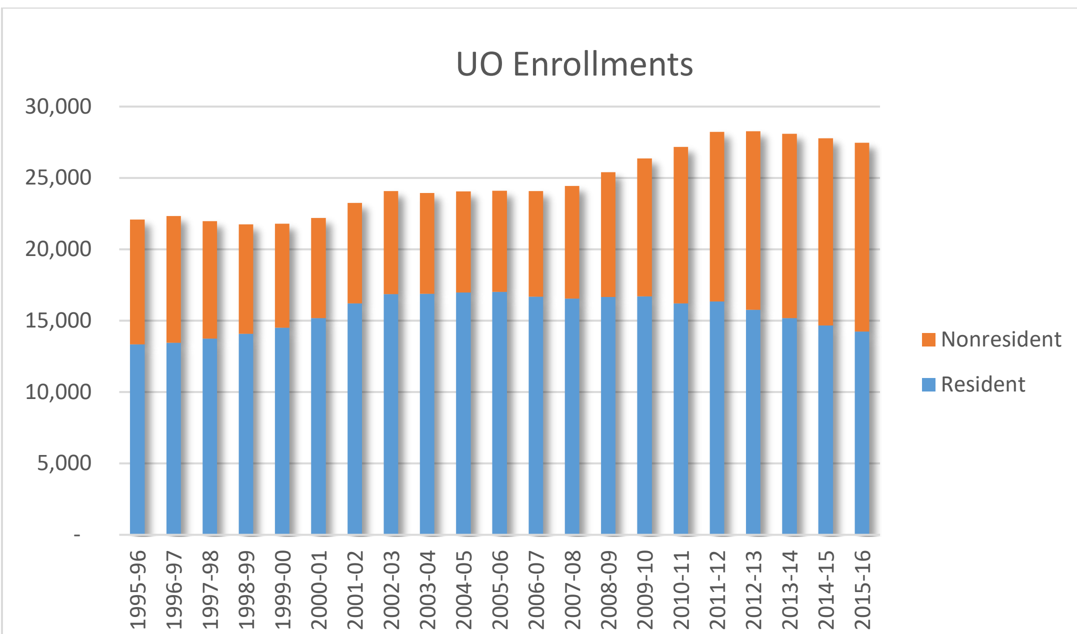

OIT Enrollments
7,000
6,000
5,000
4,000
3,000
2,000
1,000
-
1995-96
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
2002-03
2003-04
2004-05
2005-06
2006-07
2007-08
2008-09
2009-10
2010-11
2011-12
2012-13
2013-14
2014-15
2015-16
Nonresident
Resident

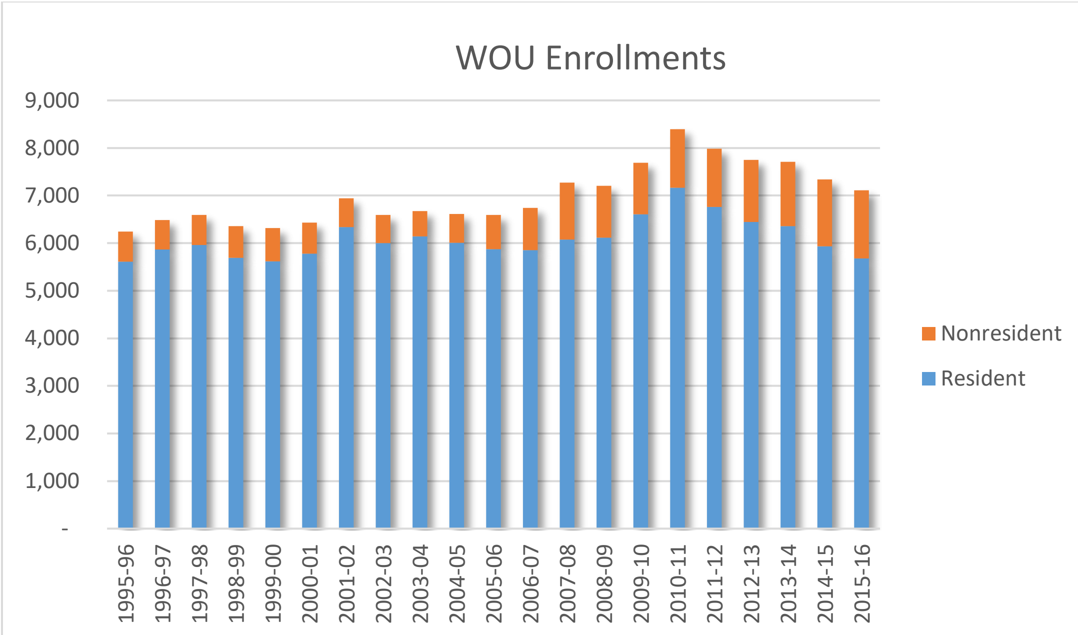

OSU Enrollments
40,000
35,000
30,000
25,000
20,000
15,000
10,000
5,000
-
1995-96
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
2002-03
2003-04
2004-05
2005-06
2006-07
2007-08
2008-09
2009-10
2010-11
2011-12
2012-13
2013-14
2014-15
2015-16
Nonresident
Resident


OSU-CC Enrollments
1,600
1,400
1,200
1,000
800
600
400
200
-
2001-02
2002-03
2003-04
2004-05
2005-06
2006-07
2007-08
2008-09
2009-10
2010-11
2011-12
2012-13
2013-14
2014-15
2015-16
Nonresident
Resident


PSU Enrollments
45,000
40,000
35,000
30,000
25,000
20,000
15,000
10,000
5,000
-
1995-96
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
2002-03
2003-04
2004-05
2005-06
2006-07
2007-08
2008-09
2009-10
2010-11
2011-12
2012-13
2013-14
2014-15
2015-16
Nonresident
Resident


SOU Enrollments
10,000
9,000
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
-
1995-96
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
2002-03
2003-04
2004-05
2005-06
2006-07
2007-08
2008-09
2009-10
2010-11
2011-12
2012-13
2013-14
2014-15
2015-16
Nonresident
Resident


UO Enrollments
30,000
25,000
20,000
15,000
10,000
5,000
-
1995-96
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
2002-03
2003-04
2004-05
2005-06
2006-07
2007-08
2008-09
2009-10
2010-11
2011-12
2012-13
2013-14
2014-15
2015-16
Nonresident
Resident



WOU Enrollments
9,000
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
-
1995-96
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
2002-03
2003-04
2004-05
2005-06
2006-07
2007-08
2008-09
2009-10
2010-11
2011-12
2012-13
2013-14
2014-15
2015-16
Nonresident
Resident

Attachment D