2017-18 Fiscal Year Tuition and Education and General Budget Scenarios

[NOTE-This is the very first version so take all the numbers with a grain of salt. This version was to get the approach and format down. All the numbers will be revised after Thursday morning when the Governor's budget is released.]

SUMMARY

Discussions on budget planning and tuition recommendations for the 2017-18 fiscal year have been underway since October. These have included discussions by the University Budget Committee, university leadership, Provost's Council, Faculty Senate Budget and Fiscal Planning Committee, and the Student Budget Advisory Council. The groups have reviewed projections of expenses, revenues (informed by the Governor's Recommended Budget released on December 1st), and new strategic budget allocations needed to advance university priorities.

Some of the key observations that have come from those discussions to date are that an effective budget plan:

- Must maintain the quality of OSU's programs, promote access to those programs, advance the strategic goals of the university, and support the long-term financial stability of the university.
- Addresses access and affordability for all students but particularly for students at risk and evaluates which group of students are most affected by different budget scenarios
- Recognizes that modest tuition increases may be appropriate but that they should not be the first or the only approach used to build a balanced budget
- Examines all components of the budget on both the revenue and the expense sides.
- Considers long-term consequences as well as short-term needs.
- Reviews and adjusts management and administrative overhead costs and practices to ensure that necessary support is provided at as small a cost as possible.
- Recognizes and supports all of the university's missions and communities.
- Makes necessary adjustments to allow for strategic allocations to high priority needs while balancing the overall budget

The Governor's Recommended Budget results in a nearly 8% reduction in the funding for public universities for the 2017-19 biennium while there are significantly increased costs to OSU for the required participation in the state retirement and health insurance systems. With reasonable assumptions about enrollment, other revenue, and cost growth it would take a resident tuition increase over 15% to balance the operating budget with no other adjustments. None of the planning groups recommend this strategy.

The preferred approach from the discussions to date is planning for a 3-5% increase in resident undergraduate tuition with perhaps an additional 1% increase to be dedicated entirely to need-based aid. Increases for non-resident undergraduates would be somewhat less because larger increases decrease enrollment. In that approach there would be an approximately $20M budget gap to fill through other measures. A higher tuition increase scenario is included, if it becomes apparent that actions to close a budget gap that large would damage the long-term success of the university.

The university is working with students, faculty, stakeholders, and Oregon's other six public universities to increase the state allocation to public universities and to student financial aid. University leadership is also reviewing strategies to close the projected budget gap in the tuition scenarios brought to the Board for discussion and approval at the March meeting.

STATE FUNDING OUTLOOK

The State has about a $1.8B shortfall in the revenues required to fund all state agencies and obligations at the "continuing service level" or CSL. This is the level needed to provide the same services as in the previous biennium including cost increases in personnel, services, and other areas. The shortfall derives largely from significant increases in the costs of funding the Public Employee Retirement System (PERS) and in state costs for health care programs. The PERS increases result from a court decision overturning previous pension reforms and lower than projected investment returns.

The State assesses beginning budgets by calculating the continuing service level budget and then making adjustments based on discrete policy decisions and overall revenues available. The public universities are disadvantaged in this calculation because the CSL is calculated at a flat 3% per biennium for the universities rather than at actual cost increases (many mandated by the state) as is done for state agencies. The universities estimated that actual CSL costs increases will be about 7.9% for the 17-18 biennium. This approach means that the universities take a disproportionate share of reductions to support other state functions. This either shifts costs onto students or requires a reduction in the scope and quality of programs that the universities can offer.

Reductions in state funding impact all of OSU, but different operations are affected to different degrees (Figure 1). State funding is about 21% of the Corvallis Education and General budget, Cascades is about 44% supported by state funding, and the Statewide Public Services have almost 70% of their budget from the State. The Governor's budget proposes reductions of Y% in each of those budgets.

In addition to state operating funding, OSU is also seeking state-paid debt to support capital projects in Corvallis and at Cascades. These include $65M in capital improvement and renewal funds for the six public universities, improvements to Cordley Hall, Fairbanks Hall, and Gilbert Hall, the construction of the Oregon Quality Foods and Beverage Center, site reclamation for the pumice mine site at Cascades and renovation of the Cascades Graduate and Research Center. The capital requests create additional budget pressure on state resources.

OSU is working to revise the CSL calculation for the public universities, increase the state appropriation to higher education, maintain the progress made in funding for the Statewide Public Services in the 15-17 biennium, and continue the build-out of the Cascades campus.

UNIVERSITY COSTS AND STRATEGIC NEEDS ASSESSMENT

The budget projections used in assessing various tuition scenarios and state funding levels include a number of assumptions. Enrollment growth is assumed to be at the levels projected in the ten-year forecast benchmark plan. Tuition for resident graduate students is projected at a 1.5% increase and for non-resident graduate students a 4.5% increase, both reflecting a multi-year adjustment to bring those rates into better alignment with peers. Veterinary Medicine's DVM program and Pharmacy's PharmD program are projected with 3% tuition increases. Other revenues are projected at growth based on recent historical trends.

Cost projections (for the present) are based on historical trends, known changes in rates for retirement programs, contractual obligations for represented employees, and increases in staff and other costs proportional to projected enrollment increases. The projections include budget for a 3% raise for unclassified employees. This can be changed, but some compensation increases are important if we are to maintain the progress we have made on making salaries more comparable to peers and in reducing compression across ranks.

The cost projections include about $13M in new commitments. These include additional budget for student success initiatives, growth of the professional school in Engineering, stabilization of the athletics budget, public safety and student conduct, commitments to new deans, expanded support for the OSU Foundation, and adjustments to several essential service and support functions. At Cascades there are significant investments planned in new faculty and staff to expand the number of programs available to students.

TUITION SCENARIOS

Table 1 illustrates some of the major consequences of various tuition scenarios for Corvallis Education and General funds. These assume two levels of state funding and similar assumptions about graduate and professional tuition, enrollment increases, and cost growth. Table 1 notes the budget gap (before any adjustments to historical expenditure levels), the change in tuition waivers (the principal source of institutional financial aid, which is set as a percentage of gross tuition revenues), and the annual dollar cost increase for full-time resident and non-resident undergraduate students.

The groups discussed a 0% tuition scenario (Scenario A in table 1) to see what the impacts were, but the general agreement was that this was not a realistic approach. While it might be possible in the short-term, it would require long-term reductions that would adversely impact the university's strategic goals.

The table also illustrates a 9% and Y% increase in resident and non-resident rates respectively (Scenario D in Table 1) {READERS NOTE: I say Y% because we are still exploring what the price sensitivity on enrollment is for non-residents---the question was asked if we have good reason to think it is indeed 3%}. This scenario closes the budget gap, though it still requires $13.8M of other changes or reductions to expenditures. A tuition increase that large also shifts $10M of the budget gap onto students.

Scenario B in Table 1 assumes a 3.5% increase in resident tuition rates and a 1.5% increase in non-resident rates (the latter is a lower percentage increase because non-resident tuition is so much higher than resident tuition). This approach has modest dollar increases for both resident and non-resident students, significantly increases institutional financial aid, but leaves a $15 to $24M budget gap that would need to be closed by cost reductions or other revenues.

Scenario C adds one additional percentage point to the tuition increases but allocates all of that increase to additional institutional financial aid. This would address some of the unmet need that currently exists before there is any tuition increase. It is estimated that this approach would increase the financial aid awards for about X students.

BUDGET SCENARIO IMPACTS

Corvallis

The Governor's Recommended Budget would cut about $12.7M from the Corvallis E&G budget in FY18 relative to FY17. The state's biennial appropriation is allocated 49% in the first year, and 51% in the second year, so reductions are more severe in the first year. Each of the budget scenarios outlined in Table 1 requires reductions in expenses, given that there are few other reliable avenues for revenue increases. The most likely budget gap to be closed is between $14M and $24M for the 2017-18 fiscal year. The budget discussions have included consideration of strategies to close that gap. These include:

- Review and reduce management and overhead costs wherever possible (see Appendix A)
- Reduce growth rate in spending for services and supplies
- Use some fund balance for the first year of the biennium to allow for time to plan appropriate recurring budget adjustments
- Hold vacant positions open, for defined or open-ended periods of time, except for critical instructional, advising, or health and safety positions
- Identify areas for efficiencies on the academic (minimum class sizes for example) and service side (standards for productivity per position)
- Defer E&G funded capital repairs or construction
- Reduce or delay salary increases for unclassified staff
- Invest in systems or process improvements that reduce recurring operational costs (eProcurement for purchasing, energy improvements, etc.)
- Invest in areas that can create productivity increases in core functions (for example staff support that frees faculty from administrative work to spend more time in instruction and research)
- Use Foundation or other one-time funds as a bridge to the next biennium
- Identify opportunities for renegotiating agreements on utilities, insurance, or debt that might reduce operational costs
- Consider a voluntary separation or early retirement program with specific goals for recurring savings in personnel costs
- For the longer term, continue exploring opportunities to leave the state's retirement and health insurance system

Cascades

The Governor's Recommended Budget would reduce funding for OSU Cascades by about $0.7M in FY18 relative to FY17. The largest annual revenue change for OSU-Cascades from the rapid growth in enrollment as the four-year campus builds out. However, reductions in state funding have a significant impact on hiring new faculty to build the programs students want and that slower hiring will slow the growth in enrollment. Leadership at Cascades is reviewing options to maintain essential hiring if funding remains at the GRB level.

Tuition rates for resident undergraduate students at Cascades are a few dollars less per credit hour than at Corvallis. This was done originally to encourage enrollment in the 2+2 programs. However, now that the campus has transitioned to offering complete four-year degrees, the University Budget Committee recommended that those rates be adjusted to be the same. The final tuition proposals will include an additional adjustment for resident rates at Cascades to move closer to matching rates at Corvallis.

Cascades faces two other significant challenges in state funding. The State provides additional allocations of "regional funding" to the four smaller universities and the Cascades campus, in recognition of the higher overhead costs of maintaining small regional campuses. However, that regional funding for Cascades was originally capped at about 40% of what the other small campuses receive. This was somewhat arbitrary, but was based on assumptions that overhead costs were lower since Cascades was a branch campus and was originally only a two-year program. This is no longer true, and while the total overhead is lower because Corvallis provides significant management and governance support, the current regional allocation is not appropriate to the operation of a four-year campus. This allocation was to be revisited as part of the HECC's review of the discipline weighting and mission differentiation allocations in the Student Success and Completion Model (SSCM) which is Oregon's performance-based funding formula. Those discussions were postponed and so the issue for Cascades has not been resolved. OSU continues to work with HECC on resolving this issue, though it is more challenging in a year in which we anticipate reductions in funding.

The second important issue is the funding for the development of the physical campus in Bend. The Legislature mandated the creation of a four-year campus in Bend which will entail significant costs for development of appropriate space and facilities. This construction can't reasonably be done within the historical capital allocations for the seven existing campuses and will require additional commitments from the Legislature. This is the university's first priority in legislative advocacy for the Bend campus.

Statewide Public Services

The Statewide Public Services receive nearly 70% of their funding from the State and support faculty in Agricultural Sciences, Forestry, Public Health and Human Sciences, Veterinary Medicine, and at Experiment Stations and Extension Offices around the State. A significant state funding increase in the 15-17 biennium supported the addition of about 40 faculty members to work on critical problems for the state's economy.

The Governor's recommended budget would but about $7.0M from the operations of the three Statewide Public Services. While fund balance can defray some of those reductions in the first year, the principal strategy will need to be management of vacant positions and staff reductions, as most of the costs are in personnel. The SWPS are not supported by significant tuition and fee revenues and do not benefit from changes in those rates. However, many of the faculty supported by SWPS funds are in tenured or tenure-track positions split with Education and General Funding, and contribute to the education of graduate and undergraduate students. Any changes in those positions have consequences for the overall mission of the university and have to be carefully planned.

NEXT STEPS

Comments from the Board after this meeting will be shared with the University Budget Committee (UBC), Provost's Council, the Faculty Senate Budget and Fiscal Planning Committee, and the Student Budget Advisory Council. The UBC, with advice from the other groups, will recommend tuition proposals to the Provost in the first week of February. These may include alternate scenarios depending on the final level of state funding. These proposals will be advertised to the university community for comment and the final proposals will be brought to the Board at the March meeting.

Table X-1: Budget Scenario Summaries—Corvallis Education and General Fund

The **"gap"** is the annual deficit that would have to be covered by fund balance, cuts, or other changes.

Revenue Assumptions

- Growth as outlined in the 10-year forecast benchmark (ambitious for non-residents but possible)
- 1.5% tuition for resident graduates, 4.5% for non-resident graduates, 3% for professional programs
- Ecampus tuition increase equal to resident undergraduate; growth rate 12%
- Modest increases in F&A and other revenues sources Tuition rates across the top are for undergraduates. It is assumed a 3% increase for non-resident undergraduates is a maximum before damaging enrollment.

Expense Assumptions

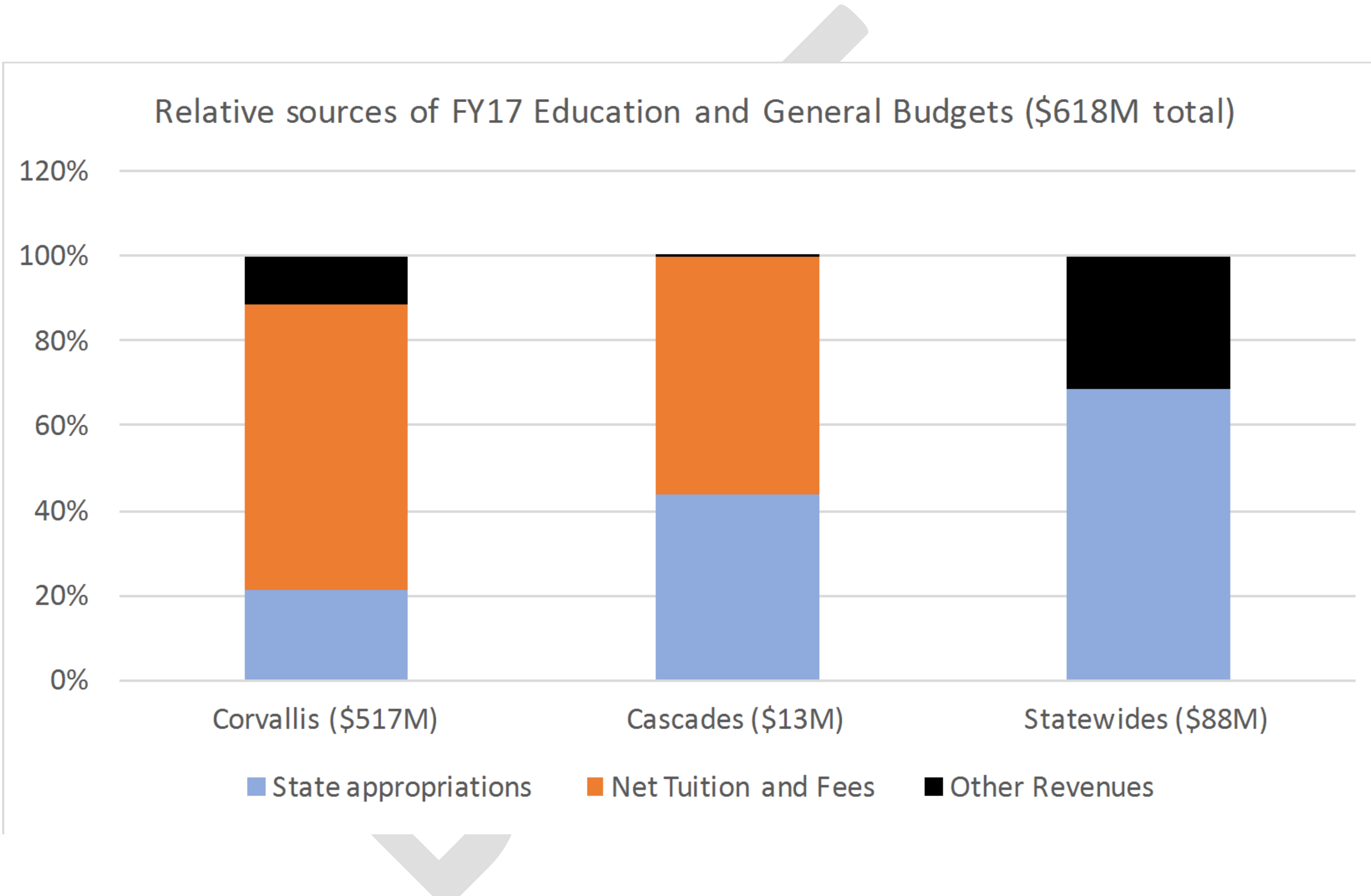
- 3% unclassified salary increases
- PERS as currently projected with increased rates
- Increases in staff proportional to enrollment growth
- Supplies & Services (S&S) and other increases as in recent years (there is room to decrease these and eProcurement will help)
- $12.9M in new spending for student success, known new commitments to colleges and support services, OSU Foundation, athletics

State Change	**Resident/Non-resident Tuition: 0%/0%**	**Resident/Non-resident Tuition: 3.5%/1.5%**	**Resident/Non-resident Tuition: 4.5%/2.5% (extra to financial aid)**	**Resident/Non-resident Tuition: 9%/3%**
Governor's Recommended Budget plus $50M +0% for biennium (-3.92% for FY18 over FY17) **$665M PUSF**	**Gap: -$22.3M** Tuition Waivers increase: $1.5M $0 increase residents, $0 non-residents	**Gap: -$15.4M** Tuition Waivers increase: $2.5M $305 increase residents, $408 non-residents	**Gap: -$15.4M** Tuition Waivers increase: $4.7M $218 increase residents, $680 non-residents	**Gap: -$5.4M** Tuition Waivers increase: $3.8M $784 increase residents, $816 non-residents
Governor's Recommended Budget (GRB) -7.9% for biennium (-11.53% for FY18 over FY17) **$616M PUSF**	**Gap: -$30.6M** Tuition Waivers increase: $1.5M $0 increase residents, $0 non-residents	**Gap: -$23.8M** Tuition Waivers increase: $2.5M $305 increase residents, $408 non-residents	**Gap: -$23.81M** Tuition Waivers increase: $4.7M $218 increase residents, $680 non-residents	**Gap: -$13.8M** Tuition Waivers increase: $3.8M $784 increase residents, $816 non-residents

*PUSF is the Public University Support Fund, the principal part of state support to the universities

- Expense base is $539M in all cases, so a $10M gap = 1.9%, $12M gap = 2.2%, $20M gap = 3.7%, $30M gap = 5.6%
- Median salary across all positions is $58K ($87K with benefits); Each $10M in cuts equal to 115 employee positions
- At median salary of $85K ($127.5K with benefits); Each $10M in cuts equal to 78 employee positions
- At the GRB level of funding, with a 3% cap on non-resident tuition, it takes an 18% resident tuition increase to balance with no cuts

Figure X-1 State funding as a proportion of funding for Education and General operations



APPENDIX A: Administrative and management cost analysis FY12 to FY16

[My thoughts is that this might be a place to get the analysis of administrative and management costs in front of the Board. The Budget and Fiscal Planning staff is working on the analysis and the definitions, so no data to put in yet.]