Budget Planning in Uncertain Times III

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.

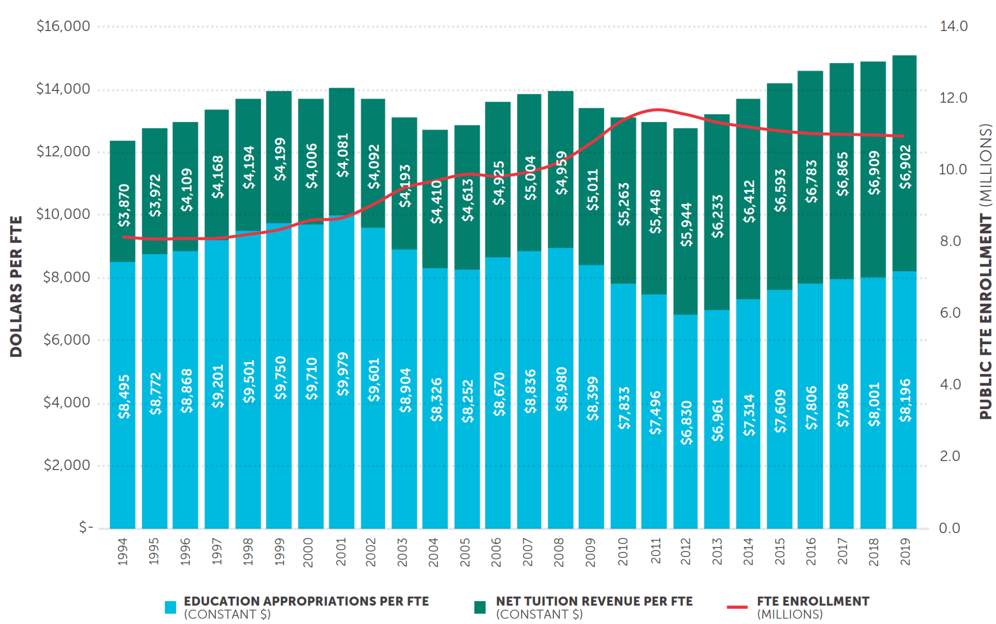
We are trying to be flexible and creative in solutions as the situation moves to impact different parts of the university. This may involve reconsidering some of our past practices and boundaries on things like subsidies across funds, use of fund balances, or financing some costs, etc.

We have to accept significant uncertainty as part of our planning for several months. We must manage that uncertainty while providing as much support and reassurance as possible to the university community.

<u>It's a national issue</u>

FIGURE 2.1

PUBLIC FTE ENROLLMENT, EDUCATION APPROPRIATIONS PER FTE, AND NET TUITION REVENUE PER FTE, U.S., FY 1994-2019 (CONSTANT DOLLARS)



"State funding for higher education remains below pre-recession levels and will likely stay that way, a new report from the State Higher Education Executive Officers association shows. The fiscal 2019 State Higher Education Finance report [1] was well underway before the coronavirus pandemic tore through higher education budgets. But Sophia Laderman, senior policy analyst at SHEEO and lead author of the report, considers it a useful tool as higher education braces for a recession. "Think of this year's report as the next baseline for the recession we're coming into. Public funding for higher education has never been so low going into a recession," Laderman said.[1]"

[1] "Public higher education in a "worse spot than ever before" heading into recession", https://www.insidehighered.com; https://shef.sheeo.org/wp-content/uploads/2020/04/SHEEO_SHEF_FY19_Report.pdf

University Budget Conversations – May 7, 2020

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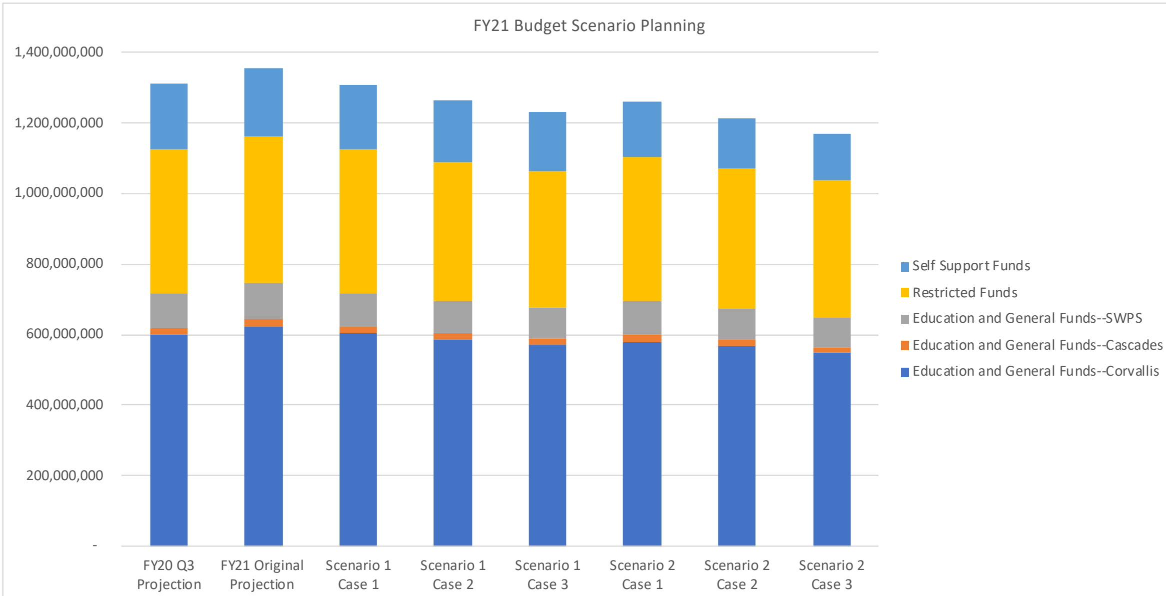
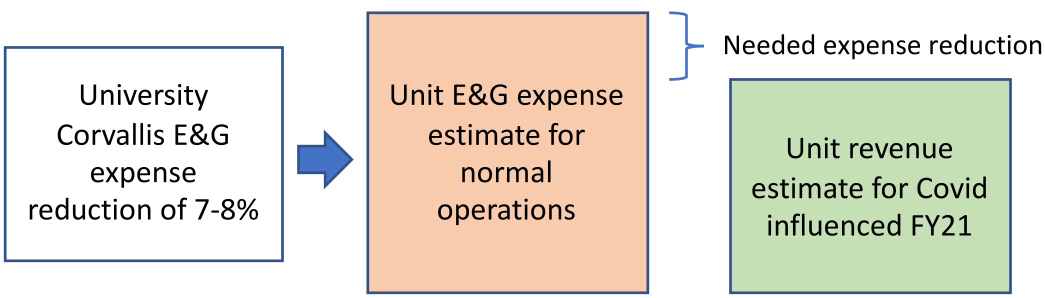
Scenario Planning



We are planning budget in several scenarios (the first being modified return to campus in fall and the second being return to campus in January) and cases within each of those. Across all funds they vary greatly, with revenue gaps (to historical expenses) of $50M to $195M depending on the assumptions about state funding and enrollment. We will ask the Board to approve a preliminary budget based on Scenario 1, Case 2 (about a 7-8% reduction for Corvallis E&G expenses) and ask units to provide a budget reduction exercise to understand strategies and options.

Expense Reduction Guidance



That planning scenario averages about a 7-8% reduction in spending from historical levels. Units will be asked to look at an estimate of their historical expenses and their projected revenues and describe strategies they would use to make the necessary expense reductions. The percentages may vary across units because the mix of revenues (tuition, state earmarks, sales and services, etc.) vary.

Units will look at decisions that could include, but are not limited to: 1) reduce planned capital or equipment expenditures, 2) reduce travel, supplies, consulting, materials, etc., 3) savings from vacant positions or searches delayed, and/or 4) savings needed from a university-wide salary reduction program. Units will be asked to also note what would change if the expense reduction was as low as 3% or as high as 10%.

The goal of this exercise is to inform university decisions about expense planning and possible salary reduction needs. A challenge for units will be to consider how to maintain essential work in instruction and research while making these expense reductions so that there is not erosion of enrollment and revenues beyond what may happen because of the pandemic. If a university-wide salary reduction program is necessary, it will be developed at the university level not the individual unit level.

DRAFT May 8, 2020

FY21 Expense Reduction Planning Guidelines

President Ray's message on April 15th noted a number of actions OSU is taking to plan for the significant financial challenges and uncertainty facing the university. Those actions included a hiring freeze, a freeze on discretionary salary increases, reductions in services and supplies spending, and planning for reduction of other FY21 expenses. These guidelines address the directive to develop FY21 budget scenario plans that anticipate E&G spending reductions of 3%, 7% and 10%.

For planning purposes, an E&G preliminary budget is being developed assuming revenues that would require an approximate 7.7% reduction in projected spending. The following guidelines provide academic and administrative leaders guidance to develop plans for that FY21 E&G expense reductions, as well as scenarios for 3% and 10% reductions for FY21.

Why is this exercise necessary?

The uncertainty in projecting next year's revenues is unprecedented for two reasons. First, the state legislature will likely convene in mid-May after a revised revenue forecast. That forecast will be down significantly and it appears increasingly likely that OSU will see a significant reduction in state funding next year.

Second, while student applications and deposits are currently up over last year, most of that activity happened before the pandemic and historic yield rates do not provide accurate guidance for how many students will actually enroll. Oregon residents, international students, and non-resident U.S. students all face different family, economic, and emotional circumstances and it is unclear how they will react. Many of their decisions will depend on how the situation develops through August. National surveys suggest significant proportions of students (10-20%) would choose to skip a year or attend community college rather than engage in another fall term of fully remote instruction.

Given that we likely will not be confident of enrollments until late in August, it is essential that we plan for multiple scenarios.

How is this related to the current renewal process?

The annual renewal process deadline has been adjusted to align with this budget exercise while still supporting the timely preparation and distribution of renewal letters. **As you are aware, the deadline for renewal spreadsheets has been extended from May 7 to May 21.**

The renewal process should be considered in the context of usual typical demand for the particular work, performance and the usual factors considered in renewal decisions. As in any year, even with the extended spreadsheet deadline, HR anticipates that submissions will include a certain number of positions in "uncertain" status because of budget or other uncertainty. HR will follow up with these situations directly with colleges and units to confirm status prior to the end of the fiscal year.

The 3%-7%-10% exercise is asking for scenarios about how units would manage expense reductions that are required *if* revenues in September are far short of goals. If reductions in personnel expenses are a key part of that for many units (and they likely will be at the higher end of reductions) the responses from units will help shape a university-wide plan for reductions in personnel costs using salary reductions, FTE reductions, or similar tools. We don't yet know which approach is the right one as we don't know the size of the issue. The renewal process should not be used to reduce personnel numbers in anticipation of the worst case scenarios. Other methods for reducing those costs will be developed with units and the university community.

Why 3%, 7%, and 10%?

While there is significant uncertainty, we do have some idea of what possible declines in state funding and enrollment could look like. Planning is underway for two scenarios (Scenario 1 assumes a return in fall either fully or somewhat modified and Scenario 2 assumes significant or all remote teaching in fall). Both include three cases with varying degrees of revenue decline.

Those six planning cases suggest Corvallis E&G revenue shortfalls relative to expected expenses of 5% to 12.5% ($20.5M to $67.0M). Reductions of 3%, 7% and 10% bracket most of those cases and provide realistic planning targets.

The "1. Revenue assumptions" tab in the accompanying excel sheet shows detail on the assumptions about enrollment and state funding, as those may be relevant for units in assessing reduced demand for class sections or student services.

The 3%, 7%, and 10% scenario is for Corvallis E&G units. Units supported by SWPS, Cascades, and self-support funds will be asked to do a similar estimate shortly at slightly different percentages depending on the mix of fund types. Preliminary estimates for reductions in each of the other major funds types are also shown on the "1. Revenue assumptions" tab.

What is the baseline for the reductions?

The issue is a reduction of expenses. Budget amounts are not a good guideline as there are significant resources distributed to units during the year that are not part of initial budget. Tab "**2. Expense targets**" shows FY20 initial budget for major units and the Q3 estimate of FY20 expenses (note expenses reflect where funds are spent—so things like distributions from Ecampus to a college for course development show up as a college expense).

Average inflation (aggregate of raises, benefits, S&S) is expected to be about 3.2% and tab "**2. Expense targets**" shows a rough estimate of what FY21 expenses would be for units with a 3.2% increase on FY20 projections. 3%, 7% (7.7% specifically) and 10% targets are calculated from that. We recognize this is an estimate----the goal is to identify actions that will provide savings on an appropriate scale and we anticipate this estimate will provide sufficient detail at this point. We will provide more detailed targets for units in the President's Office and Finance and Administration as necessary. If units need information at a finer budget level please contact the Budget Office.

A preliminary initial budget is shown on tab "**3. Prelim Budget Resources**" to help inform unit planning if there are model driven increases/decreases or incremental additions from decisions by the Provost or Vice President for Finance and Administration. This also includes an estimate of mid-year budget changes based on historical data for units. The information on this tab is preliminary and will be updated as additional decisions are made.

How should units respond?

Tab **"4. Template 7.7%"** provides a simple template units can use to outline the spending reduction plans. Responses need to be specific about actions---areas of S&S reductions, services to be slowed or reduced, workload adjustments to adapt to changes, projects delayed, etc. and dollar estimates of expense reductions expected from those actions. The expense projection does assume a 3% mid-year increase in unclassified salaries, as a placeholder, and other salary increases as currently in contract. If those raises are smaller or 0%, there would some expense savings there.

The reduction planning may require an assumption for salary reductions, through mechanisms still to be refined. To help units plan tab "**5. Univ Salary Reductions**" has an example model of university-wide salary reductions. If you plug in the annual salary expenditures (excluding students and graduate assistants) in the tan box it will give you a rough idea of savings at different levels of overall reductions. This is just an illustration but will give you something to work from in planning.

There is a line to propose use of fund balance. Units should maintain at least a 5% fund balance after any proposed use of FY20 ending fund balance.

There should be clear definition of the issues and consequences associated with the reductions. At the larger percent reductions we recognize that assumptions about personnel reductions will be necessary. In planning for the spending reductions, units should consider how to continue to deliver essential services in instruction and research. This is a temporary challenge that will eventually be resolved and it is important to retain and support all of our employees and students to the extent possible. This may require rethinking workloads, course structures, and other usual operating practices to deliver the credit hours students need, even as we have to temporarily reduce personnel expenses.

The 7.7% template is the key part of the planning request. It would be helpful if you could also note what you would restore or change if the spending reduction were only 3% (tab **"6. Template 3.0%")** and what additional actions you would have to take if the expense reduction had to be 10% (tab **"7.Template 10%"**).

<u>What is the deadline?</u>

Initial responses should be provided to Sherm Bloomer in the Budget Office by May 28. These will be compiled to assess expense reductions in different areas to inform planning. As budget scenarios become clearer, unit budget planning will be refined and final FY21 budgets developed in discussion with units.

<u>Other questions?</u>

Don't hesitate to contact the Budget Office with questions about process or numbers, or the Provost, VPFA, or your supervisor if there are policy or strategy issues. We know this is very difficult because of the extreme uncertainty and because these decisions impact people in each of your units. As we plan for this, it is worth remembering this is not a permanent change or permanent downsizing. OSU's faculty, programs and reputation remain strong. As the pandemic subsides our education and research work will fully return. We want to weather this time keeping as many of our employees and programs as we can, while making sure we are positioned to continue the vision documented in SP4.0.

Best regards,
Sherm