May 11, 2016

Comments on the "Bunsis Report,"
"Financial Condition of Oregon State University,"
Prepared by Howard Bunsis, Eastern Michigan University
February 2016

Comments prepared by OSU Office of Budget and Fiscal Planning

Professor Howard Bunsis, professor of accounting at Eastern Michigan University and chair of the Collective Bargaining Congress of the American Association of University Professors (AAUP), prepared a report on OSU's financial condition in February at the request of the Oregon State AAUP chapter, unions representing graduate assistants and classified employees and other campus organizations. His analysis was based on publically available information including OSU audited financial statements, data reported to the Integrated Postsecondary Education Data System (IPEDS), the Common Data Set (a reporting format used by most universities), USA Today's compilation of NCAA Division I athletics' financial reports (for public universities), the Equity in Athletics Data Analytics site, and various State of Oregon information. Professor Bunsis does similar analyses at numerous universities annually, often at the request of the local chapter of the American Association of University Professors.

Professor Bunsis' report covers a wide variety of topics, many of which are complex in detail. The Office of Budget and Fiscal Planning has reviewed the presentation and provided some additional information and clarification where appropriate. The complete annotated slide presentation is available from the Office of Budget and Fiscal Planning (OFBP).

What follows summarizes the major comments provided in the OBFP notes, grouped by the topics addressed by Professor Bunsis.

The State of Oregon and State Appropriations to OSU (Slides 4 through 23)

This section reviewed revenue projections for the state, allocations to the seven public universities and, more specifically, to OSU, and the recent state change to outcomes-based funding for the universities. The presentation suggests the projections for state funding are "very good." However, the Bunsis analysis looked only at revenues. Most current assessments of the 2017-19 biennium suggest the Legislature will be facing a $1B shortfall in revenue for continuing services when it convenes in February 2017. This expected shortfall is due to an anticipated expense growth in the Public Employee Retirement System (PERS), Medicaid, and the Oregon Health plan that will exceed the rate of revenue growth.

Financial Situation of OSU: Key Ratios and Bond Rating (Slides 23 through 38)

This section reviewed the audited financial statement, standard financial ratios, the balance sheet, and OSU's bond rating. The principal conclusion was that OSU's financial position was solid though Moody's report did note the cash flows had been "thin."

OSU Revenue Analysis: Where is the Money Coming From? (Slides 39 through 53)

This section reviewed the sources of revenue for the university with a focus on tuition and enrollment. Some key points:

- Tuition revenues have grown significantly since 2007, reflecting both increased tuition rates and rapid enrollment growth.
- Bunsis points out that the percentage of resident students has declined, which is true. However, the total number of Oregonians enrolled has grown since 2008, even excluding growth at OSU-Cascades.
- Resident tuition and fees have increased 79% since 2007. However, this has been driven largely by reductions in state funding, not by increased spending. In 2008, the E&G (Education & General) budget was $15,546 per student. In 2016, it was $19,406 per student, $1,249 more than the FY08 budget, adjusted for inflation ($18,157). Of this increase over inflation, 64% is for increased institutional financial aid, 26% is for increased support of graduate assistants and the balance is other costs for compliance and new facilities.
- Bunsis also points out that the tuition discount (university and government financial grants) has declined as a percentage of tuition. This is true, but the institutional financial aid from OSU has increased 263% since 2007, from $11.7M to $30.9M in 2015. What did not grow as states disinvested their support for higher education was state and federally funded financial aid awards.
- Bunsis' report suggests that OSU's percentage increase in tuition is high relative to the selected peers. However, there were substantial differences in how much each of our peers' states cut funding and what the funding per student was before the cuts. OSU had the second highest tuition increase but also the second largest cut in state funding.

OSU Expense Analysis: Is the Administration Being True to the Core Academic Mission? (Slides 54 through 77)

Much of this discussion in this section focuses on the distribution of expenses as defined in IPEDS. The Institutional Support category is referred to as "Upper level administration" but in fact includes business centers, human resources, business affairs, contracting, and similar operational functions.

- There is discussion about a decrease in the commitment to instructional expenses. However, this is an artifact of the accounting changes required by Governmental Accounting Standards Board (GASB) 68 regarding pension liabilities. Actual spending for compensation in instruction went up $39M.
- Most of the Bunsis report discussion in this section suggests excessive growth in institutional support costs, largely using percentage of total expenditures by category relative to peers. However, this isn't an appropriate analysis first, because of the GASB 68 change and second, because the institutions compared vary significantly in size and mission. Two institutions with identical instructional expenditures but very different external grant funding will have different percentages devoted to instruction, even though

the amount per student is the same. The largest percentage growth in spending from 2014 to 2015 was actually in operations and maintenance of plant.

- A more useful examination of levels of spending for different functions is dollars per student. In institutional support, OSU spent $2,294 per student in 2014, compared to a median of $2,631 for the peers we look at. OSU's instructional spending was $11,044 per student FTE, compared to a median of $12,589 per student FTE (excluding institutions reporting hospital operations). This lower level of spending reflects the lower state funding per student and the lower tuition at OSU, given the level of state funding.
- Salaries committed to instruction have actually grown 17.4% over the five-year period, from 30.4% of total spending on salaries in 2010 to 35.7% of total spending on salaries in 2015.
- There is a listing of the number of employees with salaries over $200K (38 or 0.8% of full-time employees) and those at $150-200K (another 62). While these are referred to as "administrators," they include coaches, directors of centers, deans, and some department chairs. There are no comparisons provided of similar positions at other public universities of a size similar to OSU, but the number of positions counted does not seem unusual for the size of the university. In addition, recently published average salaries for some of these positions at research universities suggest OSU's salaries are not unusual.
- The number of faculty is discussed, but the trends here are complicated by issues with the data and by changes in the data-reporting criteria.
- Faculty salaries are compared to selected peers, and Professor Bunsis points out that salaries for full professors are low. This is true, though including the 6% employee retirement contribution, which is paid by the university (which, at other universities, is part of salary), average salaries for associate and assistant professors are competitive with Tier 1 and Tier 2 peers and salaries for full professors are competitive with Tier 2 peers but lag Tier 1 peers by about 8%.
- The gap in faculty salaries between OSU and peer institutions has closed significantly since 2010.

Number of Employees, Class Size and Graduate Rates, and Athletics (Slides 78 through 100)

- This section also discusses faculty numbers, but data definitional issues make comparisons difficult. Bunsis points out that employees in management (as defined by IPEDS) grew by 51 from 2013 to 2015. Most of this change is the addition of the University Shared Services Enterprise (USSE) employees to OSU's payroll, even though the costs of those services are shared by all seven public universities.
- The Bunsis report also points out that class sizes have increased. This is principally because of a decision in 2008 to enforce minimum class sizes that were already in policy so faculty time could be used more effectively as the campus grew. The number of classes in the 2-9 student enrollment range shrank by 267 from 2008 to 2014 and those in the 20-29 range grew by 143.
- OSU's six-year graduation rates and Pell grant-eligible rates are compared to peers. The discussion overlooks the substantial differences in admission rates between some of those peers. Graduation and retention rates vary inversely with selectivity.

- A discussion on athletics references the USA Today data on Division I programs and notes OSU has one of the highest subsidies in the Pac-12. This subsidy calculation by USA Today includes direct institutional support, depreciation on facilities (which is a balance sheet adjustment and not cash that could be used for other purposes), lottery funds from the State (which are committed to athletics by statute), and student fees (which are approved by ASOSU in exchange for reserved student seating at all athletic events). While this calculation of subsidy totals $107M from 2007 to 2014, the direct institutional support to athletics in that period was $38.6M or $4.8M per year. In the same time period, athletics paid $43.8M to E&G for tuition, fees, and business assessments.
- The institutional support as a percentage of operating expenses is among the highest in the Pac-12. However, the institutional subsidy varies inversely with ticket sales, as tickets sales and private giving associated with football support a large part of the operations of all other sports in Division I programs (16 sports are required for participation in Division I). Larger stadiums come with more ticket sales and more private giving with associated lower institutional support.
- Athletics did have an operating deficit in 2014, largely because of a substantial decrease in private giving. The current athletics administration is reviewing and changing both the ticket sales program and the fundraising operation to bring athletics back to a balanced operating budget.