



FY2021 Operating Budget

Finance & Administration Committee
May 26, 2020



Overview

- Operating budget overview
- Budget context for FY2021
- Budget scenarios—variables and forecasts
- FY2021 Proposed budget
- Budget management strategies
- Questions?

FY2021 Operating Budget

The operating budget is an estimate of revenues and a plan for deploying those revenues during the next year informed by:

- Vision 2030 and Strategic Plan 4.0
- Ten-year business forecast
- Ten-year capital forecast
- Contractual obligations
- Financial position of the university
- And this year....substantial uncertainty

Budget Context and Challenges


- State funding reductions and differential impacts to OSU units
- Softening enrollment, generally
- COVID-specific uncertainty for international, non-resident and resident students
- Pricing competition and discounting
- Uncertainty in public health environment and what fall looks like for instruction, housing, athletics and all operations

Budget Context and Challenges

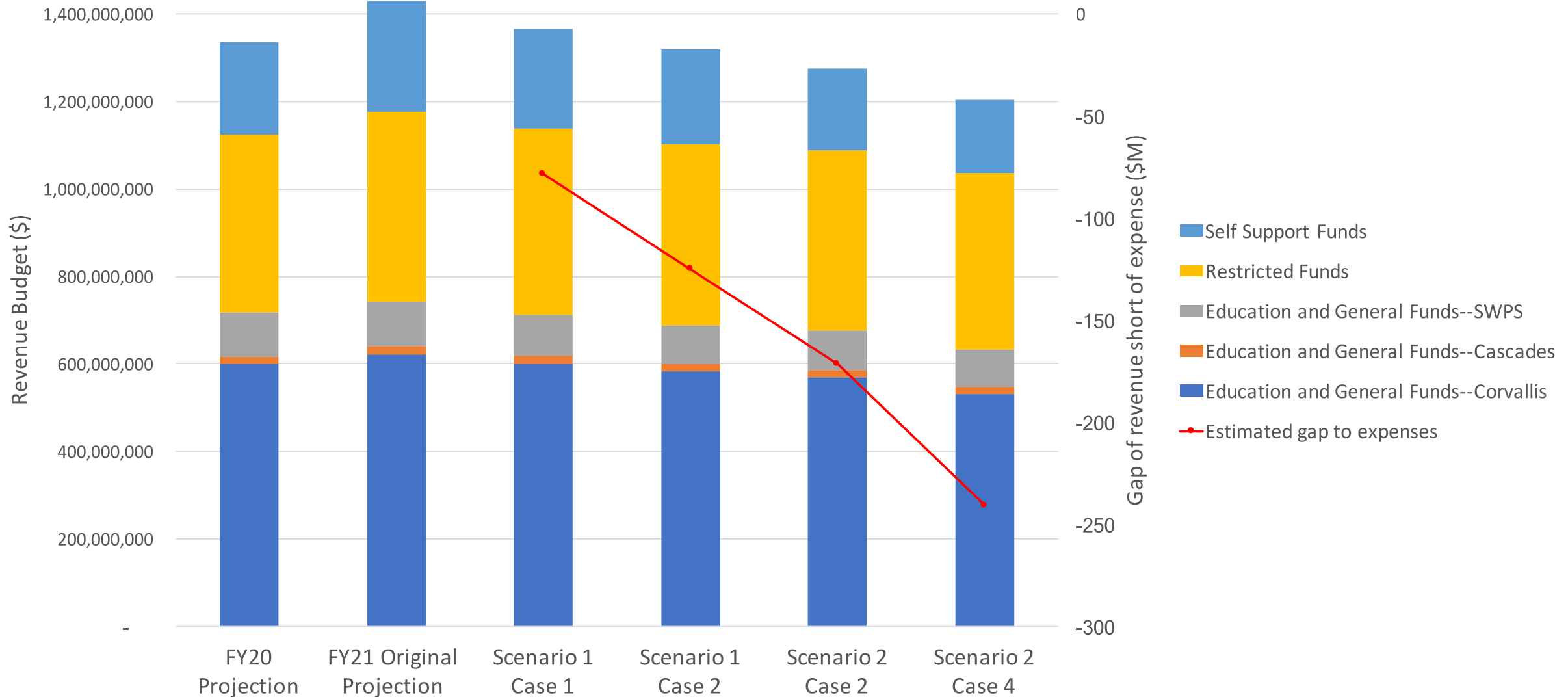
Budget planning in a scenario approach:

- All funds estimates
- Major revenue variables
 - State funding
 - Enrollment by major student group
 - Sales, service, other revenues
 - Research revenues and indirect costs
 - Additional discounts of tuition or not

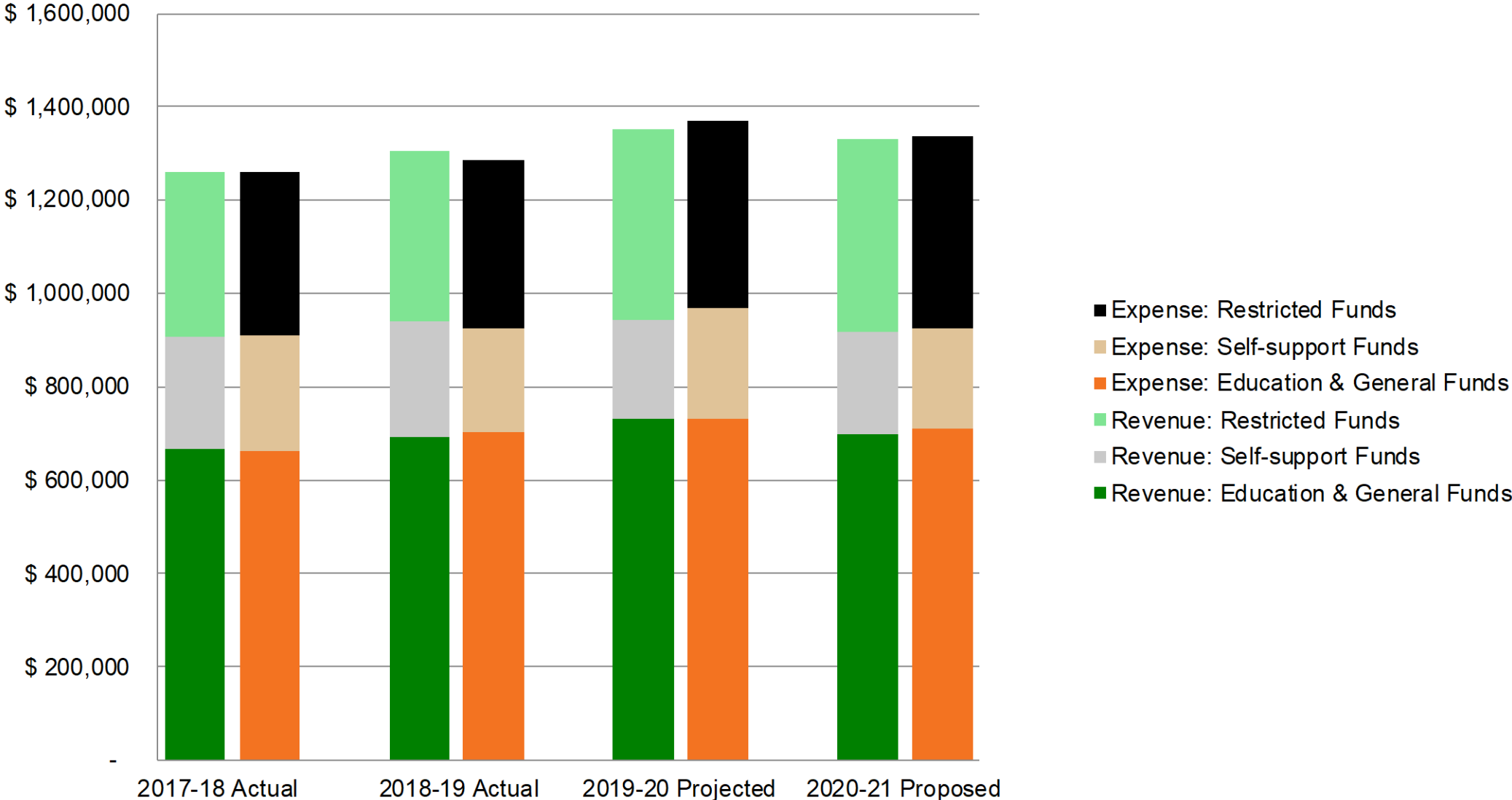
Summary of Scenarios and Cases

Scenario 1: Rapid and effective control—remote teaching for summer and modified return by fall	<ul style="list-style-type: none"> • 10% drop in state funding • 0% drop in resident undergraduate tuition; 3% drop in U.S. non-residents • 8-10% drop in international student tuition; 3% gain in Ecampus • Gap: \$31M Corvallis E&G (\$78M all funds) 	Case 1
	<ul style="list-style-type: none"> • 18% drop in state funding; • 3% drop in resident undergraduate tuition; 5% drop in U.S. non-residents • 10-15% drop in international student tuition; 6% gain in Ecampus • Gap: \$48M Corvallis E&G (\$124M all funds) 	Case 2 
Scenario 2: Recurrence of COVID-19 in fall – only partial return for fall with gradual return through academic year	<ul style="list-style-type: none"> • 15% drop in state funding; • 10% drop in resident undergraduate tuition; 15% drop in U.S. non-residents • 15-35% drop in international student tuition; 8% gain in Ecampus • Gap: \$62M Corvallis E&G (\$171M all funds) 	Case 2
	<ul style="list-style-type: none"> • 20% drop in state funding; • 15% drop in resident undergraduate tuition; 30% drop in U.S. non-residents • 40-50% drop in international student tuition; extensive non-resident tuition discounting • 11% gain in Ecampus tuition. • Gap: \$101M Corvallis E&G (\$241M all funds) 	Case 4

Budget Context and Challenges



Revenue and Expenses: FY2021 Operating Budget All Funds (in \$1,000s)



Education and General Funds (Table 2): Challenges & Uncertainties

- Enrollment projections and yield in the fall
- Uncertainty in levels of state funding reductions
- Maintaining program growth at OSU-Cascades
- Sustaining Statewide Public Services with state cuts
- Increases in debt service, insurance, and contractual costs

Self-Support Funds (Table 3): Major issues

- Uncertainty in enrollment and housing capacity
- Football schedule and associated revenues
- Sales and fee-funded units dependent on enrollment or employee use

Restricted Funds (Table 4): Major Issues

- Grant revenues and applications still strong
- Uncertainty in how economic impacts may affect Federal and State funding

Balancing strategy proposed budget: Corvallis E&G

- Multiple actions across funds
- No assumption of governmental support
- Evolving strategies for best to worst cases

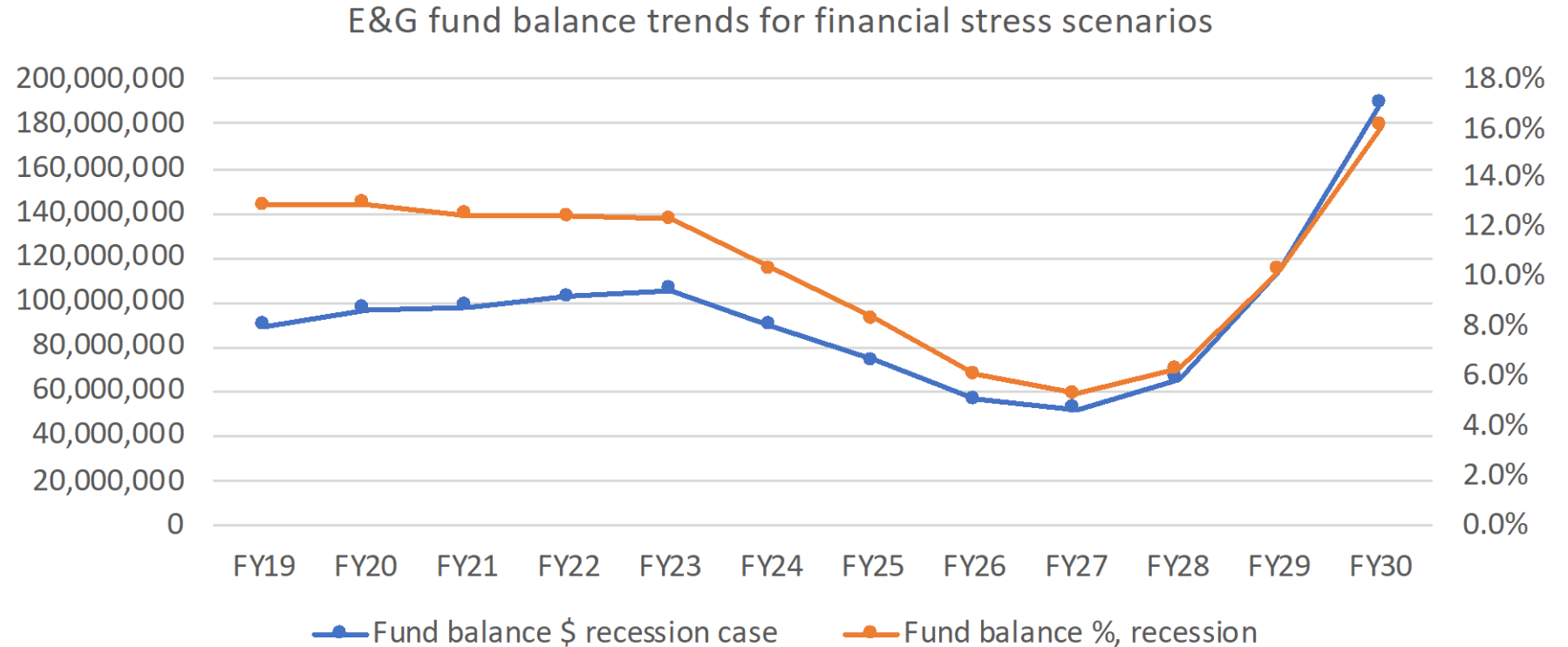
	Corvallis E&G shortfall	Reduced capital renewal spend	Reduced services & supplies spend	Unit level position layoffs & delayed hires	University wide progressive pay or FTE reductions	Fund balance	Additional fund balance or other cash
Scenario 1 Case 2 (Board budget)	\$48M	\$8M	\$6M	\$8M	\$12M	\$14M	\$0M
Scenario 2 Case 4	\$101M	\$13M	\$10M	\$10M	\$18M	\$25M	\$25M

Ten-year Business Forecast—Stress Example

Modeled two extreme stress cases (one shown here).

Outcomes:

- Revenue downturn is quick and significant
- Possible to “overshoot” by cutting, so fund balances stay > 10%
- Modeling suggests allowing fund balance below 10% for a few years may be a better strategy for long-term



Balancing Strategy Proposed Budget: All Funds

	All funds shortfall	Corvallis E&G Savings	Cascades savings	Restricted fund reductions to match revenue	Self-support layoffs, vacancies	SWPS reductions	Other fund balance or cash reserves (SWPS or E&G)
Scenario 1 Case 2 Strategy		\$49M	\$1.8M	\$18.7M	\$40.8M	\$10M	\$4.6M
Shortfall	\$125M	\$49M	\$1.8M	\$18.7M	\$40.8M	\$14.6M	
Scenario 2 Case 4 Strategy		\$101M	\$2.0M	\$26.9M	\$50M	\$10M	\$51.1M
Shortfall	\$241M	\$101M	\$3.3M	\$26.9M	\$90.9M	\$18.7M	

Recommendation

Propose the Committee recommends to the Board approval of the FY2021 operating budget, as presented in Tables 2 through 6.

We are in the middle of the most challenging time in higher education that most of us have ever seen. It comes with uncertainty about many things---enrollment, new kinds of teaching, constraints on research work, job stability, and on and on. Even with that uncertainty, we need to help faculty, staff and students continue to make progress in their education, scholarship, and engagement to the best of our collective ability. We are facing an all-university and all-funds problem. The financial position of each part of the university impacts the ability of other units to be successful. Losses in one area can impact fund balance flexibility, long-term retention of employees, and progress with capital projects.

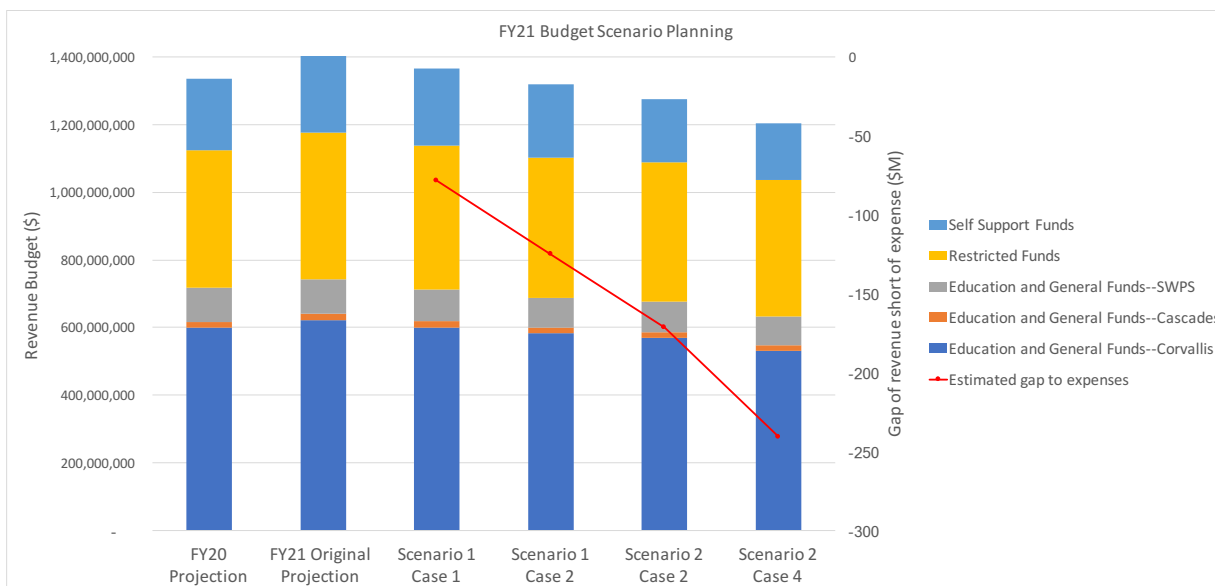
Timelines

We will try to start keeping a timeline of some of the important benchmarks for budget planning:

- May 20th State revenue forecast ✓
- May 21st Renewal worksheets due to Human Resources ✓
- May 28th Budget scenario worksheets due to Budget Office ✓
- May 29th Board of Trustees meeting ✓
- May to August START advising and registration sessions
- ~June 15th Preliminary initial budget—also next Budget Conversation, thereafter middle of each month
- July 30th Final initial FY21 budgets (state budget decisions June? Maybe August?)
- September 1st Budget adjustments if enrollment forecasts are solid
- September 23rd First day of fall term classes
- October 16th Board of Trustees meeting
- October 21st Fourth week enrollment census
- ~November Budget adjustments if necessary
- December 1st Governor’s recommended Budget for 2021-23

Budget Scenarios and Planning

The Office of Budget and Resource Planning has developed seven financial scenarios for the university which project FY21 shortfalls ranging from \$78 million to \$241 million for all funds, including \$31 million to \$101 million shortfalls in Corvallis Education and General funding (E&G) and \$800,000 to \$3 million in E&G shortfalls at OSU-Cascades. E&G funding is primarily composed of state funding and tuition and fees.



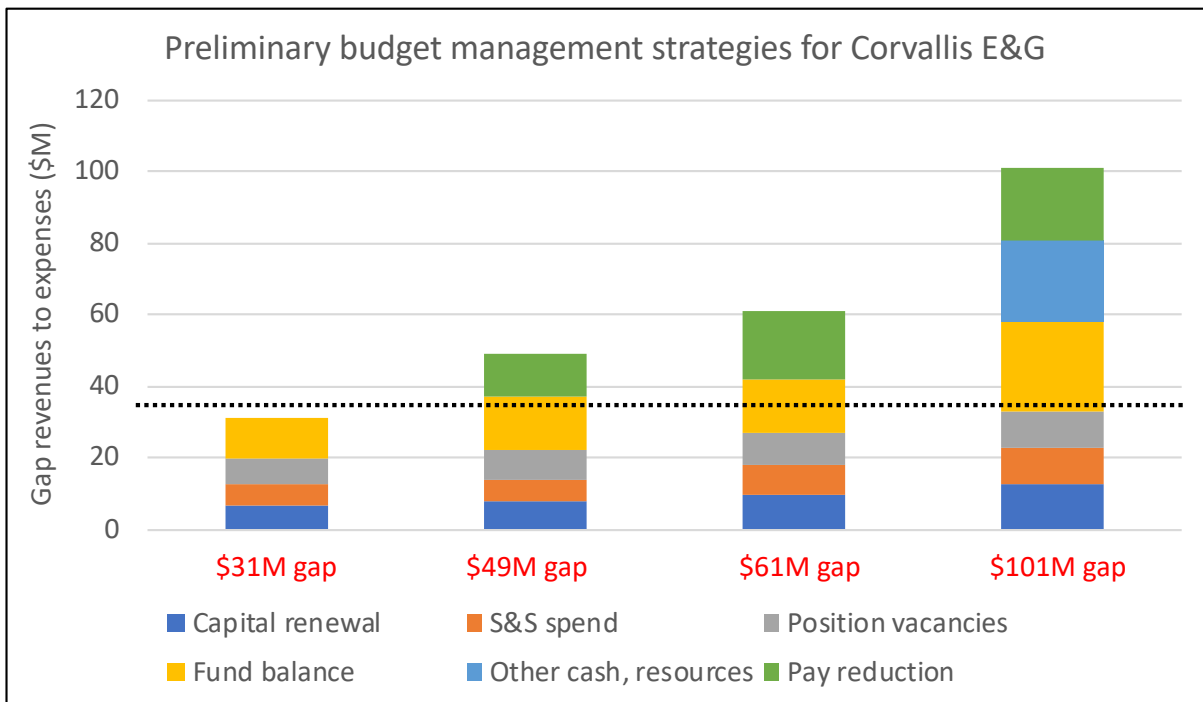
On May 26th President Ray sent a message to campus describing the current plan for the FY21 budget. The message, in part, said: “While domestic student enrollments for next year are tracking reasonably well under the circumstances, we know that international student enrollments will be down significantly, given travel restrictions and delays in visa processing. Moreover, even predicting domestic enrollment is extremely difficult given the uncertain course of COVID-19 and emerging evidence that current and prospective students are highly uncertain about their college-going plans. As well, each of our self-support auxiliary units — especially University Housing and Dining Services and OSU Athletics — absorbed substantial losses in spring and will face shortfalls again in the coming year given the anticipated lower density on our campuses and curtailed sporting events...”

The budget the Board of Trustees approved projected a \$49 million or 7.7% decline in Corvallis E&G revenues¹. Recall that on April 15, we had asked all units to develop contingency plans for possible E&G reductions of 3%, 7.7% and 10% for FY21. Units have been engaged in that planning for several weeks and we are starting to gain a clearer picture of what we might do both at the unit level and university wide.

Focusing on E&G funds, here are actions we are taking — or anticipate taking — to close the projected \$49 million gap:

- Use fund balances of approximately \$15 million.
- Reduce capital renewal spending by delaying projects, saving approximately \$8 million.
- Reduce services and supplies spending by approximately \$6 million.
- Implement a university-wide and progressive temporary pay reduction — beginning with executive level positions — saving approximately \$12 million.
- Reduce staffing in selected areas where less work is needed and leave vacant positions unfilled over the course of the coming year, saving approximately \$8 million.”

This is the approach we are taking, in general, to managing various budget outcomes. Closing the gap between revenues and projected expenses will be through a mix of actions. Salary reductions would be one of those actions only at higher gaps between revenues and projected expenses.



¹ The Board materials and presentation are available at https://leadership.oregonstate.edu/sites/leadership.oregonstate.edu/files/fac_5a_fy2021_operating_budget.pdf and https://leadership.oregonstate.edu/sites/leadership.oregonstate.edu/files/fac_5a_fy2021_operating_budget_presentation.pdf