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Reset Committee  
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### **What Oregon Needs from Public Higher Education**

Oregon citizens expect the state's public universities to successfully graduate increasing numbers of Oregonians. This expectation endures despite continuing reductions in the share of state funding for the universities and the parallel challenge of a college-going population that is becoming larger and more diverse.

To maintain the current college-going rate for Oregon high school graduates, the public universities must be educating an estimated 37,000 more students by 2025. Meeting the much more ambitious measure proposed for the state, the 40-40-20 model, would position Oregon among the leading states in the educational attainment level of its workforce; it would also have the universities educating 83,000 more Oregonians by 2025.

In addition to accommodating enrollment growth, public universities are rightly expected to engage in advanced educational training and research to provide the Oregon economy with the skilled workforce and technical innovation capacity needed to prosper in a highly competitive global economy. University research activity can and does make a significant contribution in creating new products, services and job opportunities for Oregonians, yet this research activity is rarely considered in assessing the importance of public higher education to Oregon's future. Experience elsewhere confirms that Oregon's public universities could be engines of economic growth and job creation for the Oregon economy, fashioning an educated future workforce and generating more innovative new technologies and products. In the last few years 12 of 23 spin-off companies have leveraged Oregon State University based research into 300 new jobs and \$100 million in additional investment. At OSU, annual research grants and contract awards have increased almost \$100 million in the last six years to \$252 million in FY09 and will approach \$300 million this year.

Achieving either of the enrollment goals cited above, maintaining the quality of public higher education, and enhancing the state's capacity to grow jobs and realize economic progress requires that the public universities be able to optimally manage all of the resources available to them. While stable or even increased real funding from the state would be a great help, at any given level of funding – regardless of source – universities will be best positioned to meet Oregon's goals for graduates, quality, and economic development if they can grow their revenue and manage their costs without undue state imposed constraints. Simply put, Oregon higher educational institutions are a great investment on behalf of the people of Oregon, but these institutions need operating flexibility and resources – and the sooner the better.

### **The Essential Elements of the Oregon University System**

I support maintenance of an Oregon University System that coordinates activities among the institutions with respect to legislative action, including a system budget. I likewise support a

system in which OUS serves as an agent of the state to hold each institution accountable for the quality of its programs and the retention through to graduation of students from diverse backgrounds. OUS institutions should contribute to job growth, economic expansion, and the state's global competitive advantage. Oregon State University is integrated into the fabric of the state and we expect to remain an integral part of the OUS. As the Land Grant University, our role can be differentiated from each of the other six universities in the public system, as can their roles from each other. Our relationship to the system, like theirs, should be mission driven. Within this broad framework, we support legislative changes that provide an avenue to more resources and less regulatory restraint for the system and its constituent universities.

The OUS Board determined several years ago that individual universities should each provide differentiated services to the state, yet collectively represent a portfolio of assets that help us meet state needs. The Board did not complete the process of defining the differentiated roles of the universities and assessing if any duplication exists that should be eliminated and if any gaps in essential programs, services, and activities exist that should be filled. This should be done. Within a well-defined system framework the degree of operating autonomy, the role of each institution in meeting undergraduate, graduate and professional training goals, and comprehensive research objectives can be defined. At the same time, universities are not fixed assets frozen in time and the portfolio analogy should not be taken too far. Universities are dynamic organizations and they need flexibility to continually reinvent themselves. OUS performance requirements of each institution should be well defined but implemented with a light touch and an appreciation of changing state needs and institutional capabilities. In this context it seems most logical to me that OUS, as an agent of the state, should have the latitude to determine the appropriate degree of operating autonomy for each institution consistent with each university's evolving role within the system and the overall obligation of OUS to be a good steward of the public university system on behalf of the people of Oregon.

### **State-wide Public Service**

One particularly unique aspect of Oregon State University's mission is the oversight, operation, and delivery of the statewide public services to the people of Oregon associated with the agricultural experiment research stations, the state-wide extension service, and the forest research laboratory. These statewide public services are essential to the economic and social well-being of the entire state, and OSU has used its resources effectively and prudently by integrating the service and research functions of the statewide public service programs into the operations of the university. To the extent support for the statewide public services continues to decline, we may be forced to convert to a fee-for-service approach in many of the affiliated programs and end the use of tenure track faculty appointments for future staffing of the statewide public service programs. In this way the state can purchase these services directly without undercutting funding for university-wide academic operations. Oregonians have long valued and benefited from our statewide public service programs and services. Eliminating tenure-track faculty appointments in the state-wide programs in the future would decouple the provision of statewide services from the ongoing academic enterprise, inevitably reducing program effectiveness and cost efficiency within the statewide public service programs. While this separation may help the state to rationalize its funding for educational services versus statewide

public service activity, it risks reducing the responsiveness of these programs to the people at large.

### **Providing Value for the People of Oregon**

The people of Oregon may have little interest in the system's configuration or the regulations we operate under, but they do get to vote on any changes. Voters will not support any changes if the benefits to the state from restructuring cannot be identified and articulated. I believe our approach must therefore match the changes we seek to the benefits the people of Oregon realize from those changes.

The primary benefits accruing to the state from operating flexibility and additional resources include higher retention rates through to graduation for all ethnic groups in the state at a cost lower than would otherwise be possible; greater enrollment growth and higher numbers of graduates to meet state needs in approaching the 40-40-20 goal than would otherwise be possible; and more research dollars coming into the state to help stimulate the economy directly and expand economic opportunities through new inventions, businesses, and jobs.

Regardless of the structure of the system, the flexibility we need and the targeted resources we must secure to achieve the results outlined above are as follows:

1. Given existing resources, we could enhance our ability to hire and retain faculty, expand course offerings, increase support services and financial aid to students, and lower rates of tuition increase over time if we could reduce the costs of benefits and retirement. Any effort to reduce benefit and retirement costs for OUS would have to be part of a statewide initiative undertaken in concert with public employee unions. Possible elements of a cost-effective path forward might include providing state agencies with incentives for maintaining a healthy workforce, protecting current employees from changes, cafeteria health plans, nationally competitive salaries, and expansion in the list of eligible benefit and retirement program providers.
2. The ability to manage our own legal activities and to eliminate cost assessments from DAS and OUS that are not actual fees for service would reduce our current costs further. The reduction of state funding lines from more than 6,300 to a few that are tied explicitly to key performance measures would discourage micro-management of the day-to-day operations of the universities and would also reduce our operating costs.
3. On the revenue side of the equation, there is substantial logic behind letting the universities keep the interest earnings on the tuition their students pay, and on the fund balances they carry, as a means of expanding instructional capacity and services that directly benefit students. Action with regard to items 1-3 would have the effect of promoting greater efficiency by the universities at any given level of revenue. These cost saving actions would permit universities to moderate the rate of tuition growth over time and consequently provide greater access to higher education to all Oregonians regardless of their economic circumstances.

4. The ability to borrow through state bonding backed by state operating funds and tuition, or to take bond issues to local voters, could diversify the funding sources for the universities and expand their ability to create the physical capacity to meet the state's higher education needs. Currently the state has no credible plan to create the built capacity to educate between 37,000 and 83,000 more Oregonians in 2025. If the universities could use state operating funds, tuition, and voter supported bonds as a match for state XI-G bonds to build instructional facilities, this mechanism might enable them to meet the system's pressing need for new and/or renovated educational facilities.
5. Stable real dollar funding per student FTE from the state could provide the universities with greater year-to-year predictability in their overall resource availability and promote longer-term planning for instructional, support and research activities. Unpredictable and unstable state financial support promotes management by crisis and systematically undercuts long-term planning.
6. Targeted funding growth from the state could be of great strategic importance in three respects. First, as an alternative to number 4 above, the state might consider fully funding instructional buildings on campuses to keep up with enrollment growth. Shifting higher education credit opportunities from the universities to high schools and community colleges – along with greater use of on-line capabilities – can moderate the need for new instructional facilities, but there is still no path at present to fully meet the needs of 37,000 to 83,000 additional students per year by 2025.
7. Secondly, increased resources could be targeted to create a Research Challenge program that would provide state funding in proportion to the federal grants and contracts universities bring into the state. Those state funds could be used to seed new initiatives and to maintain research teams between funding cycles. This would result in a more robust research enterprise throughout the state and produce more inventions and spin-offs, businesses and jobs. The state created such a research fund in the late-1990s but the level of funding remains too small to be effective.
8. Advanced education is undersized for the state; consequently the high tech sector has to look out-of-state to find many of the qualified employees needed. There is an opportunity for the state to invest in graduate education, especially in the STEM areas, to the benefit of high tech employers in the state. The state and tech industries might consider joint investments in advanced education and research programs in areas fundamental to the workforce and competitive market needs of Oregon's tech industries.
9. Concern has been expressed regarding the capacity of the system to sustain three research universities. As an economist I think the concern about the research capacity of the system is easily addressed. The research capabilities of the three larger universities and their overall cost effectiveness are driven by the funding they get from OUS for their authorized programs and by their innate ability to compete for industry and government research funding. System discipline and the research marketplace should be sufficient to right-size the research enterprise at each of the three larger universities – and in fact at all seven universities.

10. The size and distribution of undergraduate enrollments across universities in the system is an important issue. Undergraduate education capacity within the system can be expanded in several ways. Improved retention through to graduation in each university could expand the number of undergraduate degree recipients substantially. Advanced course work for high school seniors to meet college requirements, degree partnerships by each university with every community college in the state, more effective articulation and transfer arrangements (including course modules) between the community colleges and the universities, a university presence on each community college campus to offer selected degree programs, and more on-line instruction could all increase the system's undergraduate degree awarding capacity significantly. Finally, there may be cases in which existing universities and community colleges could be merged to increase their overall undergraduate degree producing capacity.
11. Apart from the built environment constraints on the undergraduate education capacity in OUS, there is the question of which campuses could grow to meet expanding needs. The four smaller universities and the branch campus of OSU, the Cascades Campus, have varying degrees of growth potential. If these are special targets for enrollment growth at the undergraduate level, we should bolster efforts to make them destinations of choice.

### Conclusion

I generally subscribe to the view that form should follow substance. Without knowing what specific changes in the structure of OUS are attainable in the foreseeable future, it is clear there are many models that deserve consideration. In this document I have tried to focus instead on the key elements of any proposal:

- The need for a system to coordinate and oversee the universities on behalf of the people of Oregon;
- Changes in our operating procedures that could yield operating efficiencies, moderate tuition increases over time, help us meet future enrollment and graduation targets, and promote strategic investments in workforce and innovation needs.

I have provided specific suggestions for these. Any change in structure that is accompanied by any or all of these operating changes will benefit the people of Oregon; any structural change that fails to provide the substantive operational opportunities identified here is unlikely to accomplish anything for the people of Oregon.

## OSU IN 2025

In 2025, Oregon State University will be among the top 15 and well toward becoming a Top 10 land grant institution, known internationally for its student experience, research collaborations and impact, and faculty expertise in its signature areas of distinction.

Quantitatively, OSU will be characterized by:

- Student population of 30,000-35,000 with
  - 25% graduate and first-professional
  - 25% non-resident and international
  - 50% of high-achieving Oregon high school graduates
  - 20-25% U.S. minority students
  - 6,000 students graduating annually
- First-year student retention rate of 90% and six-year graduation rate of 75-80%
- 1,300-1,500 tenured/tenure-track faculty
- 20-25% U.S. minority faculty
- Total annual R&D expenditures of \$500-\$600 million
- Industry sponsored research 4-8%
- Annual private giving of \$175-\$225 million
- 3,000-4,000 students at the Cascades Campus

OSU will be an international research university that attracts the very best students and faculty to our education and research programs from around the globe.

OSU will be recognized for identifying, exploring and solving critical contemporary problems that are essential to sustaining Earth eco-systems, improving health and wellness, and promoting economic development and social progress.

OSU's graduates will be leaders in public and private sectors, contributing significantly to the economic and social progress of their communities.

### Comparison with Aspirational Peers\*

(first number is average of peers, second is OSU; most data is for 2007-08)

Number of degrees awarded	9,579 versus 4,232
Total Enrollment	39,960 versus 21,300
Faculty (tenured/tenure track)	1,700 versus 800
First-year retention rate	89% versus 81%
Six-year graduation rate	73% versus 62%
Total R&D expenditures	\$510M versus \$233M (most peers have medical programs)
Industry % R&D	6% versus 2%
Annual private giving	\$169M versus \$91M (most peers have medical programs)

% U.S. minority students	18% versus 16%
% international students	9.2% versus 4.7%
% graduate students	20% versus 15% (does not include first-professional)
% U.S. minority faculty	18% versus 13%
% high achieving OR graduates coming to OSU	32%

OSU benchmarks progress toward our Top 10 land grant vision using these aspirational peer institutions:

- University of Arizona
- University of California, Davis
- Cornell University
- University of Illinois
- Michigan State University
- The Ohio State University
- Penn State University
- Purdue University
- Texas A&M University
- University of Wisconsin