Oregon State University Ten-year Business Forecast Update
Fiscal Year 2017-18 Through Fiscal Year 2027-28

SUMMARY

The ten-year business forecast is intended to identify long-term trends in the University's finances that support or jeopardize the goals of the Strategic Plan. The forecast provides a look far enough ahead to take corrective action or to plan for additional investments and to make sure that the long-term impacts of current programmatic and financial decisions are considered. The forecast considers enrollment projections; tuition rates; expense projections for inflation, benefits, salaries, and enrollment growth; and new construction, renovation, and repairs with associated operating and debt costs. The forecast is updated in January of even-numbered years.

The forecast particularly focuses on Corvallis Education and General operations as these have the largest impact on the university's financial position and can change the most with changes in projections of tuition and enrollment. However, projections for operating and capital impacts on all funds are reviewed and included in the assessment of the long-term financial metrics.

The principal conclusions from the current forecast include:

- The projections of current enrollment, tuition, and expense trends at Corvallis show negative operating margins beginning in FY20 in large part because of substantial increases in retirement benefit rates for employees (Figure 1). Alternate strategies need to be developed now to have impacts by FY23 when operating fund balance would drop below 10%.
- Current initiatives for programs in Portland and a fixed-price program for entry into the university after two years of work project sufficient tuition growth to yield positive operating balances by FY23 and substantial net revenues by FY24. The projections for enrollment in these programs are still very preliminary.
- In the absence of new enrollment initiatives, a planned reduction in the growth of expenses by about 1.9% to 2.9% a year beginning in FY23 would maintain a 12% fund balance.
- Revenue growth allows for maintaining current programs as well as adding faculty and staff to support enrollment growth and growth in key areas of the strategic plan.
- Cascades enrollment planning is for growth of at least 85% on campus by 2025, with growth to 3,000 in later years. This provides a more realistic set of recruitment goals. While there are projected operating deficits through FY20, these were planned for and future operating budgets can be balanced by matching the growth of faculty and programs to the growth of enrollment.
- The Statewide Public Services have historically managed to budget through adjustments in level of staffing but they will be particularly challenged by constraints on state funding in the next decade.
- As the sustainability plan for Athletics takes effect, self-support operations project appropriate balances. Restricted funds always remain in balance, but are particularly subject to changes in funding support at the Federal level.
- The forecast includes planning for a number of capital projects including new construction, major renovation, and repair and renewal of buildings and infrastructure.
- The forecast is most sensitive to annual tuition increases, with increases too low yielding long-term deficits and increases too high yielding very large annual operating margins. Fund balances and overall enrollments are sufficient to manage large short-term changes such as an economic downturn in state funding or a sudden major reduction in international student enrollment.
- The forecast yields financial metrics that generally meet or are near the Board's approved ranges.

Approach

The forecast uses institutional level projections of revenues and expenditures across all funds. There is a particular focus on Corvallis Education and General operations as those comprise a large portion of the university's work and much of the activity in self-support and auxiliary funds depends on the level of activity in E&G operations.

Major Assumptions

The baseline forecast depends on several major assumptions:

- Corvallis E&G forecast:
  - 28,500 students in Corvallis and Newport by 2025, no or small growth after that
  - Ecampus revenue growth slowing to 5% annually by 2026
  - 33% non-resident undergraduates of undergraduates in Corvallis by FY25
  - Low (but some) growth in resident undergraduate students in Corvallis
  - 15% of Corvallis enrollment is international, 20% graduate and professional students by FY25
  - Salary increases of 3% annually for unclassified staff, negotiated rates for represented staff
  - Benefits growth of 5% annually for health insurance, and at retirement rates with large increases (over 10%) in FY20, FY22 and FY24, after which rates are forecast to stabilize.
  - General inflation on goods and services of 2.5%, yielding aggregate local inflation of about 4.2% in years with large PERS increases (FY20, FY22, and FY24) and 3.1% in other years.
  - Tuition increases for resident undergraduates are set to 4.15% in FY20, FY22 and FY23 because of the PERS increases and to 3% in other years.
  - Increase institutional financial aid from 12.2% to 13% of undergraduate tuition by FY25.

- Cascades E&G forecast:
  - About 1,900 students by FY25 with increases to 3,000 in the longer term
  - Student mix will continue to be about 80% undergraduate and 90% Oregon residents
  - Second academic building and associated infrastructure work is supported by the state
  - Financial assumptions on rates follow those used for Corvallis

- Capital Forecast:
  - $60M per biennium of OSU institutional debt capacity (revenue bonds, all funds)
  - Significant gift funding for all new academic building projects
  - Capital renewal funding that includes $16.5M per biennia paid by the state, $10M from minor capital projects, and E&G paid capital renewal funding reaching $45M annually by FY26.
  - State-paid debt of about $50M per biennium, though the distribution varies across biennia.
  - State funding for Cascades averaging ~$30M a biennium, totaling $137.6M through 25-27 biennium.

- Corvallis Enrollment Initiatives:
  - Hybrid, online, and other educational initiatives in Portland. Revenues based on an Ecampus-type model, expenses based on marginal costs of instruction and services, with credit hours delivered growing to about 49,000 in FY27 (a little over 1,000 undergraduate FTE)
  - An initiative for an alternate entry pathway to a four-year degree. This involves offering two years of lower-division course work at a fixed price, using principally online and hybrid delivery. A portion of these students would matriculate to OSU through Ecampus or a campus location. The initiative pro forma estimates, by 2028, revenues of $32M for the lower-division program and $46.6M for students matriculated to OSU, with a total net of $26.4M after expenses.

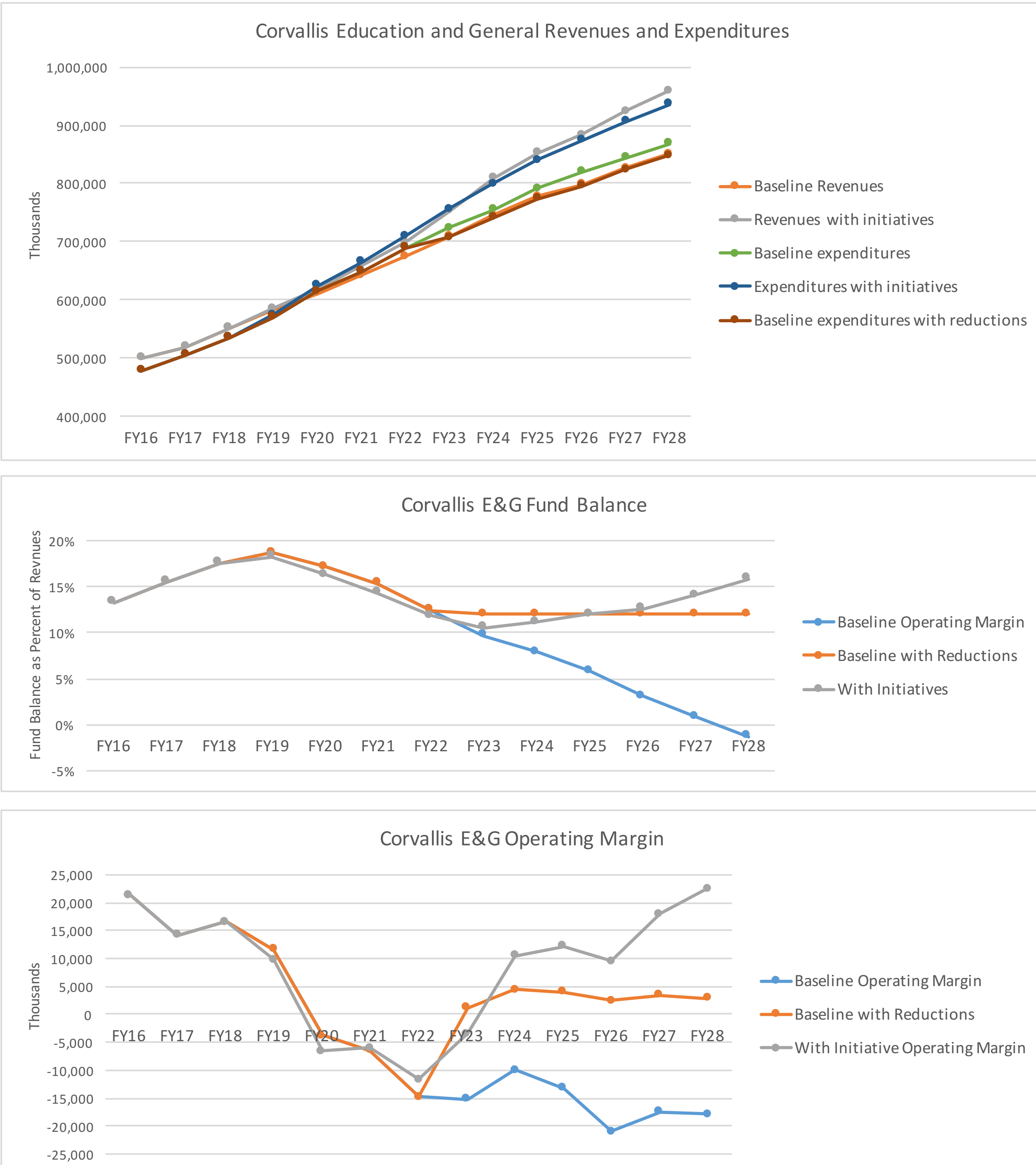

Figure 1: Summary of the ten-year operating forecast for Corvallis Education and General funds. Top is total revenues and expenditures (plus net transfers), middle shows ending fund balances as a percentage of revenues, and bottom shows annual operating balance. The baseline case assumes no additional enrollment initiatives are successful. The baseline with reductions requires sufficient reductions in expenditures to maintain at least a 12% ending fund balance. The “with initiatives” curves assume that the enrollment initiatives in Portland and for an alternate entry to the university are successful.

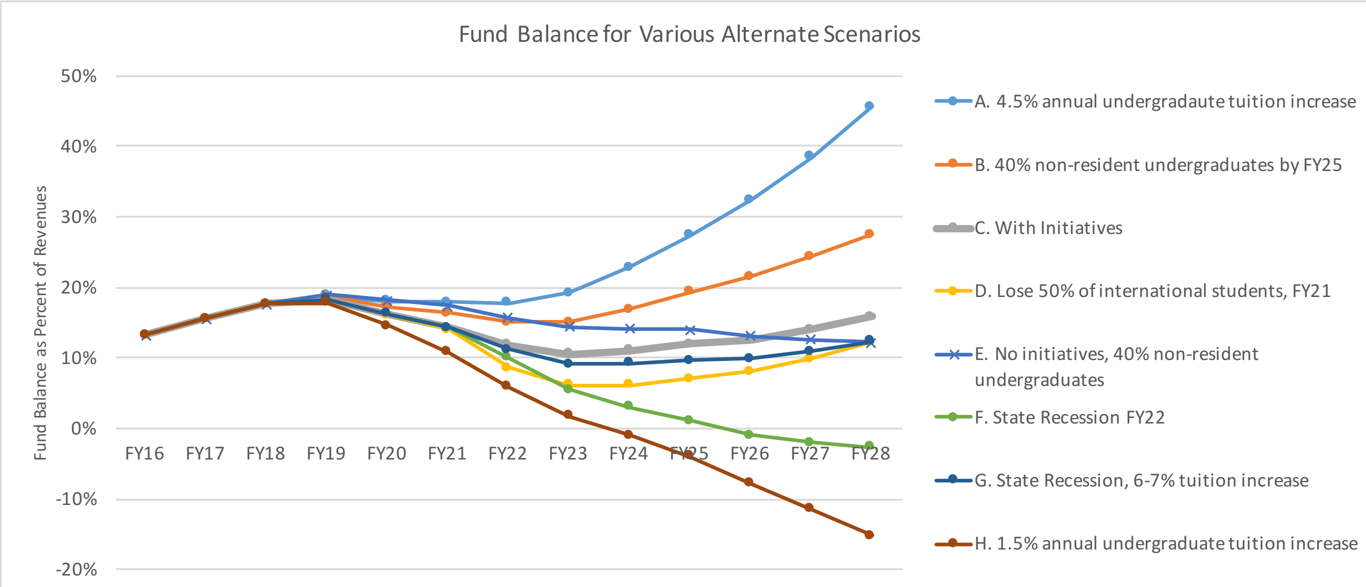

Figure 2: Ten-year forecast scenarios for Corvallis Education and General operations ending fund balance.

SELECTED SCENARIO ANALYSIS

The ten-year forecast provides an opportunity to look at the impact of major financial changes and assess what would be required to address them. Some selected scenarios are shown in Figure 2 and the assumptions and possible actions for each are discussed briefly below.

Corvallis E&G -- State Economic Downturn: Scenario F assumes a 10% reduction in funding from the state in FY22 followed by a further 5% reduction in FY23. Solutions are adjusting expenditures to keep fund balances at 12% with reductions in spending of 1.9% in FY22, 4.5% in FY23, and then about 2% each year through FY27 or tuition increases of about 7.2% for resident undergraduate tuition and 5.2% for non-resident undergraduate tuition would be required in FY22 and rates of 6% for residents and 4% for non-residents in FY23 (Scenario G). The second solution would also require expense reductions of 2.1% in FY23 and 0.2% in FY24 to maintain a 12% fund balance.

Corvallis E&G – International Enrollment Reduction: Scenario D in Figure 2 illustrates a loss of 50% of international student enrollment in the Fall of 2021 (FY22) and assumes enrollment grows back to target levels by FY27. This creates a very large negative operating margin in FY22 that would require a 3.2% reduction in operating expenses ($22.7M) in FY22, a 2.7% reduction in expenses in FY23, and a 0.4% reduction in FY24 to maintain a 12% fund balance before enrollments grew back sufficiently to be back on track for the long-term enrollment plan.

Corvallis E&G – Growth to 40% Non-resident Undergraduates: Scenario B shows the impact of enrolling 40% non-resident undergraduates in Corvallis by 2025 instead of 33% (still maintaining 28,500 students in Corvallis in 2025). This reduces resident enrollment by about 1600 and increases non-resident enrollment by the same number.

Corvallis E&G -- 1.5% and 4.5% Annual Tuition Changes: Scenarios A and H illustrated the long-term compounding of tuition rates. Scenario A assumes 4.5% increases in undergraduate tuition rates every year (including Ecampus) and Scenario H assumes a 1.5% increase every year.

Cascades E&G – Capital Funding Hiatus from State: The principal jeopardy at Cascades is the commitment of the State to help fund the development of a new campus. Without additional facilities, growth on the campus will have to been held to something around 1600 to 1700 students (this scenario is not shown in Figure 2).