

The higher-ed dividend

If public universities in Oregon were a stock, would you buy?

By Jim Rudd

As an investment advisory firm, Ferguson Wellman builds portfolios of publicly traded securities for our clients. Our process is analytical and dispassionate — performance is judged in absolute and relative terms.

Let's apply the same analytic discipline to evaluate a commodity that many critics lament should be treated more like a business: our public universities. Call it Higher Education Oregon Inc.

I realize that providing a market valuation for public universities might not take into consideration their societal values. But I'm still curious. As assets, how are our universities positioned?

There's a lot to like. Our universities produce well-educated, technically sophisticated graduates for a workforce in desperate need of both.

Also, the research enterprise of our collective campuses is increasing. Last year, Oregon State University earned \$194 million in research awards and Oregon Health & Science University garnered \$294 million.

But what is the context for such achievements? Are our universities reaching their full potential?

There is definitely market demand for quality higher education. The Oregon Innovation Council identifies a strong K-20 education system as a necessary ingredient for its plan. And according to the Portland-Vancouver Regional Business Plan, most business leaders are concerned about "an inadequate supply of scientific and technical degreed workers at the bachelor's, master's and Ph.D. levels."

The Oregon University System consists of seven universities and one regional campus governed by the Board of Higher Education and a chancellor. The Legislature and governor are also stewards of the system, which is like others across the country. But what if we were to redesign higher education in Oregon? What would we change? Fewer campuses? Different funding mechanisms? New management structures? Incentive pay? Re-examine the merits of tenure? Would we

migrate toward Oregon Health & Science University's public corporation model?

The public has strong expectations about the access and affordability of education. But each campus operates under rules not imposed in the private sector — they depend on tuition and state funding, which are based on conditions beyond their control.

Let's take a look at some low-hanging fruit. Each institution generates tuition income from its students. Yet, while many people agree we're not sufficiently funding our universities, the state refuses to direct interest earned on tuition payments back to the campuses where the tuition was charged. Instead, earnings go to the general fund, where student dollars support other state obligations.

Another example lies in the approach to capital investment in facilities, which are critical to each university's success. The state can't meet the construction demands of the system, which has resulted in universities looking to bond financing and private giving. But from Salem comes word that some legislators see these buildings less as strategic investments and more as debt burden and are threatening to stop some projects. Where might that leave universities, some of which are operating at capacity and resorting to enrollment caps?



These are a few of the problems analysts might consider in evaluating the investment worthiness of Oregon's universities. But the truth is, we're already invested and are not protecting our asset. Years of declines in state funding have dropped Oregon to 46th among the 50 states in funding per student.

If our universities were publicly traded securities, they would be a questionable addition to anyone's portfolio. But the importance of our public universities to the economic future of Oregon demands that business leaders take seriously the looming threats to their viability.

It's time for the Board of Higher Education to rethink the structure of its campuses and the oversight role of the chancellor's office. Universities should manage their own cash balances and prioritize capital projects based on their return on investment.

Clearly, there is hard work to be done to optimize our return on higher education investments. But it's a small price to pay for the dividends this asset can yield. **OBM**

If our universities were publicly traded securities, they would be a questionable addition to anyone's portfolio.

Jim Rudd is CEO of Ferguson Wellman Capital Management and board chair, Federal Reserve Bank of San Francisco, Portland branch.