

The Oregon Agenda

POLICY PLAYBOOK

Public Issues and Recommendations for 2001

January 2001

Contents

1. Playbook Summary	1
2. Achieving Our Vision	3
3. K-12 Education	7
4. Higher Education	19
5. Transportation	27
6. Salmon and Watershed Health	33
7. Economic Prosperity	39
8. Public Finance	45
Endnotes	51

The Oregon Business Council

The Oregon Business Council is an association of business executives focused on public issues that affect Oregon. Its mission is to mobilize business leaders to enhance Oregon's quality of life and economic prosperity.

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1. Playbook Summary

The Oregon Agenda starts with a simple premise. A strong economy provides resources to pay for vital public services and the cultural and recreational activities that Oregonians enjoy. In turn, quality public services, including education, transportation, and other infrastructure, are vital for supporting a healthy economy. Together, a strong economy and quality public services provide a sustainable, high quality of life for Oregonians.

This report proposes steps to help Oregonians work together to strengthen both our public services and our economy in six critical areas. These opportunities, described in more detail in this report, are summarized below.

K-12 Education	
Vision	Oregon's K-12 schools will produce the best educated graduates in the nation and equal to any in the world.
Proposals for 2001	<ul style="list-style-type: none"> • Continue to support Oregon's system of standards and assessments. • Endorse the Education Leadership Team's focus on reading as a gateway for all further learning. • Adopt a performance budget model, using the tools developed by the Commission on Quality Education. Target early grade level reading as a key priority. • Explore new school governance, accountability and delivery models by creating an independent commission to study alternatives. • Examine and promote new models for delivery of education to teenagers. • Strengthen partnerships between schools and communities.

Higher Education	
Vision	Oregonians will enjoy access to affordable and outstanding higher education institutions that meet their lifelong learning needs anytime and anywhere.
Proposals for 2001	<ul style="list-style-type: none"> • Use the new student-centered and services-centered funding model to set priorities for higher education and to explore funding tradeoffs among the University System, Community Colleges, the Health Sciences University and the Student Assistance Commission. • Give campuses greater flexibility to set tuition rates and to make program decisions. • Start a process to create a single higher education board that is responsible for proposing funding priorities and overseeing funding allocations among all institutions. • Invest public and private dollars in higher quality, larger scale engineering education.

Transportation	
Vision	Oregon's transportation network will enable people and goods to move quickly and reliably while supporting our goals for quality of life, clear air, open space, and livable neighborhoods. Funding will be adequate to maintain our existing investments and meet growing needs.

Proposals for 2001	<ul style="list-style-type: none"> To break out of transportation policy and funding gridlock, Oregon should consider and pilot: <ul style="list-style-type: none"> New ways to collect revenue, including pricing systems based on vehicle miles and time of use rather than fuel taxes. Privatization and other new models of delivery. Demand management to utilize existing highways and roads more effectively. Identify better strategies for learning customer needs and for communicating the conditions of Oregon's transportation system to Oregonians.
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Salmon and Watershed Health	
Vision	Oregon will have sustainable, naturally spawning, diverse salmon and steelhead runs and a healthy economy in all corners of the state.
Proposals for 2001	<ul style="list-style-type: none"> Direct the Oregon Watershed Enhancement Board (OWEB) to establish a comprehensive measurement system to track Oregon's progress on salmon recovery and watershed health. Give OWEB authority to allocate all watershed health-related funds (including federal funds received by the state) to highest priorities based on its strategic plan. Set clear performance standards for all activities that impact salmon and watershed health. Identify strategies to achieve our salmon recovery objectives while assuring sustainable economic growth throughout the state. Build a new partnership between the federal agencies and Oregon in which Oregon takes responsibility for implementing strategies for achieving measurable salmon and watershed restoration goals. Coordinate local plans in conjunction with state efforts.

Economic Prosperity	
Vision	Oregon will continue to enjoy and build on its economic progress, bringing the fruits of prosperity to more Oregonians and all regions of the state.
Proposals for 2001	<ul style="list-style-type: none"> Investigate strategies to retain Oregon's competitive advantages in energy and health care costs. Secure resources from federal, state, and local sources to complete the Columbia channel deepening project. Secure direct international air service from Portland to Asia. Modify higher education policy to encourage commercialization of patents. Build partnerships that facilitate better communication between business and government, and between urban and rural economies. Strengthen urban-rural ties to support rural economic growth.

Public Finance	
Vision	Oregon will have a stable public finance system in which a healthy economy and quality public services reinforce each other.
Proposals for 2001	<ul style="list-style-type: none"> Review long-term revenue and budget forecasts as part of the budget process. Make 2001-03 budget decisions with an eye on long-term priorities. Build a reserve fund as a hedge against economic downturns. Modify Oregon's tax system to provide incentives for economic growth. Improve efficiency and performance accountability systems for key public sector services.

2. Achieving Our Vision

The Oregon Business Council concurs with the vision of Oregon described so well in the 1997 update to the state strategic plan. There the Oregon Progress Board envisioned a vital, prosperous Oregon that excels in all spheres of life.

Oregon has diverse businesses providing quality jobs and a talented workforce able to perform those jobs well. It has communities that are safe, caring, and engaging places to live. It has quality public infrastructure and services. It has healthy and sustainable natural surroundings.

— Oregon Shines II,
January 1997

The Oregon Agenda

In 1998, the Oregon Business Council concluded that achieving this vision would require concerted action on four critical matters that it collectively calls The Oregon Agenda. The four initiatives are K-12 education, higher education, transportation and salmon restoration and watershed health. Working with public policy leaders, and other business and environmental organizations, OBC adopted recommendations for each of these issues and presented those recommendations to the Governor and the 1999 Legislature.

Since then, Oregon has made significant progress on K-12 education, higher education, and salmon and watershed issues, but it has suffered serious setbacks in transportation. Still, much more remains to be done on all four issues. In addition, Oregon needs to make fundamental improvements in its approach to economic development and public finance. Accordingly, this playbook offers policy makers specific proposals to address these current challenges.

How To Use This Playbook

This playbook is designed to help Oregon's political and civic leadership to dramatically improve Oregon's performance in the six critical areas identified above. In most cases, the recommendations here are not simple or easy to execute. They involve applying new budgeting tools (in the case of higher education and K-12 education), realigning and assigning institutional responsibilities (in the case of higher education and watershed health), and investigating bold new strategies (in the case of K-12 education and transportation).

This playbook addresses policy issues through three basic questions: *What challenges are posed by this issue? What progress have we made? What should we do next as a state, and what policies and initiatives should we implement in particular?* Answering the first question, we describe why the issue is critical to Oregon's future and what obstacles we must overcome. On the second question, we look at policy initiatives, some going back a decade, and the results accomplished. On the third question, we suggest policy recommendations that should command strong bipartisan and community support. If Oregon leaders agree that these issues need attention, we invite them to use this document as both a road map for implementing this policy agenda, and as a guide for monitoring progress. OBC directors, in turn, pledge their energy and expertise in working with Oregon's leaders to act on these important opportunities.

It's Time to Stop Fighting Over False Choices

In the last election, the business community contributed substantial resources to help defeat ballot measures that would jeopardize Oregon's future. Even though many of these measures would have provided substantial tax benefits to corporations and their officers as individuals, the Oregon Business Council and many other business leaders recognized the harm these measures would inflict on vital public services.

This playbook offers state leaders specific proposals to address challenges

The Business Council believes that much of the political controversy in Oregon today is premised on a series of false alternatives about our future: business vs. government, jobs vs. the environment, urban vs. rural. The divisiveness surrounding these issues has polarized Oregonians and made finding a path toward our future much harder. If we look past the rhetoric, and look closer, to the roots of the issue, we can see that each case these apparent opposites are actually vitally interdependent.

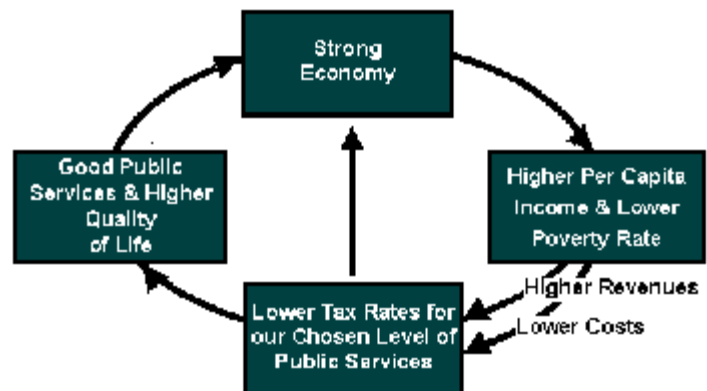
Much of the political controversy in Oregon today is premised on a series of false alternatives about our

It's not business vs. government. The public sector needs a healthy economy. A strong economy creates good jobs, which increases tax revenue. Job growth reduces poverty, which shrinks demand for poverty-related services. The private sector needs high quality public services because they are essential for business to be successful. Oregon's world-class companies need world-class suppliers, including public services, to compete in global markets. Transportation, parks, public safety and above all education are critical services for a healthy business environment.

The Oregon Agenda is founded on the principal that a strong economy and quality public services are dynamically interrelated as shown in the adjacent diagram. Those who would cut taxes without considering the consequences to public services are just as wrong as those who would raise taxes without considering the effects on the economy.

Oregon's success over the past decade illustrates the connection between a healthy economy and quality public services. Oregon's unusually strong economy in the 1990s led to a surge in state tax revenue. This revenue surge helped offset the reduction in property tax revenue caused by

Ballot Measure 5. If Oregon had collected revenues based on economic growth projections at the time Measure 5 passed, we would have sustained huge losses in public services. Instead, the economy exceeded growth expectations, resulting in about \$3 billion more in state revenue over the decade.



A strong economy and quality public services are dynamically interrelated. The public sector needs a healthy economy, which creates jobs, boosts tax receipts, reduces poverty, and shrinks demand for poverty-related services. The private sector needs high-quality public services in the form of good schools, roads, and other public amenities because they are essential for business success.

What Oregon needs is a multi-year plan to make this reinforcing circle most productive for Oregon. OBC's public finance task force, working with the state budget office finds that Oregon will have a large budget surplus later this decade if we continue to enjoy moderate economic growth. Our public finance and economic development recommendations suggest how to stimulate the economy and therefore secure healthy revenues for public services. At the same time we need to ensure that our public expenditures provide the highest quality results possible.

It's not jobs vs. the environment. In Oregon, we enjoy a broad consensus on the stewardship of our natural resources. It's clear all Oregonians have stake in a healthy, sustainable environment, whether in the form of healthy forests, fertile and productive farmland, abundant streams, or Oregon's great open spaces. Efforts to sustain and conserve resources help assure that Oregon's resource-based industries, such as timber and agriculture, will thrive in the decades

ahead. Similarly, pursuing sustainable practices helps increase the marketability of Oregon products to consumers who are increasingly willing to pay a premium for "green" products. A healthy economy benefits the environment, providing the financial resources for environmental maintenance and restoration. We don't need to destroy the environment to enjoy a healthy economy; and we needn't abandon prosperity to save our environment. Increasingly, prosperity and environmental stewardship must go hand in hand.

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Salmon recovery and watershed health pose the biggest environmental challenge today. Meeting this challenge while sustaining a healthy economy, will require an unprecedented, multi-decade initiative. That is why OBC has joined with Defenders of Wildlife, Oregon Trout, the Nature Conservancy, and the Oregon Forest Industries Council to create a governance framework capable of addressing this complex issue.

It's not urban vs. rural. OBC is alarmed by the growing discord between urban and rural Oregon. Rural communities feel abandoned by an urban Oregon that fails to understand impacts of environmental policies on their economies. As state government has taken greater responsibility for school funding and transportation, urban Oregon feels too many rural legislators fail to understand urban needs.

In reality, each half of Oregon has a vital stake in the economic, social, and environmental health of the other. Rural communities have benefitted greatly from the growing metropolitan economy because state tax revenues come disproportionately from the metro Portland area. Even while the metropolitan economies have diversified, they continue to benefit from the trade and services created by rural enterprise. And increasingly, rural Oregon will provide opportunities for suppliers and services related to metropolitan companies that cannot afford to locate in urban areas.

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At the same time, both sides need to address the legitimate needs of one another. For example, engineering education is critical for all of Oregon, but especially the urban high technology areas. Rural Oregon should embrace this objective. Similarly, urban Oregon needs to understand legitimate rural concerns about the way that environmental policies are applied to rural economies. Some of the most promising initiatives to restore salmon and watershed health are occurring in rural Oregon. We need to support this work.

The Oregon Agenda is designed to help all Oregon work together to meet Oregon's aspirations.

Let's go to work.

3. K-12 Education

Key Recommendations



- Continue to support Oregon’s system of standards and assessments.
- Endorse the Education Leadership Team’s focus on reading as a gateway for all further learning.
- Adopt a performance budget model, using the tools developed by the Commission on Quality Education. Target early grade level reading as a key priority.
- Explore new school governance, accountability and delivery models by creating an independent commission to study alternatives.
- Examine and promote new models for delivery of education to teenagers.
- Strengthen partnerships between schools and communities.

Oregon is nearing the end of a decade of dramatic change in K-12 education. A good deal has been accomplished, but the great task the Legislature began in 1991 remains to be completed.

When they enacted the Education Act for the 21st Century, Oregon lawmakers set the ambitious goal to create a public education system that results in “measurably the best educated and prepared students in the nation by 2000 and equal to any in the world by 2010.” Building on Oregon’s reputation in K-12 education, the Legislature correctly concluded that achievement of this goal would dramatically bolster the economic and social health of this state – and embarked on a multi-year initiative for school improvement.

The foundation of Oregon’s vision for excellence is a system where students demonstrate their learning against clear standards, replacing one where expectations among schools and teachers varied widely, where common assessments were spotty and where requirements for graduation were less than rigorous. The Education Act created Certificates of Initial and Advanced Mastery, (CIM and CAM) which define standards for student learning in core academic subjects. The standards also called for contextual learning and real-world experiences that connect classroom activities with community- and work-based learning. The purpose of these requirements is to help students gain more of the skills they need to navigate the complex demands of modern life, including problem solving, critical thinking, teamwork, and effective communication.

In response to passage of Ballot Measure 5 in 1990, the Legislature also passed funding equalization legislation that decreased and nearly eliminated the differences in per-pupil expenditures from district to district. This legislation was phased in over the course of the decade, as the property tax limitation was also phased in.

Recent Progress

After nearly a decade of intense effort, Oregon has achieved significant results (see Table 1). At the beginning of the decade, Oregon lacked education standards and did not consistently assess student learning. Today, we have a three-part assessment system that measures what students

Vision and Benchmarks

Oregon’s K-12 schools will produce the best educated graduates in the nation and equal to any in the world.

- Oregon students will score at the top of the world in math and science.
- Ninety-five percent of students will meet or exceed the standards established for the Certificate of Initial Mastery (CIM).
- Each student will make substantial gains in average test scores each year.
- The high school graduation rate will be at least 90 percent.
- Public education will be of such high quality that at least 90 percent of students will attend public schools (including public charter schools).

know and can do against defined, rigorous benchmarks for learning. Compared with the traditional high school diploma, new certificates of mastery provide evidence of student achievement measured against a yardstick that is much more connected to the world graduates will face as young adults (see Table 2). Oregon also can point to new opportunities in which students apply their learning in business and community settings.

**Table 1.
Results of Education Reform in Oregon**

Indicator	Beginning of Decade	End of Decade
Percentage Oregon Students Achieving Reading/Literature Benchmarks¹ (Average Scale Score²)		
3rd Grade	52% (201)	82% (211)
5th Grade	51% (214)	73% (220)
8th Grade	40% (227)	64% (232)
10th Grade ³	31% (231)	51% (237)
Percentage Oregon Students Achieving Math Benchmarks (Average Scale Score)		
3rd Grade	35% (197)	75% (208)
5th Grade	47% (214)	69% (220)
8th Grade	40% (228)	56% (232)
10 th Grade ⁴	34% (233)	40% (236)
Other Indicators		
State and local revenues per average daily membership weighted (2000\$) ⁵	\$5,478	\$4,853
Total expenditures (federal, state, local, private) per student in average daily attendance (2000\$) ⁶	\$7,546	\$7,818
Difference between highest and lowest spending districts (5th and 95th percentile) ⁷	\$3,552	\$294
Pupil Teacher Ratio ⁸	18.0	20.1
Average Teacher Salary (2000\$) ⁹	\$42,889	\$43,844
Public School Enrollment ¹⁰	93.2%	91.4%
Private School Enrollment ¹¹	5.7%	6.6%
Home School Enrollment ¹²	1.1%	2.0%

Funding Equalization. At the beginning of the decade Oregon had one of the most unequal systems of school funding in the nation, due to heavy reliance on locally controlled property tax. As the Legislature took control of funding, it created one of the most equal systems of funding nationally. These accomplishments are particularly notable because average funding per pupil during the decade was virtually flat when adjusted for inflation and enrollment. Higher spending districts faced substantial budget cuts as per-student dollars were equalized across all districts.

Promising But Mixed Results. While we cannot yet say that Oregon students are the best in the world, by several measures their performance is encouraging. The focus on standards and assessments has generated significant improvement. Over the course of the decade, more Oregon students met or exceeded reading and math benchmarks at every grade level tested, and improvement in the early grades has been considerable. In addition, Oregon students continue to lead the nation in Scholastic Aptitude Test (SAT) scores among states where a high proportion of students take the test. Furthermore, in the Third International Mathematics and Science Study (TIMSS) of 1997, Oregon's eighth-graders outperformed both the US and international averages for science and math.

However, in the older grades, the improvement has been disappointing. In 2000, only 27 percent of tenth-graders met the reading, writing, math, and science standards necessary to achieve the Certificate of Initial Mastery (CIM). The change between 1991 and 2000 in the number of tenth grade students meeting Oregon math benchmarks was only six percentage points.¹³ This is particularly troubling because international comparisons indicate that U.S. gains in math and science knowledge stall during the high school years; student performance is well behind other nations by twelfth grade.

In addition, the percentage of students who fail to finish high school remains stubbornly high. The result is that in Oregon, too many young people enter early adult years unready for work and citizenship in a society where knowledge and skills are critical. Oregon's annual high school dropout rate has risen from 5.8 percent in 1991-92 to 6.6 percent in 1998-99, and it is significantly higher for some populations (e.g. the Hispanic dropout rate is double the overall state rate). Reasons that students leave school often include: falling too far behind in credits to catch up, working more than 15 hours a week outside school, being undermined by a dysfunctional home life or lack of parental support for education, getting into disciplinary trouble, engaging in substance abuse, and getting pregnant or being a student parent. The historical relationship between the statewide unemployment rate and the percent of juniors and seniors who withdraw from school suggests that the availability of jobs has a strong influence on the dropout rate.¹⁴

Oregon's vision for transforming the high school experience is perhaps the boldest in the nation. Not only are we setting high standards for academic learning, through the Certificate of Advanced Mastery, our vision is that teenagers will also gain skills in teamwork, problem solving and oral communications that are critical for work and citizenship. Moreover, the vision in the CAM is that students will apply academic and career-related learning in a real-world context, often at an employer site.

Oregon has made progress towards this vision. Experience at a variety of high schools in all parts of the state demonstrate the value of these concepts. However, the statewide design of the CAM remains to be completed, and we still need to examine the organization necessary to give all students the opportunity to succeed in meeting these standards. In addition, recent studies both in Oregon and nationally suggest students may need access to a variety of different learning settings during teenage years, including small high schools and higher education, to meet individual learner needs. As we look to the decade ahead, Oregon needs to examine closely how to best organize education services for teenagers.

Recent Legislative Initiatives

All recent Legislatures have supported the basic policy reforms contained in the 1991 Oregon Educational Act for the 21st Century. They have, however, made a number of notable refinements and improvements, including the following.

Refinement of Standards. The 1995 Legislature took stock of the work done on reform to that point and decided to focus the standards and assessments more tightly on nine academic areas. Furthermore, it defined the assessment system as having three components: multiple-choice tests, performance tasks, and work samples. The Certificate of Advanced Mastery was to undergo additional development work, which was to be reported to the Legislature in 1997. The 1997 session scheduled the CAM for full implementation by 2005.

Better Budget and Performance Information. With passage of Ballot Measure 5, funding levels for schools became a state rather than a local decision, and the state has assumed greater responsibility for school funding and performance. To learn more about the performance and costs of individual schools, the Governor and the Legislature funded the Data Base Initiative (DBI). Developed by the State Department of Education, the DBI has won national attention as a flexible

tool that provides in a common format detailed budget and performance information for every public school in Oregon. Accessible on the Internet, this data is useful for a variety of purposes, including the identification of high performing schools, creation of school report cards, and policy analysis by school boards. At the state level, the DBI is a critical tool for the creation of a new performance budget that ties funding to performance expectations.

**Table 2.
Comparison of the CIM and the High School Diploma**

	Minimum to Earn CIM	Minimum to Earn Diploma
Reading/Literature	<p>Score of 239 on state multiple-choice test</p> <p>Work sample score of 4 in each of 4 areas (comprehension, extending understanding, text analysis, context analysis)</p> <p>Composite score of 40 on state essay writing test (ideas and content, organization, sentence fluency, and conventions such as spelling, grammar, and punctuation)</p>	<p>Credits across all subjects must total 22; a credit is 130 hours of instruction</p> <p>Grade of D in 3 credits of language arts (no level or breadth of study specified – could be limited to basic English courses)</p>
Writing	<p>Work sample score of 4 in each of 5 areas (ideas and content, organization, sentence fluency, conventions, and citations)</p>	
Math	<p>Score of 239 on state multiple-choice test</p> <p>Composite score of 32 on state problem solving test (conceptual understanding, progress and strategies, communication, and accuracy)</p> <p>Work sample demonstrating accuracy plus score of 4 in each of 3 areas (conceptual understanding, processes and strategies, communication)</p> <p><i>Math concepts include geometry, algebra, statistics and probability</i></p>	<p>Grade of D in 2 credits of math (no level or breadth of study specified – could be limited to basic general 9th grade math and consumer math, with no concepts in geometry, algebra, or statistics)</p>
Science	<p>Score of 239 on state multiple-choice test</p> <p>Work samples will be required – scoring guide is being developed</p> <p><i>Science concepts include life science, physical science, earth/space science, and processes of change</i></p>	<p>Grade of D in 3 credits of science (no level or breadth of study specified – could be limited to general courses which no concepts in physics or other specialized subjects)</p>
Social Sciences	<p>State multiple-choice and/or short paragraph response test is being developed</p> <p>Work samples will be required – scoring guide is being developed</p> <p><i>Social science concepts include history, geography, civics, economics</i></p>	<p>Grade of D in 3 credits of social sciences [no level or breadth of study specified – could be limited to general courses, including “personal finances” for economics]</p>
The Arts	<p>Content standards have been set by the state (in aesthetics and art criticism, historical and cultural perspectives, and creation, presentation and performance]</p> <p>Local districts will determine the level of performance required</p> <p><i>The arts include music, visual art, dance, theater, and cinema</i></p>	<p>Grade of D in 1 credit in either applied arts, fine arts, or foreign language</p>

Foreign Language Requirements are being developed
Local districts will determine the level of proficiency

Grade of D in 1 credit in either applied arts, fine arts, or foreign language

The School Report Card. This year, for the first time, the Oregon Department of Education produced report cards for schools and school districts across the state. These new reports – called for by the 1999 Legislature – provide educators with an opportunity to communicate directly with their constituents about how local schools are performing. The report cards will be issued annually in order to allow educators, parents, and taxpayers to chart the progress of Oregon schools.

School Funding and the Quality Education Model. As property tax collections for schools were cut during the 1990s (declining from \$2.9 billion in the 1991-93 biennium to \$1.9 billion in 1999-2001), the state general fund took on a greater burden for funding schools. As a consequence, school funding has become one of the most contentious issues facing recent sessions. Despite vigorous debate, the Legislature has not yet come to grips with the policy impact that it has when it sets the K-12 budget. In particular, it has not adopted tools for understanding how its funding decisions translate into education programs and performance.

Fortunately, during the interim following the 1997 session, the Legislative Council on a Quality Education designed a new system for reviewing school budgets. It proposed the “Quality Education Model” to provide decision-makers information about how different funding levels affect school programs and performance. A special legislative committee reviewed the model during the 1999 session and the interim, and it proposed modifications. A new version of the model prepared by the Quality Education Commission, appointed by the Governor and the Superintendent of Public Instruction, is now available for implementation by the Legislature. The funding model, when combined with the DBI, provides lawmakers the opportunity to dramatically improve the quality of K-12 budgeting.

Local School Funding Option. Oregon voters approved two initiatives in the 1990s that limited property taxes and the revenue options of local school districts. The first was Measure 5, approved in 1990, the second, Measure 50, which passed in 1997. In 1999 the Legislature gave school districts the option to seek voter approval of supplemental operating revenue from property taxes. However, restrictions under Measure 50 substantially limit the amount of dollars that can be raised under the local option mechanism. Fourteen districts have passed a local school option since the new law took effect. In 20 other districts, voters said no.

Charter Schools and Home Schools. The 1999 session enacted legislation to permit charter schools as options within traditional public school districts. The session also simplified requirements for those choosing home schooling and provided funding for home schooled students who take selected classes from public schools. These changes create opportunities for new school models to emerge parallel to traditional school districts. There are now 12 charter schools operating in Oregon.

What Oregon Needs To Do Next

A recent Oregon Business Council report offered five central recommendations to improve K-12 education.

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- *Stick with the Vision and Strategy.* Continue to support the development of certificates of mastery, and provide resources to help students achieve them. Create an array of incentives to signal to students that we value the certificates.
- *Refine and Complete the Standards and Assessments.* Oregon's assessments appropriately are based on a combination of instruments to measure student progress. The system is still young and can be improved to lighten time in assessment, and to give students clearer feedback more quickly. The Department of Education should be encouraged to advance its promising work on student assessment systems.
- *Adopt a Performance Budget.* Create a new budget process that ties funding to performance expectations for schools. Use this budget tool to establish the level of funding required to meet Oregon's ambitious education goals.
- *Rethink Governance.* Focus on the underlying governance system for public K-12 education, including re-evaluating the roles of individual schools, districts, education services districts, the Department of Education, the Governor, and the Legislature.
- *Explore New Delivery Models.* As part of the review on governance, examine the range of education models available to promote rapid improvement, including charter schools, contract schools, and prototype secondary schools.

These five recommendations provide the framework for the specific recommendations presented below.

A K-12 Agenda for 2001

1. Continue implementation of Certificates of Initial and Advanced Mastery. Oregon is well along in the development of standards for student learning, with benchmark assessments of student progress at elementary and middle school grade levels. In 2001, high school students will be challenged with assessments in reading, writing, mathematics and science to achieve a Certificate of Initial Mastery. Implementation of this system is a major accomplishment.

Still, much work remains to be done. That work falls into three categories.

<p>The Legislature should underscore the critical importance of the CIM by funding the CIM Achievement</p>	<p><i>a. Improve the delivery of the assessments already in place.</i> The Department of Education should provide alternative means for assessments and report results more quickly. In particular, it should help schools avoid the extent to which classroom instruction time is now sacrificed to testing. The Department has a very promising proposal called Technology Enhanced Student Assessments. This system will enable students to take and retake the multiple choice tests for the CIM outside regular school hours, and receive rapid feedback on results. This could help reduce loss of instructional time to testing, and it will serve as a better diagnostic tool to assist in teaching and learning.</p> <p><i>b. Finish the standards and assessments.</i> In regard to the CIM, statewide standards and assessments for the social sciences still need to be completed to complement standards and assessments already in place for English, math, and science. Statewide standards for second language and for the arts are complete, and assessments for these subject areas should be developed locally over the next couple of years. Statewide standards for physical education should be completed in September 2001, followed by local development of assessments. In regard to the CAM, standards for career-related learning have been established, but an assessment system still needs to be developed. One of the key features of the CAM may be student completion of at least one major project in a career area of interest. Standards and an assessment system for student projects remains to be developed.</p>
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c. Enhance the value of the Certificates of Mastery to students. Because the CIM is so new, students question its value compared to a traditional high school diploma or widely recognized tests like the SAT. As described earlier, the CIM represents a higher level of performance than a traditional diploma – and provides better information about students skills. Consequently, the CIM will undoubtedly gain value among employers and higher education admissions officials as it is more widely understood and as more students can document their success.

To promote the stature of the CIM, the Oregon Business Council has launched an initiative to educate employers about its value, and to encourage employers to recognize the CIM in their hiring practices. The Oregon University System also is including the CIM proficiencies as part of its Proficiency-based Admission Standards System (PASS).

The Legislature should underscore the critical importance of the CIM by funding the CIM achievement grants, the scholarship program it created last session to reward CIM recipients. The availability of these scholarships would give students a tangible reward for their efforts and, at the same time, send them a powerful message that Oregon values the skills embodied in the CIM standards.

2. Launch a reading initiative. The Oregon Education Leadership Team formed as a result of legislation passed in the last session has identified reading as a skill that underpins all other learning. Without strong reading skills by the end of elementary school, students tend to fall behind in all other subjects in later years. Therefore, the Leadership Team, which is comprised of top state executive and legislative leaders, local educators, and interested citizens, has set ambitious goals for Oregon children. These goals call for third and fifth graders to meet reading benchmarks for their grade levels early in this decade and for improvement at all grade levels throughout the decade. The Leadership Team has outlined a set of strategies starting with early childhood programs and continuing into the school years to meet that goal. The strategies include a broad based communications campaign, which among other suggestions, would encourage parents to read to children at least 20 minutes each day.

Oregon should embrace the Leadership Team's challenge, and develop a comprehensive campaign to promote reading as a gateway for all learning. Achievement of third and fifth grade reading benchmarks should be the first priority in implementation of the Quality Education Model, as described in the next section. The Legislature should adopt the goal that at least 90 percent of third and fifth graders will meet the reading benchmarks by 2003 and 2005, respectively, and it should provide support for schools and early childhood programs to enable them to achieve these benchmarks.

3. Adopt the Quality Education Model to establish a K-12 performance budget.

The most far-reaching change this 2001 Legislature can take is to revamp the way it decides the K-12 budget under the constitutional requirement of Ballot Measure 1, which passed overwhelmingly in the November election. Governor Kitzhaber took the first step in transforming this process by reporting how he would respond to the Measure 1 requirement. The Legislature, in turn, should reorganize its ways and means process toward the same end, employing the Quality Education Model.

For nearly a decade K-12 funding has been one of the most difficult and important issues facing state policy-makers, but the process of drawing up the K-12 budget has been largely disconnected from Oregon's ambitious goals for school and student performance. Lawmakers focused on the total K-12 budget figure but only inferentially considered how the budget impacts programs and performance. Unlike the typical budget process for state agencies, the process for education did not consider

***The Quality
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individual budget line items in any organized fashion, and testimony tended to be anecdotal and advocational in nature.

In part, this occurred because the decision-making tools for education budgeting were inadequate. The Quality Education Model closes this gap. It takes a more logical, disciplined approach by first asking what we want to accomplish with students at the school building level, ascertaining what that will cost per student, and then extrapolating that cost to a statewide level to produce a budget appropriate to our objectives. The model starts at the individual school level because that is the basic building block of instructional programming and student performance.

The Quality Education Model complements other policy and decision making tools developed over the past six years under the guidance of a series of commissions and task forces. These tools include the state Data Base Initiative, which provides detailed cost and performance data for every school in Oregon, and the Consolidated District Improvement Plan, which requires districts to establish education performance goals and processes for continuous improvement. Together, these provide a framework for performance budgeting and school system accountability.

Tables 3 through 5 illustrate the Quality Education Model by examining what a typical elementary, middle, and high school would be like at different levels of funding – and what performance could be expected at that level. The middle column of each table illustrates what a typical elementary, middle, and high school program looks like at current funding levels, and what current performance is in reading and math. The right-hand column, by comparison, illustrates the characteristics and performance of prototype schools proposed by the Quality Education Commission. Prototype schools are designed to meet the quality education goals set by the Legislature, including expectations for higher academic performance.

The Legislature can translate these school prototypes, or any variation of them it chooses, into a statewide funding level using a formula created by the Quality Education Commission. The formula essentially multiplies the dollars per student school-level costs by the number of students enrolled statewide at that level of education. As it chooses a program level for schools, it can also work with the school community to establish performance expectations. In this manner, policy-makers can forge an agreement on how its budget choices will translate into programs and performance.

Naturally, no school or school district precisely equates to these models. Each district and every school will make its own choices on how to spend dollars. Schools' actual expenditures and performance will be recorded in the state database. This will hold schools accountable for their choices and generate useful information about how dollars can best be deployed in future budgets. What the Legislature can do in the meantime is provide its best estimate of what level of service and performance schools can provide, and then compare actual outcomes with its budget estimates. In future budget cycles the Quality Education Commission and the Legislature can adapt a budget based on what they learn from the database, changing budgets and performance expectations based on what appear to be the best practices among schools in Oregon.

A point needs to be stressed about this new budget process. This process is not intended to force the Legislature to select any particular funding level. Rather, it is intended to help the Legislature set priorities for improvement at whatever funding level is chosen. For example, school budgets recommended by the Quality Education Commission are likely to exceed state resources next biennium. However, the Legislature can identify targeted areas for improvement and add funds for those purposes. Reading is a case in point. As noted above, the Education Leadership Team has identified reading as a gateway for all other learning, and has targeted third and fifth grade reading as a critical priority. Using the prototype schools, the Legislature can assess the cost of program improvements that would support its reading goal, such as lowering elementary school

class size, adding tutors, or instituting full-day kindergarten. The budget adoption could include these recommended enhancements in the adopted prototype, along with performance expectations.

This budget process ties funding to school performance as never before. The Legislature will need to think deeply about the consequences for underperforming schools and how to acknowledge those that exceed expectations. The Consolidated School Improvement Process developed by the Department of Education under legislative mandate is a good starting point for discussion. However, this conversation should be broadened as part of a wider discussion of governance and school performance, as discussed below.

Table 3.		
Quality Education Model 2000, Prototype Elementary School -- 340 Students		
What We Have Today Compared to Target Funding		
	What We Have Today	Quality Education Model Prototype
Kindergarten	Half-day	Full-day
Average class size	24	20 for grades K-3
K-5 classroom teachers	13.5 FTE	15 FTE
Specialists for areas such as art, music, PE, reading, math, TAG, library/media, second language, or child development	2.2 FTE	4.5 FTE
Professional development time for teachers	3 days	7 days
Students per computer	12	6
Total cost per ADMw in 1998-99 School Year	\$4,393	\$5,448
Students Currently Meeting Standards		
Reading	3rd grade = 82% / 5th grade = 73%	na
Math	3rd grade = 75% / 5th grade = 69%	na
Students Expected to Meet Standards by Year 2010		
Reading	3rd grade = 90% / 5th grade = 86%	90% by 2005 and beyond
Math	3rd grade = 89% / 5th grade = 83%	90% by 2005 and beyond

Table 4.		
Quality Education Model 2000, Prototype Middle School -- 500 Students		
What We Have Today Compared to Target Funding		
	What We Have Today	Quality Education Model Prototype
Average class size in core subjects	23	22
Staffing in core subjects	16.8 FTE	17.0 FTE
Extra teachers in math, English, and science	None	1.5 FTE
Counselors	One for every 333 students	One for every 250 students
Professional development time for teachers	3 days	7 days
Students per computer	12	6

Operations and maintenance	\$535 per student	\$535 per student
Total cost per ADMw in 1998-99 School Year	\$4,961	\$5,442
Students Currently Meeting Standards		
Reading	64%	n/a
Math	56%	n/a
Students Expected to Meet Standards by Year 2010		
Reading	79%	90% by 2007 and beyond
Math	71%	90% by 2007 and beyond

**Table 5.
Quality Education Model 2000, Prototype High School of 1,000 Students
What We Have Today Compared to Target Funding**

	What We Have Today	Quality Education Model Prototype
Average Class size in core subjects	24	21
Counselors	One for every 333 students	One for every 250 students
Additional instruction time for students not meeting standards: 20% of students	None	4 weeks (summer, Saturday, after school, tutoring)
Professional development time for teachers	3 days	7 days
Students per computer	12	6
Total cost per ADMw in 1998-99 School Year	\$4,978	\$5,615
Students Currently Meeting Standards		
Reading	51%	n/a
Math	40%	n/a
Students Expected to Meet Standards by 2010		
Reading	69%	90% by 2009 and beyond
Math	55%	90% by 2009 and beyond

4. Review education governance and accountability statewide. The reforms of the early 1990s changed the basic governance relationships in Oregon as the state assumed a more dominant role in education funding and policy. After a decade of uncertainty about the roles and responsibilities of the Legislature, Governor, Department of Education, school boards, school districts, service districts and individual schools, it is time for a systematic review.

We recommend that the Legislature create an independent commission to review education governance, service delivery, and accountability and ask it to recommend how to structure Oregon's education resources to best meet the needs of Oregon children.

This review is particularly timely in the context of two developments. First, Oregon's new funding model associates funding with expectations for student performance. As it uses the model, the Legislature should focus on how it will reward stellar performers and deal with schools that are struggling. There are several possible strategies for accountability, ranging from centralized intervention in low performing schools to reliance on local action by school boards. Strategies

include putting low performing schools out to contract and rewarding high performers. All of these options need to be investigated.

Governance review is also timely with the advent of charter schools in Oregon, and experiments with new delivery systems around the nation. As we look to delivery of education in the 21st century, we should investigate a wide range of alternatives including expansion of charter schools, use of contract schools (independent services that bid to operate in existing school buildings), and broader access of public school students to higher education or specialized programs. Oregon should consider whether it is still appropriate to give school districts a near-exclusive franchise to provide public education in designated geographic areas, or whether some form of competition among districts and other providers would better serve children's learning needs.

The Legislature should require the commission to submit its report prior to the start of the 2003 session.

5. Examine new models for the education of teenagers. As Oregon completes its standards and assessments for the Certificates of Initial and Advanced Mastery and for higher education admissions, we need to take a hard look at our education models for teenagers. Some students thrive in traditional high schools, but many do not. We need to create an array of opportunities to meet the needs of all students, including smaller school academies within schools, greater access to higher education institutions, and greater opportunities for community-based learning at employer sites and elsewhere. As the Quality Education Commission proposes prototypes in the future, it should cost out these alternatives.

6. Strengthen partnerships between schools and communities. To achieve our vision for excellent schools, we need to develop partnerships between schools, employers, and other key community members. The partnerships will create the community-based learning experiences required to help students meet Oregon's new standards. Students will increasingly learn through real-world experiences by spending structured time at employer sites, museums, parks, and other places in the community. The experiences will provide students with a context for learning and with opportunities to explore the skills and experience necessary for success in the workplace of the 21st century. Many in the business community are committed to such partnerships. OBC's Worksite 21, for example, helps Oregon employers to become more involved in student learning.

It is also important for those in the broader community to become involved in the life of schools. By spending time with students and teachers, community members will better understand the diverse challenges faced by schools. Increased public understanding is likely to lead to new and better ideas for curriculum improvements, structural solutions, and general support. For example, last school year the Statewide Organization for Schools organized a Back to School Week to encourage members of the community to visit their local schools. The organization plans to hold the event again this year.

4. Higher Education

Key Recommendations



- Use the new student-centered and services-centered funding model to set priorities for higher education and to explore funding tradeoffs among the University System, Community Colleges, the Health Sciences University and the Student Assistance Commission.
- Give campuses greater flexibility to set tuition rates and to make program decisions.
- Start a process to create a single higher education board responsible for proposing funding priorities and overseeing funding allocations among all higher education institutions.
- Invest public and private dollars in higher quality, larger scale engineering education.

After a decade of downsizing and tumultuous change, Oregon's institutions of public and private higher education have entered an era of renewal and growth. The 2001 Legislature can support this direction by making fundamental changes in governance and budgeting practice to support Oregon's new decentralized and entrepreneurial model for higher education delivery. It also has the opportunity to increase its investment in Oregon's engineering and computer science offerings.

The 1990s were a challenging period for Oregon higher education. In the wake of Ballot Measure 5, higher education funding declined during most of the 1990s even while demand for services increased. By the mid 1990s many Oregon leaders began to perceive a growing disconnect between higher education in Oregon and the changing needs of the state's economy and its citizens. While Oregon enjoyed an economic resurgence in which knowledge workers had a key role, business leaders were increasingly uneasy about the capacity of the state's higher education resources to support this economy. Concerns emerged whether Oregon's schools were nimble enough to anticipate and deliver on the enormous variety of learner needs in a knowledge economy.

At the same time, the high technology sector was experiencing acute shortages of technicians and engineers, and the output of qualified personnel from Oregon schools was not keeping up with demand. In fact, as demand for engineering graduates grew in Oregon throughout the '90s, graduation of engineers from Oregon schools actually declined, forcing employers to import engineering talent from other states and countries.

Oregon's challenges in higher education became clearer in 1997 when Gov. Kitzhaber formed a task force of business, civic, and academic leaders to examine all of higher education in the state – public and private – in light of Oregon's economy and the needs of its citizens.

Vision and Benchmarks

Oregonians will enjoy access to affordable and outstanding higher education institutions that meet their lifelong learning needs anytime and anywhere.

- Quality education will be available for all throughout the state.
- Oregon's public and private undergraduate and graduate institutions will attract top performing students from Oregon and elsewhere.
- Oregon will be recognized as a leader in customized and distance-learning education and export these services nationally and internationally.
- Oregon's schools will be especially responsive to the growing importance of Oregon's high technology economy and the needs of technical workers, offering a wide variety of professional and technical education programs to match the needs of Oregon's evolving knowledge economy.
- Oregon's higher education institutions will be especially strong in engineering and computer science.

Challenges the Task Force Identified

In its report, *Higher Education and the Oregon Economy*, the Governor's task force identified a number of trends expected to put more pressure on Oregon's higher education systems. First among these is the growing importance of higher education to the state economy, and to the economic security and enrichment of Oregonians. The task force also found significant skill shortages in the workforce and a need for more responsive higher education services among working adults. In the face of these market pressures, new providers of higher education (both instruction-only schools and online programs) have begun competing with Oregon institutions while funding for state-supported schools has been declining.

The task force also identified significant institutional barriers to progress in Oregon higher education. It pointed to state governance and policy making that isolates four-year public schools from one another, from private four-year schools, and from community colleges, causing them to miss out on alliances and service relationships that better serve students as customers. It pointed to central control of program offerings, which denies schools the flexibility to respond in a timely way to the student market. It also was critical of public higher education funding, which has been directed to institutions based on past allocations rather than emerging student needs.

In response to its findings, the task force recommended broadly that Oregon reorganize and decentralize higher education governance and financing so individual schools have more flexibility and local authority to respond to the marketplace. Particular task force recommendations included shifting more program and budget authority to individual institutions, overhauling the system for funding state schools, and expanding engineering and technical education offerings.

The State Board of Higher Education undertook a strategic planning process that roughly paralleled the Governor's task force – and it reached many of the same conclusions.

Recent Initiatives

Cumulatively, these efforts triggered a number of important initiatives by the Governor, the State Board of Higher Education, and the Legislature.

- Prior to the 1999 session, the Board of Higher Education adopted a sweeping new model to allocate funds based on student enrollment (for example, \$3,500 per freshman) and specific services that the state wants to buy from schools (such as agricultural extension). It also created a pool for targeted investments deemed to be in the state's interest, such as building engineering capacity.
- As illustrated in Table 7, the new funding model for the first time makes clear what the state is allocating on a per-student basis for different programs and specific services. The model also broadens the definition of a "student" to include off-site, part-time, and summer school students. These changes create a stronger incentive for the campus to meet a wide variety of learner needs.
- The 1999 session added \$87.5 million to the higher education budget to support development of the new model – the biggest increase in many years.
- The Legislature and the Governor created the Engineering and Technology Council, an industry-led advisory committee to recommend priorities in engineering education. The Legislature allocated \$5 million for the 1997-99 biennium and \$10 million for the 1999-2001 biennium to achieve expand engineering in Oregon's public and private institutions.

What Oregon Needs To Do Next

While the new funding model seems technical, in fact it provides Oregon with an opportunity to organize its higher education resources much more effectively. It will enable Legislators to choose

more knowledgeably in deciding which higher education services to fund, and it will enable them to compare funding choices and trade-offs among independent colleges, community colleges, and state universities. It will allow the Legislature to consider how much support per student to provide for undergraduate students relative to graduate and professional students. It also will create a climate in which individual schools have much greater flexibility and incentive to respond to rapidly changing needs.

This framework is not new. Oregon has applied student-centered funding to community colleges and private schools for years. In the case of community colleges, the state sets the support per student, while each school acts independently to serve community interests. Local boards decide what programs to offer and what tuition to charge. The state supports private schools in the form of scholarships, which can be applied at any Oregon school a student attends. Both community colleges and private schools have been highly adaptive and flexible under this model.

While the framework itself is not new, it is new to the Oregon University System. In the past, campus budgets were set centrally under an extremely complex formula. For example, tuition received at one campus might end up in the budget of another. Now, funding streams are much clearer, and campus revenues are largely based on enrollment. This breakthrough sets the stage for the Legislature to make additional needed changes in governance. Because the systems are so clear and so similar, the Legislature can now look at funding for state-supported universities alongside funding for community colleges and student scholarships, and it can make informed choices and tradeoffs in spending limited higher education dollars.

In follow-up to their endorsement of the new funding model last session, the Governor and the Legislature should now make two additional major changes. First, beginning with the 2001-03 budget cycle, the Legislature should review all state funding of higher education in one common format. Second, it is time to examine how to create one board that is responsible for overseeing Oregon's state-level responsibilities in all of higher education – public and private, four-year, two-year, and graduate programs. That board would provide a single, comprehensive menu of options for state spending on higher education, focusing on how much funding per student the state should provide, which statewide services it should buy, and which targeted investments it should fund. In the case of public institutions, the new board would delegate program and management decision making as much as possible to the schools, which would be as free as possible to respond to emerging needs.

***Oregon needs
a single
funding format
and single
board
oversight for
all of higher***

Beyond these far-reaching governance and budgeting changes, the Legislature should continue to pursue its initiative to strengthen engineering and technical education.

A Higher Education Agenda for 2001

1. Review the OUS, Community College, Oregon Health Sciences and Student Assistance Commission funding together in a common format to ensure consistency and informed trade-offs. In the past, higher education budgets were reviewed separately for the individual sectors, and meaningful comparisons were difficult to make. This is no longer true. As illustrated in Tables 6 and 7, all the budgets can be reviewed together and evaluated in terms of comparative resource allocation.

These tables, which illustrate how dollars are spent today, form a reasonable starting point for budget discussion. Budget additions and subtractions can be made depending upon policy priorities of the Legislature. Under this new format, issues such as the following can be addressed:

- How much funding per student should the state provide for undergraduate, graduate, and other course offerings? (For the first time, the Legislature can address support by level of education.)
- How much funding per student should be given to part-time and off-campus students? (Traditionally these students have not been supported, but recent policy has included more of them.)
- What critical investments are needed in the way of new facilities for specific programs (such as engineering) or locales (such as Central Oregon)?

**Table 6.
2000-01 Estimated Total State Appropriations to Higher Education Budget**

Category	Community Colleges	OUS	OHSU	Student Assistance Commission	TOTAL
Student Access					
	\$209,293,662	\$255,559,722	\$50,498,871	\$16,646,400	\$531,998,655
Investments and Program Enhancements					
College of Engineering & Computer Science		\$8,220,828			\$8,220,828
Engineering Graduate (\$4,000 per FTE)		\$1,667,054			\$1,667,054
Engineering Tech Undergrad (\$5,000 per FTE)		\$2,341,138			\$2,341,138
Nonresident Masters (\$500 per FTE)		\$951,064			\$951,064
Central Oregon University Center	\$134,630				\$134,630
Community College Skill Centers	\$1,661,320				\$1,661,320
Oregon Advanced Technology Center	\$883,211				\$883,211
Regional CC/OUS Partnerships	\$2,962,005				\$2,962,005
Contracts for Corrections, Out-of-District Students	\$960,621				\$960,621
Owen Sabin Skill Center	\$1,339,775				\$1,339,775
New Community College Partnerships		\$439,613			\$439,613
Community College Partners Transition		\$300,000			\$300,000
Collaborative Programs		\$703,381			\$703,381
Subtotal	\$7,941,562	\$14,623,078		\$0	\$22,564,640
Adjustments to Student Centered Model					
4.0% Sponsored Research		\$5,087,258			\$5,087,258
3%/2% Faculty Salaries		\$2,942,378			\$2,942,378
Regional Access		\$4,985,228			\$4,985,228
Economy of Scale		\$938,396			\$938,396
Transition Funding		\$3,718,357			\$3,718,357
WUE Program Support		\$1,120,000			\$1,120,000
Fee Remission Equity		\$1,349,000			\$1,349,000
Subtotal	\$0	\$20,140,617		\$0	\$20,140,617
Public Services					
Campus Public Service Programs		\$3,816,726			\$3,816,726
Agricultural Experiment Station		\$26,859,266			\$26,859,266
Extension Service		\$18,325,564			\$18,325,564
Forest Research Laboratory		\$2,554,314			\$2,554,314
Statewide Public Services Facilities to OSU		\$2,416,113			\$2,416,113
Subtotal	\$0	\$53,971,983		\$0	\$53,971,983
Financial Aid					
Oregon Nursing Loan				\$178,270	\$178,270
Barber and Hairdresser Grant				\$50,400	\$50,400
Oregon National Guard (State)				\$200,300	\$200,300
Oregon Youth Conservation Corp.				\$12,200	\$12,200
Subtotal	\$0	\$0		\$441,170	\$441,170
Other					
OHSU Education Assistance		\$300,000			\$300,000
Intemships		\$263,768			\$263,768
OWEN		\$521,048			\$521,048
Systemwide Expenses		\$10,913,250			\$10,913,250
Performance		\$730,000			\$730,000
Subtotal	\$0	\$12,728,066		\$0	\$12,728,066
Administrative Support					
Chancellor's office operations		\$12,782,626			\$12,782,626
Community College Administration	\$1,165,517				\$1,165,517
Subtotal	\$1,165,517	\$12,782,626		\$0	\$13,948,143

Reserve Fund

Undistributed FTE		\$925,541			\$925,541
Total	\$218,400,741	\$370,731,633	\$50,498,871	\$17,087,570	\$656,718,815

Note: These numbers were provided by the Oregon University System, the Department of Community Colleges and Workforce Development, the Oregon Student Assistance Commission, and the Oregon Health Sciences University. They represent estimates, but should roughly represent the budget. Note: OHSU figures from 1997-99; OSAC, from 1999-2000. All other data represent 2000-01.

These and many other policy questions become much easier to address in this new format. In an era of scarce budget dollars, this framework allows informed choices. By budgeting in this format, most of the dollars are allocated on a per-student basis. Schools receive these dollars based on the number of eligible students who actually enroll in an institution. Institution revenues are determined by tuition, state support associated with student enrollment, contract services (such as the agriculture extension service), and funding from other sources (such as endowments and federal funds). Under this model, the Legislature should be less concerned about institutional budgets than services it wants the state to purchase from institutions.

**Table 7.
Public Support for Student Access**

Education Stage	Number of Students	State Support/ Student	State Support to Schools	Local Support/ Student	Local Support to Schools	Total Public Support to Schools
Community College						
	91,894	\$2,278	\$209,293,662	\$944	\$86,769,589	\$296,063,251
Oregon University System*						
Freshman/Sophomore	17,383	\$3,498	\$60,805,734	\$0	\$0	\$60,805,734
Junior/Senior	23,490	\$4,704	\$110,498,397	\$0	\$0	\$110,498,397
Masters/Professional	7,196	\$5,898	\$42,444,214	\$0	\$0	\$42,444,214
Doctoral	2,885	\$10,935	\$31,546,083	\$0	\$0	\$31,546,083
Law	326	\$10,220	\$3,331,720	\$0	\$0	\$3,331,720
Pharmacy	297	\$10,270	\$3,050,122	\$0	\$0	\$3,050,122
Vet Medicine	109	\$35,628	\$3,883,452	\$0	\$0	\$3,883,452
Total OUS	51,686		\$255,599,722	\$0	\$0	\$255,599,722
Oregon Health Sciences University						
Medicine	1,725	\$17,101	\$29,499,225	\$0	\$0	\$29,499,225
Nursing	684	\$14,912	\$10,199,808	\$0	\$0	\$10,199,808
Dentistry	378	\$28,571	\$10,799,838	\$0	\$0	\$10,799,838
Total OHSU	2,787		\$50,498,871	\$0	\$0	\$50,498,871
Student Assistance Commission (Undergraduate Need Grant)						
	17,340	\$960	\$16,646,400	\$0	\$0	\$16,646,400
Total	143,367**	n/a	\$531,998,655	n/a	\$86,769,589	\$618,768,244

*State support per student above is expressed as a weighted average. The reader can see that instruction costs more and involves more state support at higher levels of study. Costs of instruction and state support also vary according to courses of study. For example, support in literature ranges from \$2,967 per year for a freshman to \$9,001 for a doctoral candidate. Comparable support in engineering ranges from \$5,311 to \$13,595.

**Excludes student count under Student Assistance Commission.

With this framework in place, three critical issues will need to be addressed.

a. Tuition Policy. Currently, tuition for community colleges and Oregon Health Sciences University is set by the institutions and their boards, while the Legislature, through the Board of Higher Education, exerts oversight over tuition at Oregon University System schools. Under the new model, individual OUS schools need greater tuition flexibility. Currently, the combination of tuition plus state per student support caps total revenues to campuses at about 93 percent of the

national peer average. This policy limits the flexibility of campuses to raise tuition to cover the costs of program improvements or to offer higher quality, higher cost alternatives. In recent years, some flexibility has been granted in the case of graduate and non-resident undergraduate students. This flexibility should be extended to all students. Otherwise, tuition constraints will lead to homogenous programs and mediocrity at a time when greater differentiation is needed to meet a variety of learner needs.

The public university campuses need greater tuition flexibility to enable a broader mix of services to evolve. At the same time, the state has a legitimate interest in holding down tuition levels to benefit Oregonians. To balance these competing concerns, state-supported campuses over the next two years should be able to raise undergraduate tuition to peer average national costs when tuition and state support per student are combined. This cap should be raised over time, and schools should be allowed to go beyond it if they demonstrate that they have reasonable programs for providing access to low-income students. This tuition policy is consistent with giving individual schools greater flexibility in meeting a variety of learner needs.

b. Reserve Fund. The budget format establishes per student support that the state will provide for all eligible students. An issue arises about how to handle financing when student enrollments exceed projections. This was a critical issue for community colleges during the 1999-2001 interim. Individual schools had to absorb the costs of unexpected enrollments because reserves were unavailable.

Establishing a higher education enrollment reserve is important. If Oregon wants more of its citizens to take advantage of higher education, it needs to support growth in enrollment. Without reserves, campuses may be discouraged from growing popular programs because state support is not forthcoming. If necessary, the Legislature should lower per-student funding in order to make room for greater enrollment reserves.

A single board of regents would identify statewide higher education investment opportunities and tradeoffs, propose choices, and track results.

c. Policy Consistency Among Sectors. Because the different higher education sectors have been governed separately, there are inconsistencies in the kinds of classes and students that receive state support. Table 8 provides a comparison of policies among community colleges and the university system. As the Legislature begins to integrate budgets, it will want to address these inconsistencies.

The new budget model does not need to be adopted in one step. This session of the Legislature, in fact, may choose to adopt separate budgets for the different programs. However, by examining these budgets together, lawmakers will understand the tradeoffs better – and prepare the way for a fully integrated budget in the future.

2. Explore merging state oversight of the university system, community colleges, OHSU, and the scholarship funds under one board of regents. Oregon has tremendous higher education assets. To deploy those assets most effectively, Oregon needs a single entity to set direction and allocate state dollars. A powerful case can be made for Oregon to create a single board of regents to fulfill this responsibility. At a minimum, the Governor and the Legislature should appoint a Commission to review options – and to make recommendations on how to create a single higher education spending menu, a budgeting system that shows side-by-side choices and tradeoffs in the allocation of all state dollars to higher education.

The purpose of a board of regents would not be to govern individual institutions. Where local institutional governance is in place, as in the case of the community colleges, independent colleges, and OHSU, it would continue. Where campus

oversight boards do not exist, as in the case of the public universities, the regents would examine how to accord those schools greater autonomy.

A board of regents would fulfill three critical roles. First, it would propose student-centered and service-centered funding choices to the Governor and the Legislature from its menu of funding options. In setting such priorities, the board would be assuring broad access to higher education services by all Oregonians. Second, it would monitor the application and outcome of those funding choices in order to assess how the applications and trade-offs involved are meeting Oregon's needs in higher education. Third, it would set the rules for program certification and approval, with an aim to encourage innovation. Currently, these functions are distributed among several boards.

Creating a single board would accelerate the direction higher education in Oregon is already taking. The lines among the various sectors are blurring, and likely will fade in the years ahead. For example, four-year degree programs from private and public schools are increasingly offered on community college campuses. As individual public schools are provided more autonomy with local accountability for performance, alliances between private and public schools are being formed to serve learner needs. One board with a comprehensive view is far more likely to make the best investments for Oregon and to promote a climate that places learner needs ahead of the parochial needs of specific institutions.

A side benefit of a merger should be savings in state overhead. Currently, the state operates three administrative offices to oversee its responsibilities in higher education. Under a single board, it should be possible to achieve greater efficiencies and cost savings.

**Table 8.
Community Colleges vs. Oregon University System**

Category	Community Colleges	Oregon University System
Tuition Policy	Set at individual college by locally elected governing board	Set at the state level by Board of Higher Education
Funding Source	Property taxes: 22 percent State support: 55 percent Tuition: 22 percent	Property taxes: 0 percent State support: 52 percent Tuition: 48 percent
Average Public Support	Property: \$944/student State: \$2,278/student Total: \$3,222/student	\$3,498/freshman/sophomore student \$4,704/junior/senior student \$5,898/masters/professional student \$10,935/doctoral student
State Support Calculation	Based on contact hours. 510 contact hours = 1 FTE	Based on credit hours. 45 credit hours = 1 FTE undergraduate 36 credits = 1 FTE professional 27 credits = 1 FTE masters and doctorate
State Support Distribution	Per student rate, no distinction among areas of study or level of student	Per student rate, tied to area of study and level of student
Average Tuition	\$35-\$45/credit hour	\$75/credit hour undergraduate \$117-\$209/credit hour graduate.
Additional Fees	\$15 - \$30 technology fees at some colleges; one-time \$20 application fee at three colleges; miscellaneous fees range from \$5 to \$60 at most colleges.	\$372 includes Health, Building, Incidental, Matriculation, Technology, Recreation Center Fees; \$50 one time application fee
Part-time Students	Eligible for state support	Most eligible for state support except for some summer and off-campus classes (class must be for credit)
Non-Degree Students	Eligible for state support (except "hobby and recreation" classes)	Most eligible for state support except for some summer and off-campus classes (class must be for credit)
Out-of-State Students	Not eligible for state support, with the exception noted below for border state students	Full-time students not eligible for state support. Part-time students eligible if enrolled in 8 or

Border State Students Eligible for state support
Enrollment > Projection Reduce per student allocation

fewer credit hours (except U of O and OSU).
All PhD students are eligible. No state support
for continuing education courses.
Most students not eligible for state support
Use Board of Higher Education reserve fund

3. Make an additional investment in engineering. Oregon's industry-led Engineering and Technology Investment Council has set two important goals for Oregon: double the number of engineering graduates and create a top tier school of engineering. OBC believes achieving these goals is critical not just for the high technology industry, but for the economy as a whole. Increasingly, technology is being integrated into all business, and engineering is critical to the success of many industries beyond high technology.

**Oregon
should double
its output of
engineering
graduates and
create a top
tier school of
engineering.**

We encourage the Legislature to make a substantial additional investment in meeting these engineering goals. The investment should provide for both program expansion and new facilities, which can be financed through state bonds. Private dollars should also be solicited for engineering. It is reasonable for the Legislature to require private matches for public dollars invested in these programs.

5. Transportation

Key Recommendations



- **To break out of transportation policy and funding gridlock Oregon should consider and pilot:**
 - **New ways to collect revenue, including pricing systems based on vehicle miles and time of use rather than fuel taxes.**
 - **Privatization and other new models of delivery.**
 - **Demand management to utilize existing highways and roads more effectively.**
- **Identify better strategies for learning customer needs and for communicating the conditions of Oregon's transportation system to Oregonians.**

Oregon used to pride itself in its transportation system. Our roads were regarded as among the best in the nation. Our metropolitan transit systems consistently provided more service and carried more passengers than those of comparable sized cities throughout the nation. Our railroads, airports and port facilities provided efficient access to North America and the world for travelers and freight. Yet in the last eight years we have not been successful in boosting the level of public investment in transportation required to meet the demands of economic growth and system maintenance.

The business community has been a strong advocate for additional funding to address Oregon's transportation needs, but voters have overwhelmingly disagreed. Proposals to increase fuel taxes were strongly rejected in the May 2000 election. The reason for voter resistance is not entirely clear. Opinion polling suggests that transportation is not a priority and that many voters lack confidence that more dollars will translate into transportation improvements. Some disagree with funding sources and specific proposed projects. Escalating gasoline prices also partly may be to blame. In any event, Oregon has been adrift on transportation policy and funding for nearly a decade, and one of our greatest infrastructure assets is wasting away.

Why Transportation Is Important

Transportation moves the economy. It connects markets, moves goods, and gets people to their work and other pursuits. Tourists reach our state by auto, bus, train, and plane. Corporate offices and our growing professional services industry depend on national and international air travel. Millions of Oregonians use cars, transit, bicycles and walking to get to and from work. In 1998 an estimated 303 million tons of freight were carried on Oregon's highways, rail lines, ports and waterways, and through its airports.

Transportation is a major contributor to land use patterns and livability. Even with the increased attention paid to public transportation and alternative modes, highways continue to serve as the backbone of the transportation system. In rural areas they often provide the only means of travel.

Vision and Benchmarks

Oregon's transportation network will enable people and goods to move quickly and reliably while supporting our goals for quality of life, clear air, open space, and livable neighborhoods. Funding will be adequate to maintain our existing investments and meet growing needs.

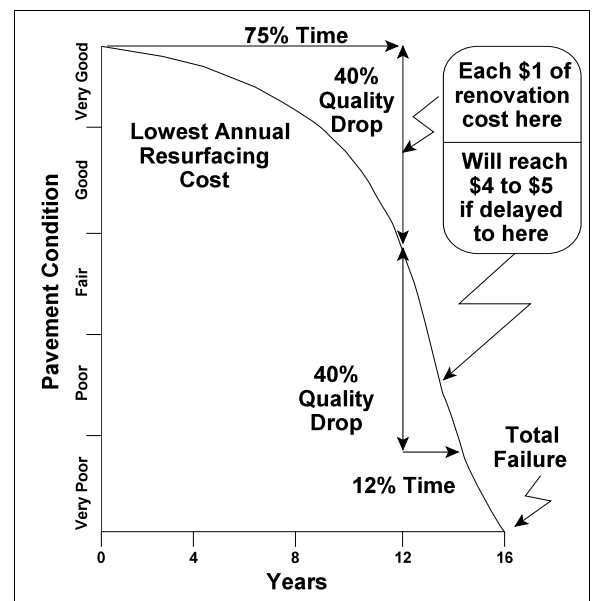
- The percentage of roads that are congested during peak hours will be stabilized.
- The percentage of roads and bridges that are in fair or better condition will be maintained or increased.
- Oregon's transportation system will move goods to market more quickly and reliably than other states.
- All Oregonians will live where the air meets air quality standards.

In urban areas they are equally important. Execution of “Metro 2040” in the Portland area will require additional investments of more than \$3 billion in roads and streets as well as \$2 billion for public transit. By targeting these investments Metro hopes to contribute to the development of new growth centers, enhancing the economy as well as livability and reducing the tendency toward urban sprawl.

Transportation demand has grown steadily during the 1990s. Between 1989 and 1999, while the population increased by approximately 21 percent, the number of motor vehicles increased by approximately 35 percent, and vehicle miles of travel by 46 percent. The state highway system, which includes interstate highways and most other freeways and major arterial highways, comprises 9 percent of the state’s road miles, but now carries 60 percent of the traffic. As Oregon traffic has grown the past decade, total lane miles of capacity has barely increased.

As Oregon traffic has grown the past decade, total lane miles of capacity has barely Transit ridership between cities grew by 50 percent, though transit still carries only a small percentage of trips except in higher density areas.

Current congestion and deterioration is exacting a heavy price. Given the value people place on their time and the cost of delay to shippers and truckers, a single traffic tie up on a major freeway can easily cost tens of thousands of dollars in lost time and productivity. The typical delay cost associated with passenger vehicles is \$15 per vehicle per hour. For trucks and other commercial vehicles, delay can cost \$20 to \$60 per hour or more per vehicle. With over 60 percent of our urban freeway system rated as congested during peak hours, the implications of this are staggering.



Failure to perform timely pavement maintenance results in much higher costs over the life of a road.

Deterioration of road surfaces and bridges is also expensive. As illustrated in the adjacent graph, it has been estimated that \$1 worth of preservation work left undone when a road surface first starts to deteriorate can cost \$4 or more to repair later. And unless we plan to close some of our state highways, the costs *will* come back to us.

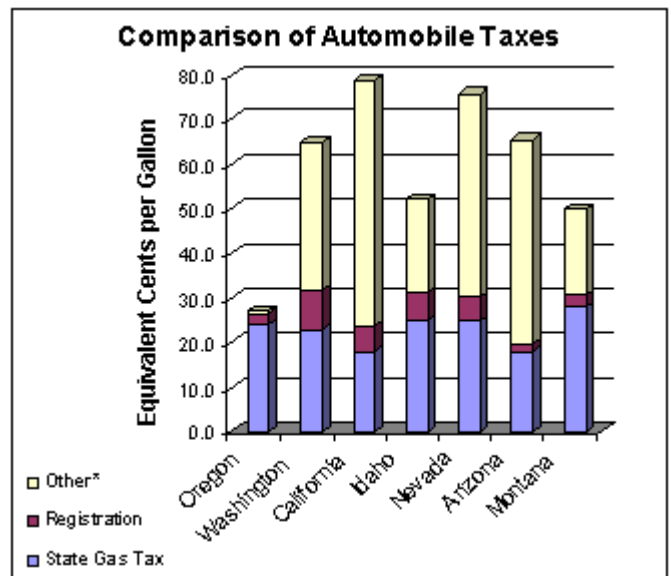
As the transportation system is deteriorating, the Oregon Department of Transportation, which is responsible for constructing and operating the state highway system, has very limited ability to respond. ODOT estimates that it should be spending \$136 million per year to preserve road surfaces, but is spending only \$100 million to \$123 million. It should be spending \$93 million on bridge preservation but is spending only \$53 million to \$75 million. Cities and counties are also falling behind in system upkeep. Our economic investment is slipping away.

How Things Got This Way

In the 1980s and early 1990s the Legislature passed a series of highway revenue bills increasing fuel taxes from 7cents per gallon to 24 cents per gallon, with corresponding increases in weight-mile taxes. At the same time constitutional restrictions on use of highway funds were strengthened to assure the funds would be used for highways. The backlog of roads and bridges in need of repair was reduced and an ambitious modernization program, “Access Oregon Highways,” was

undertaken. However, since the last of these increases in 1991 several trends have significantly affected the fund:

- Inflation reduced the purchasing power of the highway fund. Even moderate inflation of 3 percent to 4 percent requires the equivalent a cent per year increase the gas tax just to stay even. Unlike many other states, Oregon has no inflation sensitive highway taxes such as vehicle excise taxes or sales taxes on gasoline.
- Fuel economy increased with the result that the taxes contributed by light vehicles on a per-mile-of-travel basis have actually declined. In 1993, when the last fuel tax increase went into effect, the average passenger vehicle paid the equivalent of 1.28 cents per mile in fuel taxes. Today, because of higher miles per gallon, the average is 1.23 cents per mile. At the same time, the costs of road construction and maintenance have increased.
- Cost responsibility adjustments resulted in lowering of weight-mile rates. In order to maintain parity between light vehicles and trucks the Legislature has twice lowered weight-mile tax rates. An 80,000 tractor-trailer that once paid 14.5-cents per mile to use Oregon's roads now pays 11.9-cents per mile.
- The segments of the Interstate highway system and many bridges are reaching the end of design life and require rehabilitation.
- Unanticipated and unavoidable expenditures have claimed highway fund moneys that could have been applied to routine needs. Natural disasters in the form of floods and land slides have taken extra maintenance dollars. Restoration of salmon habitat has required the modification of bridges, culverts and other road structures affecting streams. An earthquake in 1993 alerted the state to the need to improve bridges to withstand earthquakes.



Oregon is well below other western states in automobile taxes.

As a result of these factors, there has been virtually no growth in inflation-adjusted state highway revenues, even as use of the road system and needed restoration and preservation have increased significantly.

Each legislative session since 1991 has considered revenue measures for transportation. But road-financing discussions have been mired in disputes:

- About equity between light vehicles and trucks,
- About the trucking industry's desire to replace the weight-mile tax,
- Over objectives of transportation policy between advocates of growth management and balanced transportation and advocates of more traditionally focused road programs,
- About lack of confidence in ODOT generated in part by visible failures, such as the DMV computer problems, and in part by the inability to explain and resolve funding priorities around public transportation and planning as well as roads.

The 1999 Legislature passed a significant revenue and road construction program. It was subsequently referred to voters and soundly defeated at the polls. AAA referred the measure

because it disagreed with provisions to replace the weight-mile tax. Polls during and after the election showed that voters were not particularly concerned about that issue and, in fact, most supported a modest increase in road use taxes to pay for maintenance, capacity, and safety improvements. However, polls also revealed a serious mistrust of government's ability to actually deliver the program.

The end result is that despite an apparent consensus on the need to invest in transportation and in roads, the public has been unwilling to provide new revenue for transportation investments.

Recent Progress

Response to the state's transportation vision and needs has not been entirely bleak. Federal funding of surface transportation has increased, though not at the levels anticipated during the creation of the TEA 21 legislation. The 1999 Oregon Legislature passed funding bills to assist roads, passenger rail, transit and aviation. Funding is being used to add additional rail service, to carry more senior and disabled transit passengers, and to improve the state's network of general aviation airports. The airport spur of the MAX light rail system is being constructed with private funding.

The Transportation Commission's conscious effort to increase road surface preservation treatment and bridge rehabilitation has slowed deterioration of the road system. Pavement preservation and bridge programs now account for 63 percent of the Statewide Transportation Improvement Program (STIP). Unfortunately, it has been largely at the expense of the modernization program. Projects that would add capacity have been severely limited and now account for only 15 percent of the STIP.

What Oregon Needs To Do Next

Oregon needs to break the policy gridlock in transportation. We cannot allow arguments about governance and growth priorities to obscure the fact that the state's basic system of roads and other transportation infrastructure is essential to the future well being of all Oregonians and that its deterioration is a serious threat to our economy and livability.

The deterioration of Oregon's transportation infrastructure is a serious threat to our economy and

To break the gridlock, we need to explore a wider range of options than we have in the recent past and we need to engage in a broader dialogue with the public about our transportation choices.

While the business community has been perhaps the staunchest proponent of modest increases in fuel taxes, it is clear that we need to search further for transportation financing solutions. Even if we did achieve a modest increase in fuel taxes, the increase would be insufficient to meet our needs in the near term and longer term. A system based on gasoline taxes is likely to become obsolete with the advent of alternative fuel and highly fuel-efficient cars. Whatever the short-term decisions are made for transportation funding, Oregon needs to embark a wide-ranging exploration of options to meet long-term needs. The review should include the following:

New ways to collect revenue. Oregon should explore alternatives to its current transportation funding sources, the gasoline tax (for cars), weight mile fees (for trucks), registration fees, and property taxes (for local roads). Assessment of mileage fees for light vehicles is now technically feasible. Japan, for example, is creating "intelligent transportation systems," which allow collection of fees electronically. The system, built into new automobiles, also provides navigation assistance to address

congestion. Parking fees or other revenue sources could be created in conjunction with new commercial developments to cover the costs of transportation infrastructure needed to support

those developments. Fees pegged to peak usage could generate revenues to make highway system improvements, reduce congestion, and avert the need to build costly new facilities.

Privatization. Experiments in transportation privatization are cropping up all over the nation and world. It is time to investigate the possibilities in Oregon. Privatization may encourage management innovations to increase productivity and will encourage more creative financing arrangements. A new private toll road in Riverside, California, illustrates the ability of the private sector to generate economic return on highway investments. Public utilities provide another model whereby road maintenance and development could be funded by regulated fees rather than taxes. Privatization of DMV could take advantage of billing and administrative systems already set up by private organizations.

Demand Management. One way to avoid the need for expensive new facilities is to use our existing system more efficiently. Oregon should explore jitneys and car pools, aided by sophisticated telecommunications and scheduling technology, to bring riders together as a way to do more with existing facilities. We also should explore ways to provide higher quality (more rapid) transportation options for those willing to pay more.

Dialogue With Customers. As Oregon examines alternatives it is very important to understand customer needs. The public at large does not place transportation high on its list of priorities, and as the recent gas tax referendum illustrates, does not see the need for additional funding now. We need to conduct detailed research on public attitudes. We also need to explore in much greater detail the variety of business needs surrounding transportation. Many Oregon businesses are deeply concerned about the trends in transportation on their businesses. As we learn more about specific needs, we may be able to craft solutions that facilitate commerce and support the overall transportation infrastructure. For example, for some companies, moving freight within the urban areas during peak hours is a critical priority. It may be possible to address those needs through creation of special lanes, which could also be available for buses, high occupancy vehicles, and other users willing to pay an extra fee.

It is time to investigate the possibilities of privatizing transportation in Oregon.

We also should examine transportation needs by region. Governor Kitzhaber undertook such a review four years ago. The time may be right to update it.

A Transportation Agenda for 2001

The Governor, the Legislature, and transportation policy leaders should mutually map out a strategy for protecting and enhancing Oregon's transportation infrastructure within the framework proposed above. Along with studies of policy choices, Oregon should quickly test-pilot promising ideas and investigate experiences in other states and nations. The business community commits to be an active, constructive participant in this important process.

6. Salmon and Watershed Health

Key Recommendations



- **Direct the Oregon Watershed Enhancement Board (OWEB) to establish a comprehensive measurement system to track Oregon's progress on salmon recovery and watershed health.**
- **Give OWEB authority to allocate all watershed health-related funds (including federal funds received by the state) to highest priorities based on its strategic plan.**
- **Set clear performance standards for all activities that impact salmon and watershed health.**
- **Identify strategies to achieve our salmon recovery objectives while assuring sustainable economic growth throughout the state.**
- **Build a new partnership between the federal agencies and Oregon in which Oregon takes responsibility for implementing strategies for achieving measurable salmon and watershed restoration goals. Coordinate local plans in conjunction with state efforts.**

Historically, Oregon has been a leader in addressing critical environmental problems, but lately we have fallen behind. Oregon's policies and programs do not adequately address today's environmental challenges. The magnitude of these challenges was highlighted in 1998 when the Oregon Department of Environmental Quality announced that over 1,000 rivers and streams do not meet state water quality standards. Between 1997 and 1999, 10 Oregon stocks of native salmon and steelhead were listed as threatened or endangered under the federal Endangered Species Act. These actions underscore the importance of watershed and salmon restoration for Oregon.

The nature of our watershed and salmon crisis became even more evident in the Oregon State of the Environment Report 2000. This first comprehensive assessment of Oregon's environment found that water resources and aquatic ecosystems face serious risks:

- Water quality is typically poor or very poor across the state during low flow periods.
- Almost half of Oregon's freshwater fish, including many salmon stocks, have declined or are at risk of extinction. Out of 63 species or subspecies of native freshwater fish in the state, 14 are already listed as threatened or endangered and another 15 are considered to be potentially at risk of listing. Five of the listed species are salmon and trout; and 226 genetically distinct populations face significant risk of extinction.
- While Oregon retains much of its native habitat, reintroduction of natural processes and control of non-native invasive species are important to sustaining it.

Unlike the past, when a few major sources of pollution or overuse could be controlled to solve environmental and resource problems, our current problems result from the cumulative effects of many small, diffuse, individual decisions and actions. Aquatic ecosystems, which by their very nature integrate many diverse activities, are most impacted and most at risk.

Vision and Benchmarks

Oregon will have sustainable, naturally spawning, diverse salmon and steelhead runs and a healthy economy in all corners of the state.

- Salmon and steelhead will spawn naturally and reach sustainable population levels allowing harvest in all watersheds where they occurred historically.
- All Oregon rivers and streams will meet state water quality standards by 2025.
- Native vegetation will be maintained and enhanced and nuisance invasive species will be reduced.
- While protecting salmon and watershed health, Oregon will develop and maintain sustainable harvests of timber, farm products, and fish.

Solving today's watershed and salmon problems requires a new vision and governance structure. Only by rethinking the entire legal and institutional framework for watershed and salmon restoration will Oregon be able to revitalize the resource. This work began with adoption of the Oregon Plan for Salmon and Watersheds, but more needs to be done.

Restoring watersheds and salmon is important for Oregon's natural environment and its economy. Clean rivers and healthy salmon runs improve our quality of life, which in turn gives Oregon a competitive advantage economically.

<p><i>If we fail to restore our watersheds and fisheries, we face federal intervention and economic</i></p>	<p>Almost 14,000 miles of Oregon rivers and streams are impaired for one or more beneficial use. This includes water bodies in virtually every major community in the state. Streams within urban, range and agricultural areas are the most likely to be impaired. The Department of Environmental Quality is preparing total maximum daily load allocations for all of the impaired streams. This work will be done in close cooperation with the Department of Agriculture, which is developing agricultural water quality management plans for farm and range lands.</p> <p>If we fail to restore our watersheds and our fisheries, we face federal intervention and economic gridlock. Virtually all public and private development projects require environmental approval. The listing of salmon stocks under the Endangered Species Act has begun to paralyze permitting. Projects that were routinely approved in a month or two now languish for over a year in the federal consultation process. Backlogs are building, placing much needed roads, bridges and new real estate developments on hold. With so many streams failing to meet water quality standards, additional discharges will be severely restricted, even as Oregon's population and economy grow. Apart from water quality problems, it is becoming increasingly difficult to supply adequate quantities of water to meet municipal, industrial, agricultural, and other needs. Our current water supplies are largely over-appropriated, yet more water is necessary given the projected 34 percent increase in human population in Oregon over the next 25 years. Water supplies are already short in many fast growing areas like Wilsonville, Redmond, and Madras.</p>
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Without changing our approach to restoration we will continue to make poor choices on expenditure of recovery funds. A new approach is also needed if we are to avoid preparation of multiple plans by various agencies addressing slightly different aspects of watershed restoration, with water quality plans prepared by one agency, fish restoration and recovery plans by another and water allocation plans by a third. By working together, we can achieve a quality environment and a healthy economy.

Recent Progress

Governor Kitzhaber and the 1997 Legislature recognized the importance of addressing declining salmon and steelhead runs throughout Oregon. They adopted the Oregon Plan for Salmon and Watersheds to spark local initiatives and to aim state agencies toward salmon recovery goals. They also established the Healthy Streams Partnership to promote watershed restoration. Through the efforts of the Governor's Natural Resources Office and the Joint Legislative Committee on Salmon and Watersheds, great strides have been made on aligning the missions of the various state agencies to achieve the goals of the Oregon Plan and the Healthy Streams Partnership. The Governor issued an executive order in 1999 to further clarify state agency obligations for salmon and watershed restoration.

OBC joined with other organizations before the 1999 Legislature to form the Coalition for Watershed and Salmon Health to support legislation to create a vision and governance system

that supports healthy watersheds, restoration of salmon and other native fish and wildlife and a strong economy. The Legislature and the Governor developed and adopted legislation implementing Ballot Measure 66 (dedicating lottery money for parks and salmon) and took the first steps toward institutionalizing the Oregon Plan. Measure 66 required that these funds be appropriated through a single state agency.

H.B. 3225 established the Oregon Watershed Enhancement Board (OWEB) to allocate Measure 66 funds for restoration work under a framework that focuses on the highest priority investments for fish recovery and watershed health. The Board was directed to develop a comprehensive framework for investing in salmon and watershed recovery. Funds for watershed restoration were allocated to give the Board broad flexibility for capital projects. Unfortunately, about half of the available operating dollars were used largely to backfill pre-existing agency programs.

What Oregon Needs To Do Next

Oregon can be proud of the initiatives that we have put in place on salmon and watershed health. At the same time we have learned that it is a complex problem and will require tradeoffs. If we go about this in a haphazard way we will likely spend money on ineffective programs that do not save salmon and may harm the economy. With an issue of this magnitude, the Oregon Business Council believes that we need an integrated and unified statewide strategic vision and governance structure that:

- Recognizes and develops the new vision.
- Integrates agency and jurisdiction planning efforts.
- Aligns budget and policy decisions to reflect the vision.
- Translates the new vision into measurable, integrated goals and objectives for each agency, jurisdiction and watershed.
- Develops a complete and coordinated data collection system that supports natural resource decisions and monitors progress toward recovery goals.
- Avoids duplication of effort and wasted funds.

HB 3225 took the first step toward establishing this type of governance structure with the creation of OWEB. However, OWEB was limited largely to allocating Measure 66 and other funds. The Oregon Business Council thinks that OWEB should become a “steering organization,” the organization charged with performing all of the above functions. The particular institution is far less important than accomplishing the functions. Whatever the structure, the Governor and Legislature must identify an institution to set clear technically defensible recovery and restoration objectives for all aspects of salmon and watershed restoration and provide the overall framework to meet them.

The standards that state agencies apply when permitting development that affects salmon and watersheds must be clarified. Today, the federal Endangered Species Act prohibits “take” of listed species by anyone and requires that federal agencies not “jeopardize” the continued existence of these species. These standards are applied anytime federal permits are needed, and in federal enforcement actions.

The Governor’s executive order directs state agencies to assure that activities they permit (such as new water rights, discharge permits, energy siting certificates, or full permits) do “not appreciably reduce the likelihood of the survival and recovery of salmonids in the wild.” If state agencies are undertaking actions, they are supposed to help recover listed species.

The standards that state agencies apply when permitting development that affects salmon and watersheds must be clarified.

The Oregon Department of Fish and Wildlife recently adopted habitat mitigation rules that apply a different standard. These rules call for "...producing a conservation benefit that (if taken together with comparable and related actions by all persons and entities within the range of the species) is likely to result in sustainable population levels of salmonids in the foreseeable future, and in population levels of salmonids that provide substantial environmental, cultural and economic benefits to Oregonians in the long term."

One state agency must have responsibility for gathering and analyzing information on salmon and watershed health and for measuring restoration progress.	<p>State agencies themselves, and the private and public entities they regulate, need to know exactly what the standard is and how it compares to the federal standard. Otherwise, needed programs and projects will be delayed through regulatory challenges and litigation.</p> <p>Whatever the standard and whatever goals are adopted for salmon and watershed restoration, we will not know whether we are making progress without better data collection and management. The State of the Environment Report does an excellent job of describing the existing baseline, but it acknowledges some major information gaps. One state agency must be given the responsibility for gathering and analyzing information on salmon and watershed health and for measuring our progress toward restoration.</p> <p>Finally, additional policy tools need to be developed to facilitate restoration efforts. Wetland mitigation banks, for instance, have been effective. Mitigation banking is used to provide larger scale compensatory wetland mitigation in advance of anticipated smaller wetland losses. Similar banking should be allowed for other types of habitat restoration and protection targeted at high priority habitat areas.</p> <p>A Salmon and Watershed Health Agenda</p> <p>1. Establish OWEB as the institution to steer our salmon and watershed restoration effort. Currently, the Governor's Natural Resource Office is steering the entire salmon and watershed restoration effort. We believe that this function should be performed by a state agency charged by statute if it is to continue beyond this governor's term of office. Steering an effort of this magnitude among multiple agencies is very hard work requiring careful and sustained attention and institutional memory. The Legislature should specifically address the question of who should carry out this critical task and then give that entity (OWEB) the authority to do it. OWEB should be directed to review state agency budgets and programs to assure that they align with the goals we are trying to achieve.</p>
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2. Charge OWEB with developing a coordinated data collection, distribution, and monitoring system, including responsibility for the Geographic Information Center. OWEB needs to have this information in order to assess our progress toward salmon and watershed restoration goals.

3. Set clear statutory standards. The Legislature should review the Governor's executive order, Oregon Department of Fish and Wildlife's new habitat mitigation rules, and current laws, and it should decide what standard state agencies should apply in their permitting decisions and to their own activities affecting listed salmon. Is Oregon going to apply the same standards as the federal government, or not? If different standards are going to be applied, what are they?

4. Expand the wetland mitigation banking program to allow habitat mitigation banking. A habitat mitigation bank is created when a landowner voluntarily restores or creates fish or wildlife habitat for the purpose of selling habitat credits to developers in order to mitigate unavoidable future habitat losses from development. Habitat mitigation banks reward good resource

stewardship by compensating landowners for habitat restoration. They also can promote restoration at high priority sites while facilitating development elsewhere, assuring that mitigation funds are spent where they will do the most good. The Legislature should review the existing ODFW habitat mitigation policy under OAR Chapter 635, Division 415, and provide legislative direction to promote the use of habitat mitigation banks.

5. Build a stronger state-federal partnership to implement strategies for restoring water quality and native salmon populations. Oregon cannot achieve its vision for salmon and watershed restoration if it does not forge a more effective partnership with pertinent federal agencies. The federal government owns over half of the land in Oregon. It also administers the federal Endangered Species Act and the Clean Water Act. The Bonneville Power Administration has funded the bulk of salmon restoration efforts in the Columbia River Basin until now. The National Marine Fisheries Service oversees ocean harvests¹⁵ and enforces the Endangered Species Act for anadromous fish. The Environmental Protection Agency is ultimately responsible for administration of the Water Quality Act subject to delegation of some programs to the Oregon Department of Environmental Quality. The U.S. Fish and Wildlife Service has ESA responsibilities and runs the federal fish hatcheries. All of these responsibilities and efforts must be better integrated. Long-standing fragmentation among federal, regional, state, and local agencies cannot be allowed to continue.

Oregon should work with the federal government to achieve two changes in salmon and watershed governance. First, Oregon should negotiate for a single set of recovery objectives that meet all federal requirements, especially those under the purview of the National Marine Fisheries Service, the Environmental Protection Agency, and the U.S. Fish and Wildlife Service. With recovery objectives clarified, the pertinent federal agencies should delegate to Oregon the responsibility for development and implementation of strategies to achieve those recovery goals and the appropriate federal agencies such as BLM, the Forest Service and the Corp of Engineers should assist in implementation. As part of the arrangement, a measurement system should be established to monitor recovery progress and pinpoint the need for adaptation of the strategy.

7. Economic Prosperity

Key Recommendations



- Investigate strategies to retain Oregon's competitive advantages in energy and health care costs.
- Secure resources from federal, state, and local sources to complete the Columbia channel deepening project.
- Secure direct international air service from Portland to Asia.
- Modify higher education policy to encourage commercialization of patents.
- Build partnerships that facilitate better communication between business and government, and between urban and rural economies.
- Strengthen urban-rural ties to support rural economic growth.

A robust, prosperous economy is central to our vision of the kind of place we want Oregon to be. Oregon is well on the way to achieving the economic vision laid out in the state's strategic plans, Oregon Shines and Oregon Shines II. Our original plan, adopted more than a decade ago, called for a state in which traditional natural resource-based industries continued to be major contributors to the economy, new knowledge-driven high technology industries would be built, and all Oregonians would flourish in an increasingly international economic environment. Our revised plan stressed the importance of emphasizing research and development, and the critical role of entrepreneurship and new business formation.

The record of the last decade shows significant progress in all these areas. Oregon's economy has grown, chiefly due to the state's success in growing high tech industries and applying new technologies and techniques to traditional industries. Research and development activity, and patents are up dramatically, the educational attainment of Oregonians is well above the national average, and entrepreneurship and new business starts are strong. All of these forces have helped raise per capita incomes relative to the national average, erasing half of the gap between Oregon and national incomes that plagued the state in the 1980s.

We have not fully realized our economic vision, however. Much needs to be done, and a constantly changing economy poses new challenges for businesses, workers and communities. Many Oregonians, particularly those with low levels of education, have not shared in the benefits of the new economy; poverty rates in Oregon have been increasing at a time when they have been decreasing nationally. Many rural communities are still dependent on natural resource based agriculture and forest products industries, which in many areas are still coping with transition. We must do more in the coming decade to assure that the benefits of prosperity flow to all Oregonians, and all corners of the state.

The hectic pace of change in the Internet economy make it clear that as good as our overall performance has been, we do not have the luxury of resting on our laurels. No one knows what the future industries and technologies of tomorrow will be; but we do know the critical resources that will be needed to prosper in an era of change. Our vision of a well educated workforce, an

Vision and Benchmarks

Oregon will continue to enjoy and build on its economic progress, bringing the fruits of prosperity to more Oregonians and all regions of the state.

- Raise per capita income to or above the national average.
- Reduce poverty rates.
- Stimulate job growth in every region of the state.

entrepreneurial population, and a great quality of life, still make sense as the foundations for assuring prosperity. We believe Oregon should rededicate itself to this vision, and in the coming years, take a number of concrete steps to strengthen our ability to achieve prosperity. This section of the playbook outlines those steps.

Recent Progress

Oregon has made substantial economic progress over the past decade. The state's economy has created more than 350,000 new jobs. Per capita income, which has long lagged well behind the rest of the U.S., has pulled to within 5 percent of the national average. Statewide, unemployment rates have come down substantially, and now closely track national rates.

One key to Oregon's economic growth has been the state's ability to compete successfully in an increasingly global economy. Total state exports exceed \$11 billion, underscoring a remarkable transformation of the Oregon economy. The state's high tech and metals industries, in particular, have grown rapidly. Today, nearly two-thirds of Oregon's exports are high-value high tech goods and machinery.

The educational attainment of Oregon's workforce has been a critical ingredient in Oregon's economic

A critical ingredient in Oregon's economic success, particularly for the high tech industry, has been the high and growing level of educational attainment among the workforce. More than a third of adults in the Portland metropolitan area have a four-year degree or higher level of education, and the state as a whole is above average in educational attainment. The growth of the economy has also been fueled by successful startup companies. Oregon ranked second in the nation for fast growing "gazelle" businesses in 1998 and Oregon ranks in the top ten states in the nation for venture capital investment, on a per person basis.

Despite a strong overall economy, not all industries have prospered in the past decade. Oregon has performed extremely well in some sectors, and lost ground in others:

- High technology employment has grown at 5.6 percent annually over the last decade and is now Oregon's largest manufacturing industry, accounting for more than 70,000 jobs, the bulk of Oregon exports, and more than 10 percent of US semiconductor production. Average wages in high tech are more than \$55,000 annually.
- Forest products firms, including logging, sawmills, plywood plants and paper mills, employ nearly 57,000 Oregonians, but employment has been declining an average of 2.5 percent per year over the past decade. Oregon has lost market share in the nation's wood and paper products markets.
- Metals, machinery and transportation equipment producers, making everything from aluminum to trucks to aerospace parts, have increased employment 3.7 percent annually since 1988, employ about 45,000 Oregonians, and account for \$1.5 billion in exports. Oregon metals firms have outperformed their counterparts nationally.
- Agriculture and food products is a major employer and accounts for about \$1.4 billion in annual exports. About 90,000 people are involved in agriculture and food processing, but average wages are about \$16,000 annually, due to high levels of part-time work. Oregon's output growth has tracked national averages during the past decade.
- The importance of the service sector continues to grow in Oregon. While many service sector jobs serve local markets and offer only modest pay, two major segments of the sector illustrate the potential for creating high wage jobs and businesses that export services to other states and countries. Professional and creative services firms have been growing rapidly and jobs generally pay well. The creative services industry (advertising, public relations, film and video,

and multimedia software) has grown more than 10 percent per year in the 1990s, and pays average wages of more than \$40,000 per year. Other professional services, including engineering, architecture, and management consulting employ more than 28,000 Oregonians at an average wage of more than \$40,000 per year. Employment in this segment of the economy has increased by more than 50 percent in the past decade.

In every industry sector, there are substantial, and continuing changes in technology, markets, and competition. Those firms that have been most successful in Oregon have been those that have innovated, developing new and more efficient production techniques and better products, ranging from engineered wood products and higher yield agricultural practices to more efficient railcars and trucks to faster semiconductors.

The economic health of different regions of Oregon has been greatly influenced by these industry trends. Those areas with the greatest concentrations of high technology and metals industry firms have performed best; those most reliant on the traditional resource-based agriculture and forest products industries have struggled. The average wage gap between urban and rural Oregon has more than doubled, from \$2,500 in the late 1970s to \$6,500 today (in inflation-adjusted dollars). The urban rural gap is also reflected in significantly lower levels of educational attainment in the state's rural areas than in the more populous (and prosperous) urban regions.

There are hopeful signs for rural economies. Timber supplies from private lands are expected to be sustained over the next several decades, and we could see additional supplies from public lands. While forest products have been downsized, our mills are among the most efficient in the world and forest products should remain a significant employer for the long haul. Agriculture, while currently in the doldrums for many products, still presents opportunities, especially for specialty products. And Oregon's growing urban economies create opportunities for rural communities to be suppliers.

*The firms that
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innovated with
new and
better*

What Oregon Needs To Do Next

To achieve our vision of a healthy economy in every corner of Oregon, the state must stay focused over the long haul on several key areas. The following five strategies address the needs of resource-based industries and high tech industries alike and, if successfully pursued, can ease the economic gap between the two Oregons.

Workforce and Education. Great education is a powerful magnet for knowledge-intensive industry because employees value education (making them easier to attract and retain) and because talented graduates fuel the economy. In addition, a quality education system can help segments of the Oregon population and communities throughout the state that have had the greatest difficulty connecting with opportunities in the new economy.

Business Costs and Business Climate. The cost and availability of a range of public and private services influences the competitiveness of Oregon businesses in national and international markets. Environmental regulations designed to sustain quality of life and a healthy economy build a climate for business expansion. Competitive rates for quality health care, energy, and worker compensation encourage investment and expansion, as do tax policies that keep business taxes competitive with other states.

A Culture of Innovation and Entrepreneurship. Increasingly, the bulk of the growth in the Oregon economy is being propelled by knowledge-based industries such as high technology, software, and electronic commerce – and through innovation and new products from all industries.

Prosperity will grow out of our work to hone our collective capability to continuously learn and adapt in an ever-changing economic world. Necessary infrastructure for knowledge-based growth includes strong public and private sector research activities, a good entrepreneurial climate, and the availability of investment capital for new ventures.

Oregon's Quality of Life. Oregon is a special place to live, and Oregon's quality of life helps attract and retain talented people who drive our economy.

Business/Government Partnerships. State and local governments are, in effect, critical suppliers to Oregon businesses largely responsible for providing a well-educated workforce, building and operating a well-functioning infrastructure, and clearly and fairly regulating business activity. The ability of business and public leaders to anticipate each other's critical challenges is an important ingredient for economic prosperity in an era of rapid change. It is also important that communities across the state understand each other's needs and identify opportunities to support each other.

An Economic Prosperity Agenda for 2001

Using the framework above, the following are specific areas for enhancing Oregon's economic prosperity. Other sections of this playbook address many other opportunities, and the proposals below are by no means exhaustive. They provide one good checklist. We should continuously examine opportunities for improvement in all of these categories.

1. Continue to build a world class education system and workforce. The most pressing issue facing most Oregon businesses today is the scarcity of skilled workers. As we have outlined in sections 3 and 4, improving the education system is critical to the state's ability to address its long-term workforce availability problems.

2. Look for opportunities to control business costs and improve the business climate. Four issues deserve high priority policy attention in 2001:

- **Energy.** High energy demand, limited supply, and rising prices in western markets pose different concerns to Oregon businesses – energy cost in some cases, reliable supply in others. Oregon is blessed with low-cost power from its Columbia River hydro system and other sources. We must develop a strategy that retains those sources for Oregonians and Oregon companies.
- **Health Care.** Health care costs are rising nationwide and in Oregon. Oregon has a history of innovative health care ideas such as the Oregon Health Plan. Now is the time to build on that track record. Over the next year, we must identify strategies that lower health care costs for our companies, allowing them provide good health care to their workers and stay economically competitive in the next decade.
- **Columbia River Channel Depth.** Ships are getting larger and newer ships are unable to fully load at the Port of Portland at the current channel depth. To facilitate trade of wheat and other agriculture commodities, the channel needs to be deepened. The Port of Portland and other nearby lower Columbia ports have developed a channel deepening plan designed to be consistent with and conducive to restoration of salmon runs. Federal and state resources are needed to complete the project along with environmental permits. Under the Port of Portland's leadership, we need to complete this project.
- **International Air Service.** The loss of Delta air service to Asia is a particular blow to the state's ability to develop strong business relations with this important and growing sector of the global economy. Over the next year, Oregon must work to identify a new carrier to provide this critical air service.

3. Foster a culture of innovation and entrepreneurship. We have the opportunity to make two contributions to Oregon's growing entrepreneurial culture:

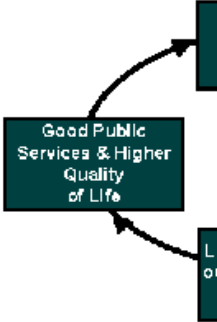
- Support the constitutional amendment that would enable public universities to own stock in private corporations for the purposes of commercializing research.
- Modify the state's tax system in ways that create additional incentives for the establishment and growth of new businesses in Oregon. (See the following section on public finance.)

4. Protect and enhance Oregon's quality of life. We must take special care to preserve Oregon's quality of life as we grow or we risk losing one of our most important comparative advantages. Addressing the transportation and watershed issues discussed earlier will be critical in this ongoing endeavor. Oregon must also find ways to preserve the benefits of its land use planning laws in the context of Ballot Measure 7, which was approved in the November election.

5. Promote stronger business and government partnerships. Oregon's economic prospects will improve through a shared vision and clear communication between business and government. Generally, Oregon's small size facilitates good communication between government, education, and industry. As the economy has grown and become more complex, the challenge of communicating has intensified. This is a good time for Oregon to review how institutions facilitate communications. In particular three areas of investigation are worth pursuing:

- The various business associations should review their roles and missions to ensure that they are articulating a clear business voice to public officials.
- The Economic and Community Development Department should work with other state agencies to assist and support new and expanded means of communication between government and the major sectors of the Oregon economy, and use these relationships to help identify and address problems influencing Oregon's economic health.
- Oregon should take steps to strengthen knowledge and understanding of challenges in different regions of the state by creating mechanisms for community leaders from all sectors to become acquainted with issues in other parts of the state.

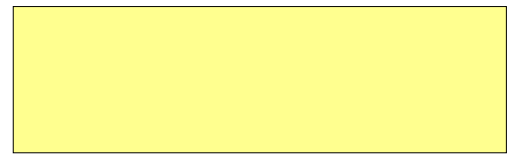
8. Public Finance



Key Recommendations

- Review long-term revenue and budget forecasts as part of the budget process. Make 2001-03 budget decisions with an eye on long term priorities.
- Build a reserve fund as a hedge against economic downturns.
- Modify Oregon’s tax system to provide incentives for economic growth.
- Improve efficiency and performance accountability systems for key public sector services.

Maintaining a sound public finance system is a continuing challenge in Oregon because public finance is linked intricately with the state’s economy. Regardless of the mix of taxes we use, public budgets depend on a healthy economy as the source of the wealth that finances public services. Oregon Shines, the state’s strategic plan, acknowledges this interdependence, which is illustrated in the circle of prosperity diagramed at right. In this circle, the economy and public services are dynamic and interrelated components. A strong economy provides fiscal resources to pay for quality public services, which, in turn, sustain the state’s economy.



Oregon’s circle of prosperity. A strong economy and quality public services are dynamically interrelated.

A strong economy has two particular effects on public revenues and services in the way that it raises personal incomes and reduces joblessness and poverty. Higher personal incomes permit sustained revenues at lower tax rates, and lower joblessness and poverty reduce pressure on public coffers to underwrite public assistance and social services.

Earlier sections of this playbook focus on ways that public policies in education, transportation, watershed health, and economic development can fuel an economy that bolsters public finance and services. This section looks at fiscal policy itself as a tool with multiple applications. It can be used to better manage revenue and services. It can be used to benefit both a booming and a faltering economy.

It is possible to make budget, tax, and investment decisions that stimulate the economy, in turn raising the incomes of Oregonians and improving our fiscal health. It is also possible – and advisable – to create budget policies that insulate public finance from the adverse impacts of temporary downturns in the economy. Just as a healthy economy and good public services boost one another in an upwardly spiraling circle of prosperity, reduced revenues from a sick economy curtail public services. This simultaneously fuels a downward spiral in the circle of prosperity and acts as a brake on economic recovery. Prudent financing policies can eliminate the need for service cuts that further impair a struggling economy. They can also be used to assign surpluses

to a variety of purposes, ranging from tax relief to new service and infrastructure investments, that enhance Oregon's prosperity and quality of life in the long term.

OBC's 1998 study, "A Vision for Public Finance in Oregon" provides the foundation for this OBC position. The study argues that our systems for managing and paying for public services should be integrated with our vision for the kind of state we live in. More than ten cents of every dollar of personal income in the Oregon economy are paid to the State and to local governments as taxes or fees and are spent to provide a broad range of public services. Whether these monies are fairly raised, prudently budgeted, and wisely spent has a profound impact on all Oregonians.

Trends in Public Finance

Table 9 provides a history and a forecast of public finance trends in Oregon. These revenues combine state tax and lottery receipts with property taxes available to schools. These sources combined represent the state and local dollars available for all of education (K-12, community colleges, and higher education) and state programs included as part of the state general fund. (Programs funded through dedicated revenues such as transportation are not included in this presentation. Local governments other than education are also excluded.)

The table illustrates three important trends in the 1990s. First, local property taxes available for schools declined substantially during the decade because of the tax rate reductions phased in with the passage of Ballot Measure 5. Second, the state benefits from Oregon's strong economy as evidenced by the pronounced growth in general fund revenue, which comes mainly from personal and corporate income taxes. This unexpectedly large increase in revenues provides a vivid illustration of the connection between a healthy economy and public services. The third trend is that for many services, including education at all levels, the state has become much more dependent upon personal and corporate income taxes than property taxes. Income taxes are a volatile revenue source, susceptible to sharp downdrafts during a recession.

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Looking ahead, the table once again illustrates the value of a strong economy. In the upcoming biennium, Oregon faces a revenue shortfall. The actual shortfall is exacerbated by liabilities facing the state as an outgrowth of lawsuits, which are not reflected in the table. Looking further ahead, however, the state will enjoy a healthy surplus assuming moderate economic and expenditure growth trends.

The table illustrates that the state may have room for additional expenditures, tax cuts, or both in the future. Again, we need to stress that this forecast is speculative and depends upon assumptions related to revenue and expenditure growth. A recession or unexpected liabilities could throw it badly off course. On the other hand, if cost savings can be achieved through efficiencies or far-sighted policies that reduce service demands, the state would have greater fiscal choices.

A Public Finance Agenda for 2001

The Oregon Business Council sees four opportunities to improve our public finance system. Specifically, we urge Oregon to take a longer run view of its budgeting process, build a reserve fund to insulate the budget from economic fluctuations, make modest modifications to the tax system to promote growth, and continue to seek public sector efficiencies.

1. Budget strategically for the long run. The foremost challenge for Oregon leaders is to break out of the short-sightedness imposed by Oregon's two year budget cycles. Each biennium, the Governor and the Legislature struggle to balance the budget over the next two years, giving little thought to how decisions in this biennium will influence the costs and revenues of state

government in the future. In the short term – the next two years – all of the elements that seem to influence state spending are fixed: the economy, caseloads, spending levels, and the like. The Governor and Legislature are often simply asked to come up with enough funding to support “current service levels.” In this process, it is easy to overlook opportunities for prudent investments that would lower future costs, or bolster future revenues.

We propose that the Governor and Legislature take a longer term approach to the budget, thinking about state expenditures and revenues in decade-long terms, and working backward from desired outcomes a decade hence to the kinds of investments today that will make these outcomes achievable. As Table 9 suggests, relatively small changes in the rate of growth of caseloads, prison populations, or program costs can have profound implications on the state budget. Likewise, small changes in the state’s rate of income or employment growth can mean the difference between future surpluses and deficits. As a starting point, we suggest that the Governor and Legislature refine the forecast presented in Table 9.

Table 9.
Long-term General Fund-Lottery Budget Outlook
(Millions of Dollars)

	89-91	91-93	93-95	95-97	97-99	Adopted 99-01	Est. 01-03	Est. 03-05	Est. 05-07	Est. 07-09
Resources										
General Fund Revenue (+ beginning balance)*	4,926.2	5,873.5	6,902.0	8,227.9	9,124.8	10,558.4	11,426.5	12,881.1	14,484.8	16,079.3
Lottery	96.7	187.6	502.2	734.2	669.3	604.6	587.3	583.1	583.1	583.1
Total State Resources	5,022.9	6,061.1	7,404.2	8,962.1	9,794.1	11,163.0	12,013.8	13,464.2	15,067.9	16,662.4
Less Transfer to Ed. Endowment Fund					91.2	87.1	87.6	88.8	89.1	89.1
Net State Resources					9,702.9	11,075.9	11,926.2	13,375.4	14,978.8	16,573.3
School Property Tax	3,249.0	3,224.0	2,710.0	2,141.0	2,236.0	2,493.7	2,762.0	3,045.1	3,357.2	3,701.3
State+Local Resources	8,271.9	9,285.1	10,114.2	11,103.1	11,938.9	13,569.6	14,688.2	16,420.5	18,336.0	20,274.6
Expenditures										
Education	5,383	6,209	6,410	6,829	7,746	8,592.5	9,538.8	10,301.9	11,126.1	12,016.2
School Fund	4,201	4,904	5,075	5,526	6,204	6,832.1	7,620.1	8,229.7	8,888.0	9,599.1
Community Colleges	357	424	381	502	574	631.0	678.5	732.8	791.4	854.7
Higher Education	649	707	668	523	590	741.7	793.0	856.5	925.0	999.0
Other Education	176	174	286	278	378	387.7	447.2	483.0	521.6	563.4
Human Resources	1,097	1,403	1,735	1,899	1,899	2,279.7	2,629.0	2,925.8	3,267.4	3,552.0
Medicaid/OHP	127	270	454	673	611					
Other Human Resources	970	1,133	1,281	1,226	1,288					
Public Safety	631	710	770	991	1,282	1,538.5	1,762.1	1,966.9	2,166.9	2,350.6
Corrections	295	324	355	445	630					
Judicial	198	231	256	269	308					
Other Public Safety	138	155	159	277	344					
Other	530	455	461	460	457	572.5	679.0	705.9	734.0	762.4
Natural Resources	85	95	135	125	148					
Economic Development	191	162	118	144	118					
Other Remaining	254	198	208	191	191					
Total Expenditures	7,641	8,777	9,376	10,179	11,384	12,983	14,609	15,901	17,294	18,681
Less:										
Emergency Fund	141	114	52	88	86	81.9	135.2	143.6	152.1	160.6
Special Purpose Appropriations	134	42	28	76	116	64.3				
Target Ending Balance							115.7	133.5	149.4	165.1
Net Fiscal Position	355.9	352.1	658.2	760.1	352.9	440.2	-171.7	243.0	740.2	1,267.7

* Kicker funds are not shown. They are reflected in a reduction in revenue during the biennium they are paid.

The revenue and expenditure outlook for the coming decade make 2001 an opportune time to adopt such a long-term approach to the budget. As the figures in Table 9 make clear, while the budget situation for the coming biennium is tight, revenue growth is expected to outpace the cost of providing current service levels in each successive biennium.

Therefore, in analyzing and setting policy on the 2001-03 budget, the Legislature should look closely at these end-of-decade estimates and begin making the decisions today that will shape expenditure and revenue trends to produce the kind of Oregon we want for the year 2010. Prudent investments in education, training, and targeted social services now are likely to pay huge dividends by the end of this budget period, specifically in the form of lower corrections and human resource costs. Such wise investments will provide future sessions with greater flexibility to use surpluses to meet pressing needs or reduce overall taxes.

The current budget cycle offers three opportunities for investments now that will have significant social and financial payoffs later. First, investments in K-12 education focused on improving reading skills at the 3rd and 5th grades will have cascading benefits in the future education achievement as those youngsters leave high school. Well educated Oregonians are more likely to be productive citizens and to earn higher incomes and less likely to need social support or to become burdens of the judicial and corrections system. Second, as noted by the Citizens Crime Commission, investments in early childhood programs will reduce crime among young people downstream. Third, an investment in engineering education will help spark more high-wage jobs in Oregon, leading to higher tax collections in the future.

2. Establish a reserve fund. Oregon's increased reliance on income taxes to pay for school and other state budget costs has come at a fortuitous time, as Oregon has not experienced an economic recession in more than 18 years. The state's booming economy, coupled with a relatively progressive income tax has generated sufficient revenue to finance the transition from local to state funding of K-12 education. But the state budget is particularly vulnerable to an economic downturn. A recession may result in a more than proportionate drop in state income tax collections, at just the time when many public sector expenses are likely to rise due to increased unemployment.

Unlike many states, Oregon does not have a budgetary mechanism for accumulating funds in good times to tide the state over when recession strikes. The state's income tax kicker law, that refunds unanticipated tax surpluses, in effect, does just the opposite, precluding the state from creating a buffer against fiscal shortfalls.

We believe that it would be prudent to temporarily place kicker payments due to Oregon personal and corporate taxpayers in the rainy day fund, until some threshold level of funding – such as 10 percent of annual general fund spending, about \$500 million – were reached. Once the fund was capitalized, the excess revenues would flow back to taxpayers as postponed kicker payments. In the November election, the kicker was added into the constitution. The voters should have the opportunity to consider whether placing at least part of the refund in a reserve fund would be prudent. If the kicker is not to be used, we recommend that other sources be considered to build up a reserve fund.

Some may argue that budget reserves will only fuel higher levels of spending, but we believe that reserves can be managed prudently. Indeed, Oregon already has established a strong track record for well managed reserves in specific program areas, such as the Unemployment Insurance Trust Fund (with balances of more than \$1 billion). Appropriate constitutionally and/or statutory restrictions could help assure that a rainy day fund was used only to offset the effects of a sudden and unexpected decline in state revenues.

3. Modify the tax system to better align with our vision. We view Oregon's tax system as excessively dependent on income taxes. As discussed earlier, income taxes are volatile compared to other taxes. Because of this reliance, income taxes for individuals are higher in Oregon than in many other states, including Washington. To some extent, this discourages talented, high-income individuals from choosing Oregon as a place to live and work. However, it appears that a major change to the tax system, such as adopting a sales tax, is not achievable at this time. Not only are Oregonians resistant to a sales tax, but the advent of e-commerce and the growth of the service sector of the economy are increasingly drawing into question the viability of a sales tax as a reliable source of revenue for state and local governments.

While major reform is not likely, there are some minor changes to the tax system that would make Oregon's tax code more consistent with our long-term vision. We propose two ideas: shifting the basis of the corporate tax, and modifying state capital gains taxes.

One tax reform that would be supportive of a reinforcing a circle of prosperity for Oregon would be shifting the base for apportioning corporate income to a single sales factor. Currently, the Oregon taxable income of corporations with operations in Oregon and elsewhere is determined by a three-factor formula that apportions income according to the sales (weighted twice), property, and payroll a company has in Oregon.

If Oregon used sales as the sole basis for determining the amount of corporate income apportioned to Oregon for tax purposes, it would substantially decrease the taxes paid by firms that locate in Oregon and export most of their product outside the state. Conversely, it would raise taxes on those firms that sell their products in Oregon, but which have little or no production in Oregon.

Several states have already begun to move to a single-sales factor apportionment model. Many tax experts foresee the likelihood that all states will move in this direction. It is possible that early-adopters of this method will capture the bulk of the benefits from changes in business location decisions influenced by the change. This should create a powerful incentive for Oregon to be the first western state to adopt the single sales factor model.

A second change to Oregon's tax code consistent with our vision would be a lessening of state taxes of capital gains. Currently, Oregon taxes capital gains through its income tax; other states, notably Washington, do not. This system creates strong incentives for successful Oregonians to relocate out of state when they sell their businesses or exercise accumulated stock options. This costs Oregon tax revenue, and more importantly, the capital and business acumen that these individuals possess.

The timing of both changes needs to be thoughtfully considered in light of budget conditions. While both could serve to *increase* revenues through economic growth in the long term, short-term forecasts are more uncertain. The Legislative Revenue Office is developing forecasting models to anticipate the economic gains from adjustments to these taxes. Using this work, the Legislature should phase in a single sales factor and begin reductions in capital gains taxes as soon as possible.

4. Improve Public Sector Efficiency. The three largest expenditures in the state's general fund budget are for education, human resources, and public safety. Any serious effort to save dollars and enhance efficiencies must focus on those three categories. We recommend three broad strategies for improving the quality of these and other services.

First, the Oregon Business Council urges the Governor and the Legislature to continue to focus on performance measures and accountability systems for improving public sector efficiency.

Focusing attention on the outcomes we want—whether for education, social services, our environment, or infrastructure—can help motivate managers and clarify the decision-making process in ways that make government both less expensive and more effective. Continuing to develop and apply the K-12 and higher education funding models, and beginning to apply this same approach in other areas should be a key goal of the 2001 Legislature.

Second, look for ways to cap the growth in expenditures for corrections. Current forecasts call for Oregon to incarcerate an ever larger share of our state population. This will require spending an ever larger fraction of state budget resources on simply housing the inmate population. Rather than assume that this is the inevitable course of events, we recommend Oregon work to develop and implement strategies and policy changes, including increased investments in juvenile crime prevention and alternative forms of supervision.

Third, re-examine public sector policies that affect personnel costs, benefits, and the ability to attract top talent to government service. The largest single component of public sector costs is salaries paid to public employees. Oregon has approximately 200,000 public employees. Direct costs, such as salaries, and indirect costs, such as health care, retirement, employer taxes and other benefits, cost state and local governments, and ultimately taxpayers, over \$7.5 billion per year. Assumptions and practices underlying the state personnel system and employee benefits have not been examined comprehensively for decades. As we start a new century, it is timely to ask whether we are getting the best return on investment from our public personnel and personnel systems .

Endnotes

¹ Beginning of Decade: 1991 Statewide Assessment Results. End of Decade: 2000 Statewide Assessment Results. Oregon Department of Education, Statewide Assessment Results, Percent of Students Meeting Performance Standards, Reading and Literature and Mathematics. Note: 1991 represents reading only.

² The scale used in the Oregon statewide assessment is similar in function to those used in the Scholastic Assessment Test and American College Testing entrance exams. Students receive a scale score based on the number of questions answered correctly compared to the total number of questions on the test—taking into account the difficulty of the questions on the test. The scale ranges from 150 to about 300 for reading/literature and mathematics. Values on the scale are comparable across grades and across time.

³ Grade 11 tested in 1991; grade 10 tested 1996 through 2000.

⁴ Grade 11 tested in 1991; grade 10 tested 1996 through 2000.

⁵ Beginning of Decade: 1990-91. End of Decade: 1999-00. Chastain Economic Consulting, School finance data from Department of Education April '00 runs E9820H and E2001B. Reflects state and local revenue. Average daily membership is the number that represents how many students a school serves. It is the base figure used by the Oregon Department of Education to give funds to school districts. Average daily membership *weighted* is the ADM plus an additional weight given to a student for various reasons. These reasons include special education, English as a Second language program, poverty, foster home, institutionally-served and a fluctuating weight for students in remote small schools. Inflation adjustment reflects the Portland CPI-U.

⁶ Beginning of Decade: 1990-91. End of Decade: 1997-98. National Center for Education Statistics, Digest of Education Statistics. Expenditures include all funds (local, state, federal, private) spent on: operation and maintenance, student transportation, other student support services, food services, and enterprise operations. Average daily attendance is the number that represents how many students a school serves that are present in school (not absent). It is the figure that most states the federal government use to determine fund allocation. Inflation adjustment reflects the Portland CPI-U.

⁷ Beginning of Decade: 1990-91. End of Decade: 1999-00. The state system has become more equalized. Comparing the relative spread of resources among the 299 districts in 1990-91 to the 198 districts for 1999-2000 shows that spending differences among the majority of districts have narrowed considerably. For 1990-91, net operating expenditures per student ranged from \$2,409 for the lowest spending district to \$15,134 for the highest spending district. However, the two districts at the top and bottom of the scale are not typical, and therefore it is more informative to compare the districts at the 5th and 95th percentiles, which are the two districts with 5 percent of the districts spending less and 5 percent spending more. For 1990-91, the district at the 5th percentile spent \$3,230 per student, while the district at the 95th percentile spent \$3,552 more per student at \$6,782. The average expenditure was \$4,398 for 1990-91.

Audited expenditure data for 1999-00 is not yet available, but a close proxy is the amount of State School Fund (SSF) revenue (excluding funding for transportation) distribution. While the SSF distribution accounts for most of the state and local revenue available to districts, it does not equal the total expenditure measure used for 1990-91. Other available revenues for 1999-00 are not yet audited and tallied. In addition, the 1990-91 data are based on students counted as "ADM" (Average Daily Membership, regular), while the 1999-00 SSF distribution is apportioned by ADM_w (Average Daily Membership, weighted). Therefore, a dollar per student comparison is not strictly valid, since the new SSF distribution formula distributes dollars based on weighted students, and allows extra counting for students in special categories, such as those in the ESL (English as a Second Language) or IEP (special education) programs, or in districts with a higher poverty count. However, based on dollars per ADM_w, the system in 1999-00 is more equalized, having less variation among the districts.

For 1999-00, SSF revenue per ADM_w ranged from \$4,404 (excluding transportation funding) for the lowest district to \$5,565 for the highest district. Moving away from the two extremes, the district at the 5th percentile received \$4,528 per ADM_w, while the district at the 95th percentile received only \$294 more per ADM_w at \$4,822. This \$294 difference between the 5th and 95th percentile districts is substantially less than the \$3,552 difference in 1990-91. The average was \$4,658 for 1999-00.

⁸ Beginning of Decade: 1990-91. End of Decade: 1997-98. US Department of Education, National Center for Education Statistics, Digest of Education Statistics, Common Core of Data surveys. Note: NCE S has not released a pupil/teacher figure for 1999-00, however the Oregon Department of Education, Database Initiative Project estimates that the pupil teacher ratio for the 1999-2000 school year is the same as the NCE S figure for 1997-98: 20.1.

⁹ Beginning of Decade: 1990-91, US Department of Education, National Center for Education Statistics, Digest of Education Statistics, Common Core of Data surveys. The data for 1990-91 were not available on the website, so Tom Snyder (NCE S) provided the 1990-91 data by telephone to Brian Reeder (Department of Education, Database Initiative Project). The 1990-91 number was \$32,300. The Portland CPI was used to inflate the number to \$42,889 for the year 2000 (the Portland CPI for 2000 is 177.8 and for 1991 is 133.9). End of Decade: 1999-00 Oregon Department of Education, Database Initiative Project. (NCE S has not released an average teacher salary figure for 1999-00, therefore the DBI numbers are used here.) The average salary figure from DBI for 1999-00 is a forecast from the salary forecasting model developed by Brian Reeder. The actual teacher salary for 1999-00 is not available yet because DBI needs to cleanup the salary data received from school districts. However, the preliminary average number is very close to the forecast from the model (within about \$30).

¹⁰ Beginning of Decade: 1990-91. End of Decade: 1998-99. Enrollment in grade K to 12 in public and private schools as of October 1, Oregon Department of Education, School Level Fall Report, School Finance and Data Information Services.

¹¹ Beginning of Decade: 1990-91. End of Decade: 1998-99. Oregon Department of Education, School Enrollment Report, School Finance and Data Information Services, Enrollment in grade K to 12 in public and private schools as of October 1.

¹² Beginning of Decade: 1990-91. End of Decade: 1998-99. Oregon Department of Education, Office of Student Services, Annual Report of Home School Statistics.

¹³ In 1991, eleventh graders were tested rather than tenth graders. However, this is the only comparable data available.

¹⁴ Oregon Department of Education, Dropout Rates in Oregon High Schools 1998-99, April 2000. Beginning in 1996-97, the state stopped counting GED recipients among dropouts.

¹⁵ The Pacific Fishery Management Council has the responsibility for setting and monitoring ocean harvests. The council's membership is a balance of commercial and recreational fishermen, marine scientists, and state and federal fisheries managers, who combine their knowledge to prepare Fishery Management Plans (FMPs) for stocks of finfish, shellfish, and crustaceans. This council, along with others (e.g. South Atlantic Fisheries Management Council), is administered by the National Marine Fisheries Service.