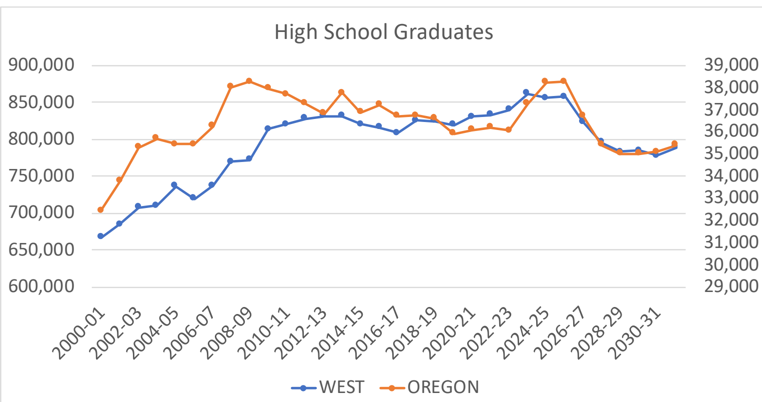
University Budget Conversations – January 24, 2019
# FY19 Budget Reductions and FY20 Outlook

## Current Year Changes

Current year undergraduate tuition revenues in Corvallis were $7.2M short of initial budget projections, about 70% from resident enrollment shortfalls and 30% from less than projected growth in non-resident enrollments. Yield rates were significantly lower than in recent years, international enrollments declined more than expected, and retention did not improve as much as forecast. All of the projected revenues were budgeted out to units this year to support the implementation of the budget model and initiatives to improve revenue generation in future years. As a result, it was necessary to adjust initial budget allocations for campus units. A reduction of $7.5M in initial budget (an additional $0.3M from support units was included as a reserve) was distributed to Corvallis E&G units.

## FY20 Outlook

***Enrollment:*** Corvallis enrollment projections for next year indicate a 4% decline in resident undergraduates (without changes in recent trends), a 1.5% increase in non-resident undergraduates, flat graduate enrollment, and 7% growth in Ecampus (a continued slowing in growth rate). The resident undergraduate declines are a result of declining numbers of Oregon high school graduates, expanding use of the Oregon Promise community college program, and increased competition from other four-year universities. Overall the projections are for reduction in headcount of 0.8% in Corvallis, an increase in headcount of 4.9% in Bend and 7.0% growth in Ecampus enrollments. Oregon resident enrollment will continue to be a challenge since high school graduate numbers are flat to declining through 2023, increasing through 2026, and then declining sharply.



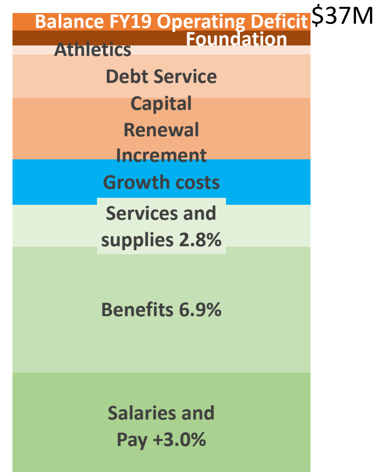

***State Funding:*** The governor released her budget in December, essentially in two versions. The Governor's Recommended Budget (GRB) assumes no new revenue sources and shifts significant state funding to K-12. The GRB recommends flat funding for the Public University Support Fund (PUSF) which provides 22% of OSU funding, eliminates funding for the Engineering Technology Sustaining Fund (ETSF, about $7.1M annually to OSU) and removes lottery funds that support athletic programs at the seven universities. This would result in about a $12M budget reduction to OSU from FY2019 to FY2020.

The second version is an investment budget premised on about $1.9B in new revenues. This includes a $120M increase to the PUSF (providing about $15M more to OSU in FY20), restoration of the ETSF and lottery funding, an additional $35M for the ETSF (though the distribution is to be determined), $20M additional for the Statewide Public Services and a $10M Public University Innovation Fund.

The two budget scenarios have very different impacts on OSU and neither is likely to be the version approved by the Legislature. The Office of Budget and Fiscal Planning, after consultation with Government Relations and other offices, is assuming a $40.0M biennial increase to the PUSF (about a 2% increase to OSU from FY2019 to FY2020) and flat funding for the ETSF for planning purposes. A 2% increase in state funding for the Statewide Public Services is also being used for planning purposes.

***Cost Increases:*** Salary costs are expected to grow about $8.5M while benefit costs increase $10.2M due to large increases in PERS rates and 5% increases in PEBB charges. Inflation on services and supplies is projected at about $3.4M. Overall, inflation on existing services and programs is 4.1% of expenditures or $22.1M. An assessment of

FY20 Incremental Expense Projections




whether any existing programs should be reduced will be part of reaching a balanced budget. The dollar increases cited are for Corvallis, but the SWPS, research-funded programs, and Cascades will face the same percentage increases in continuing service level costs.

While we are expecting small enrollment declines in Corvallis, there is still substantial growth projected in Ecampus, including enrollments in hybrid-delivery programs at the Portland site. This growth requires some investment in additional faculty, teaching assistants, and materials and the costs are estimated from historical trends at about $3.7M. Some of these costs may be reduced if capacity created by declines in Corvallis can be redirected to support Ecampus growth. However, the areas of growth and decline between Ecampus and on-campus programs do not often align.

There are also some areas where additional commitments are needed to address long-term issues. These include an incremental $5.0M to address capital renewal needs, an estimated $3.5M in additional debt service on new revenue bonds, $0.7M for the last increment in the athletics sustainability plan, and $1.2M for the OSU Foundation and Alumni Association to build staff capacity for the next campaign.

***Revenue projections*****:** Revenue projections estimate tuition growth from rate increases (these assume undergraduate resident rate increases of 5% and non-resident undergraduate increases of 3.5%), and from enrollment growth (based on the projections outlined above) and modest increases in other funds (interest, indirect cost recovery from grants, and sales and services revenues).

The largest unknown in revenue is state funding. The GRB scenario leaves a gap of $23.8M between projected revenues and cost increases; the $40M scenario has a revenue shortfall of $9.7M; and the governor's investment scenario yields a revenue surplus of $3.2M. Each of these projections assumes that the $7.2M of budget reductions made in the current year are addressed by recurring expense reductions in all units. *To the extent those recurring adjustments are not made in FY19 they would have to be added to FY20 reductions*. These are only planning scenarios. By the June Board meeting decisions will have to be made to present a balanced budget to the Board.

## Challenges

- Cost increases for maintaining all of our current activities and making essential new commitments will be at least $37M. Projected revenue growth in the most likely scenarios will be in the $20M to $30M range. *Revenues will very likely not be sufficient to maintain business as usual*.
- Enrollment is increasingly sensitive to tuition and fee increases. Even increases of 5% may be too high to maintain enrollment of some populations. High tuition rate increases are not the answer for increased costs.
- Maintaining enrollment growth will be increasingly challenging as traditional college age populations decline. New programs and strategies will be needed to engage new and different students.
- Units will need to recognize that new commitments to address any kind of issue (compliance, audit findings, student success, expanded services, etc.) will require reductions somewhere else.
- Strategies to address the FY20 budget outlook could include:
  - Improve the enrollment projections through transfer programs, improved retention, or growth in new Ecampus programs. There may not be sufficient time for these to get traction for FY20.
  - Systematically identify opportunities for expense efficiencies through streamlining activities, consolidating functions, or improving processes or systems and collectively prioritize service, support, and administrative activities and identify specific areas to be reduced or eliminated.