

Budget Detail, Trends, Financial Targets, Metrics (emphasis on Corvallis E&G Finances)

January 15, 2015

Board of Trustees Finance & Administration Committee



Today's discussion will proceed in this order:

1. Metrics
2. Financial Targets
3. Trends and Budget Detail



Strategic Metrics: SP 3.0

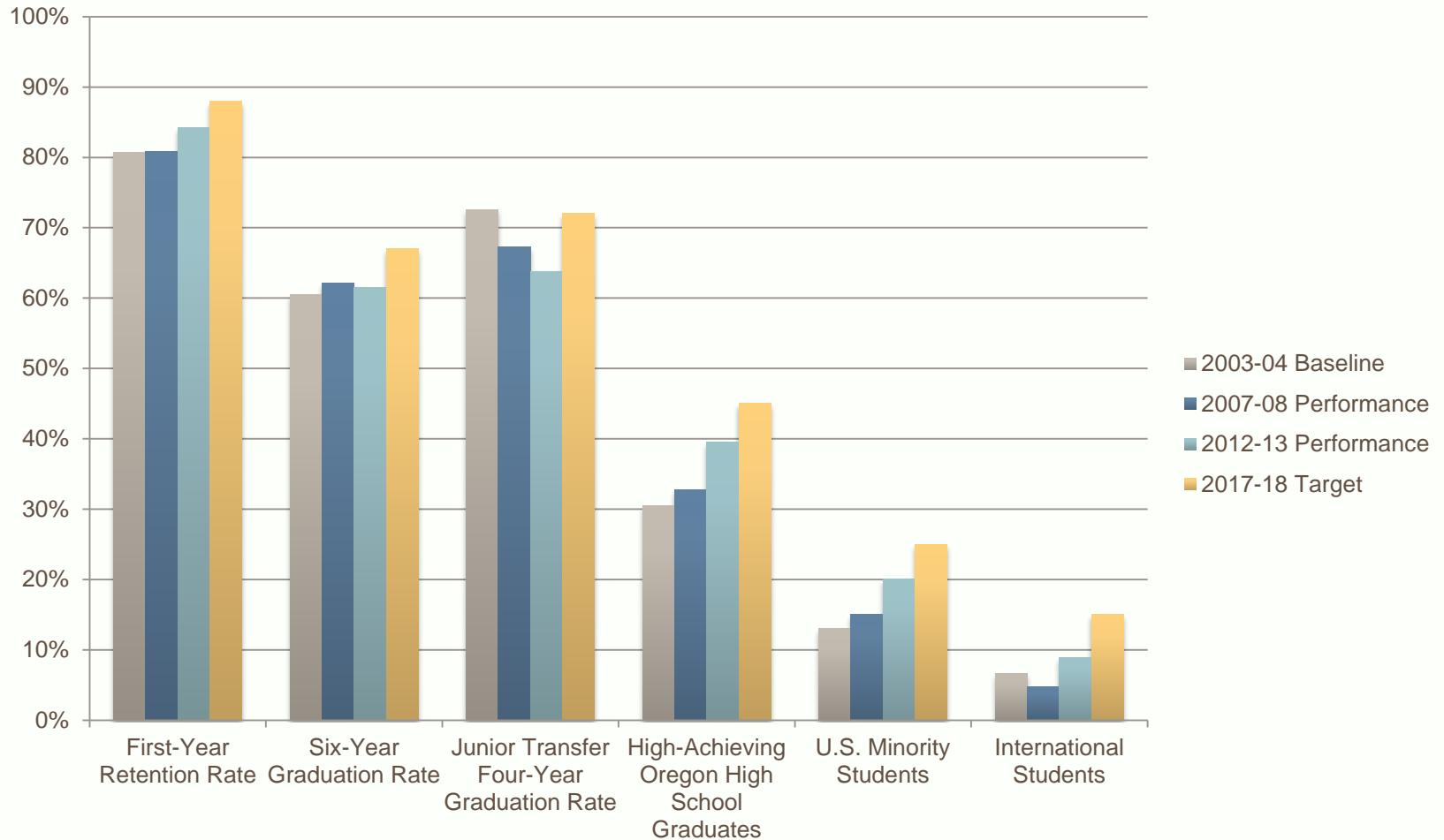
Oregon State University Strategic Plan 3.0 - Benchmarks for Excellence

Metrics Associated with Institutional Mission and Goals

Metric	2003-04 Baseline	2007-08 Performance	2012-13 Performance	2017-18 Target
Degrees Awarded - Total	3,894	4,232	5,055	6,000
Degrees Awarded - OSU-Cascades	-	-	210	360
First-Year Retention Rate	80.7%	80.8%	84.2%	88.0%
Six-Year Graduation Rate	60.5%	62.1%	61.5%	67.0%
Junior Transfer Four-Year Graduation Rate	72.6%	67.3%	63.8%	72.0%
High-Achieving Oregon High School Graduates	30.5%	32.7%	39.5%	45.0%
U.S. Minority Students	13%	15%	20%	25%
International Students	6.6%	4.7%	8.9%	15.0%
Total R&D Expenditures (in millions)	\$208.1	\$233.4	\$232.6	\$270.0
Industry Dollars % of R&D Expenditures	1.3%	1.5%	2.8%	3.6%
Ph.D.s Awarded	169	173	213	255
Invention Disclosures	36	74	80	120
Licensing Revenues (in millions)	\$1.5	\$2.3	\$7.3	\$10.9
Ecampus Degree-Seeking Enrollment (Student primary campus)	101	593	1,854	3,000
Dollars Leveraged per Appropriated Dollar for Statewide Public Services Research	\$1.73	\$1.70	\$2.66	\$3.00
Annual Private Giving (in millions)	\$29.3	\$91.1	\$81.5	\$110.0

SP 3.0 Measures Help Direct Decisions and Efforts

Each measure has associated cost and revenue issues



Financial Metrics and Targets

Key Measures of Financial Health (balance sheet, debt, and capital)



Key Measures

- Viability Ratio
- Primary Reserve Ratio
- Net Income Ratio
- Return on Net Assets Ratio
- Fund Balance as Percent of Revenue
- Debt Burden Ratio
- Debt Service Coverage (affordability)
- Debt/Revenues
- Facilities Condition Index (FCI)
- Classroom Space Utilization

Key Measures

Operating and Balance Sheet

Previously discussed in financial statement section

What?	Why?
Viability Ratio —Expendable Resources/Debt	Indicates the institution's ability to meet debt obligations with available resources
Primary Reserve Ratio —Expendable Resources/Total Expenditures	A measure of the financial flexibility the institution has
Net Income Ratio —Surplus/Deficit to Operating Revenue	Measures the overall operating effectiveness of the institution
Return on Net Assets Ratio —Change in Net Assets to Total Assets	Measures the overall performance and returns on available assets

Key Measures

Finances & Debt

What?	Why?
Fund Balance as % of Revenue	Clear index of % of revenues that could be covered in an emergency, links to OUS historical measure
Debt Burden Ratio —Debt Service/Total Expenditures Minus Depreciation plus Principal Payments	A standard measure of appropriate debt load, with an upper limit of 7% typically used in higher education institutions
Debt Service Coverage (affordability) —3-Year average net operating income plus non-operating revenues plus interest and depreciation/Debt Service	Measures the institutional capacity to meet debt service demands in the case of an extreme financial event
Debt/Revenues —Direct Debt/Revenues	A measure of the overall leverage of the institutional finances

Key Measures Facilities

What?	Why?
Facilities Condition Index (FCI) – Industry-standard ratio of current year renewal cost to current building or infrastructure replacement value	Measurement of OSU's facilities deferred maintenance and renewal status – the lower value of FCI, the better the condition
Classroom and Classroom Laboratory Space Utilization —Ratio of scheduled class hours in each classroom to classroom seat numbers	Indicator of space utilization benchmarked with national standards, ratio of available classroom sizes to classroom needs, and scheduling efficiencies to meet changing course needs

Budget Detail and Trends

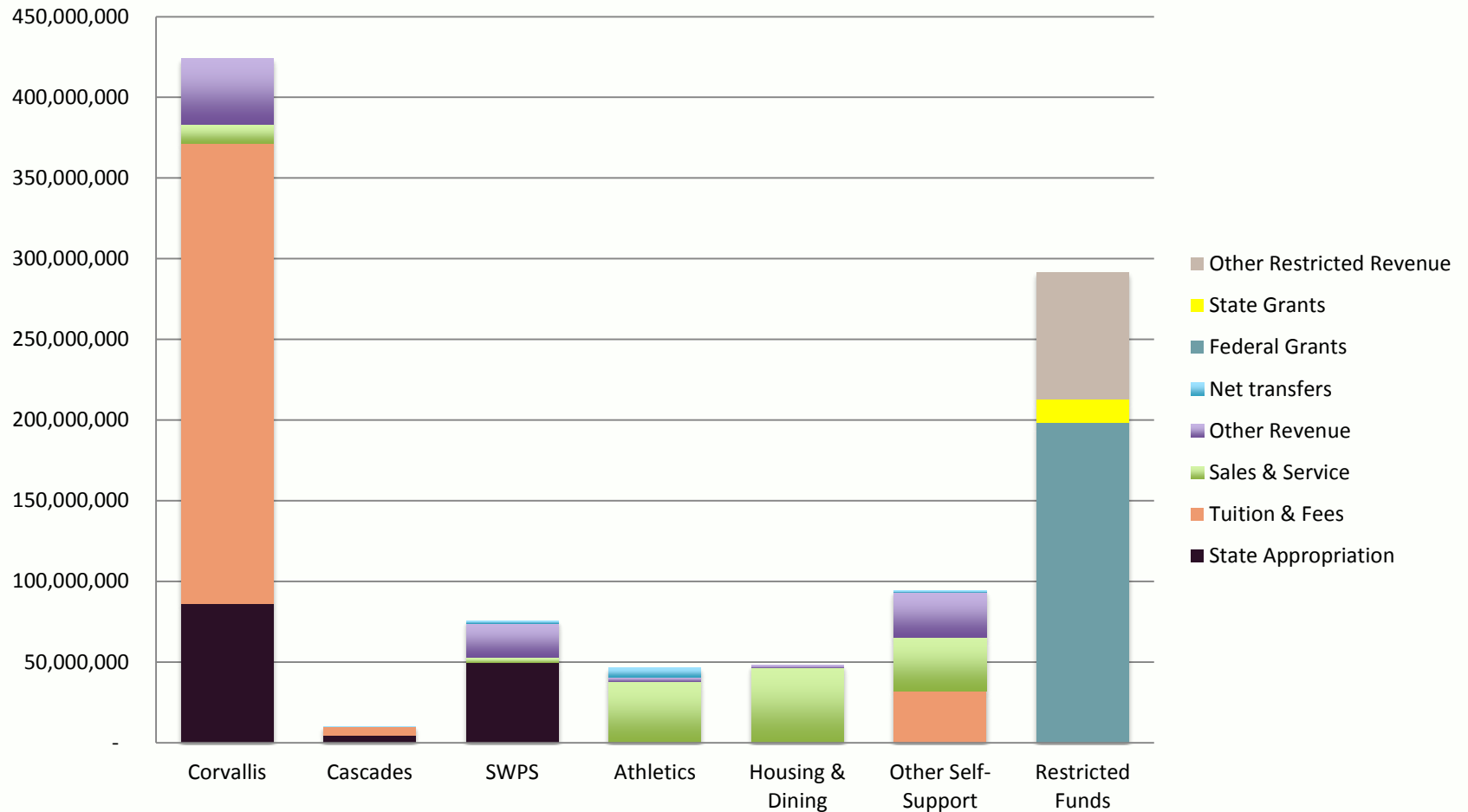
Context for the Metrics
(cost and revenue drivers, major areas of risk,
changes over time, cost of delivery)



Overview

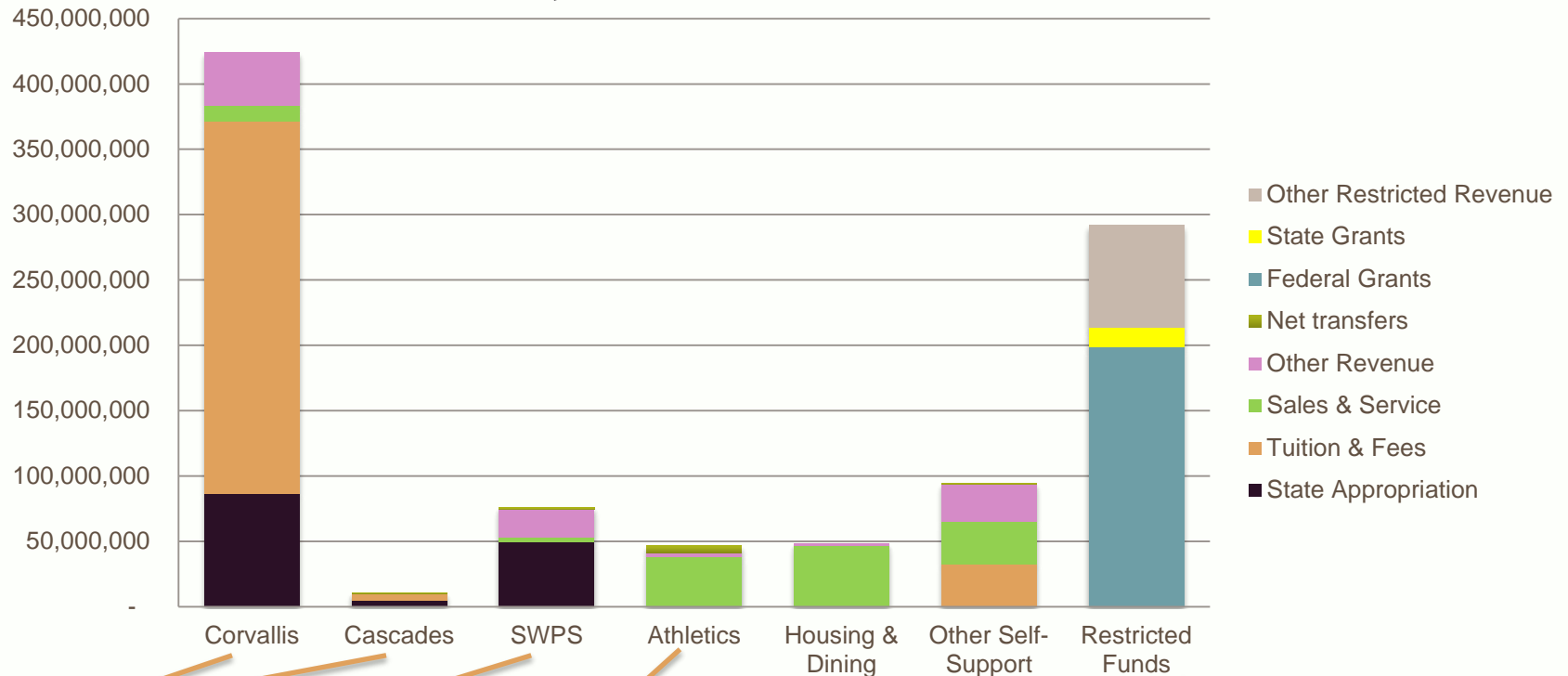
- Revenue and expense summaries for major funds
- Major areas of revenue and expense risk
- Revenue trends for ten years—Corvallis E&G
- Cost trends for ten years—Corvallis E&G
 - Major cost changes
 - Benefit cost patterns and comparisons
 - Cost per student over ten years
- Cost-of-delivery examples (or what's the cost difference in delivering different kinds of degrees?)
- What's next? What other information or level of analysis would be useful to the Committee?

FY14 Revenue Sources For All Funds



FY14 Revenue Sources For All Funds

Major Areas of Risk



- Enrollment
- Enrollment
- Enrollment
- State funding

- State funding
- Federal and County funding

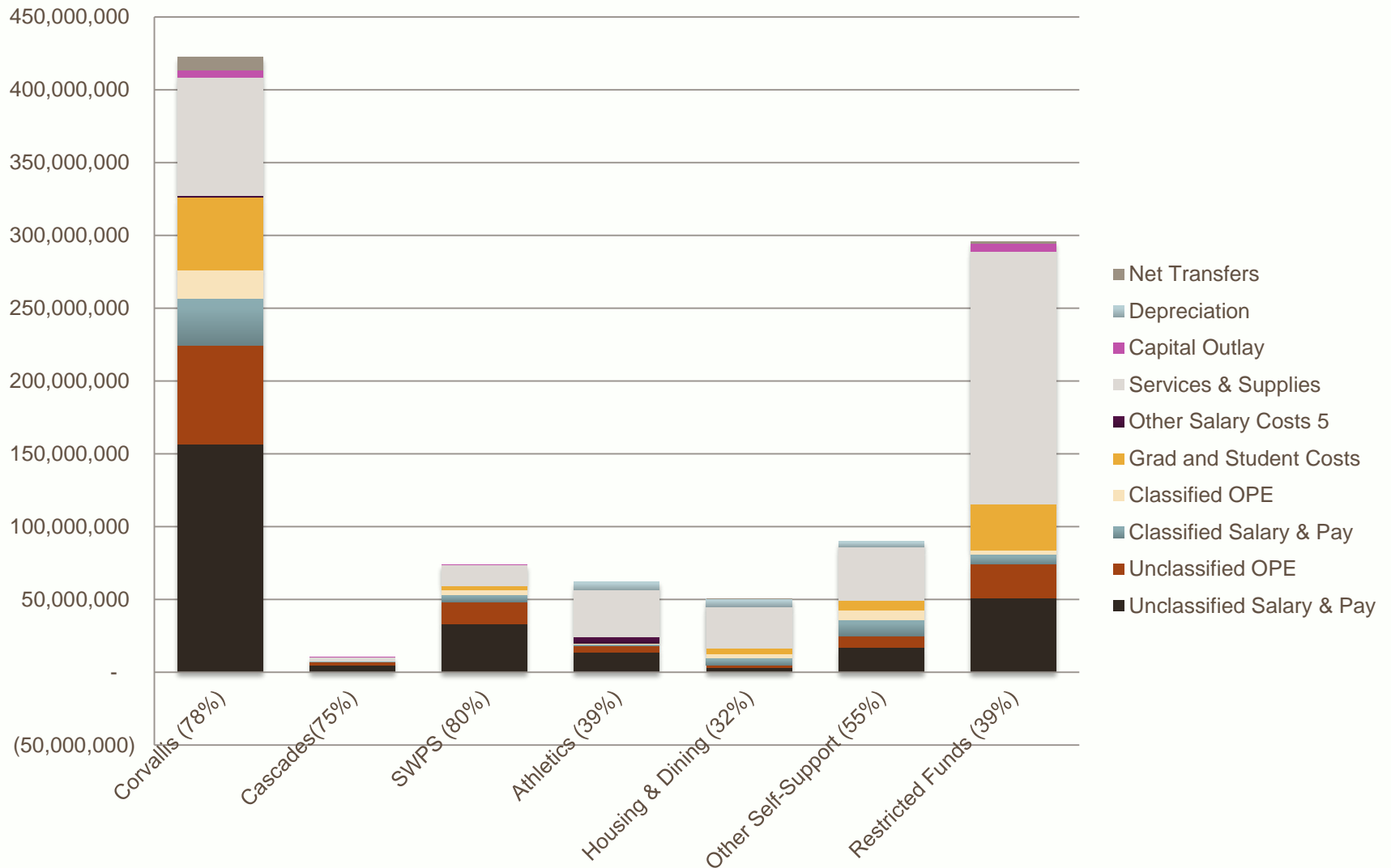
- Football ticket sales and donations
- Overall gift revenue
- TV revenue

- Enrollment
- Room choice
- Food plans
- Cash sales
- Corvallis housing rates

- Internal and external demand for services

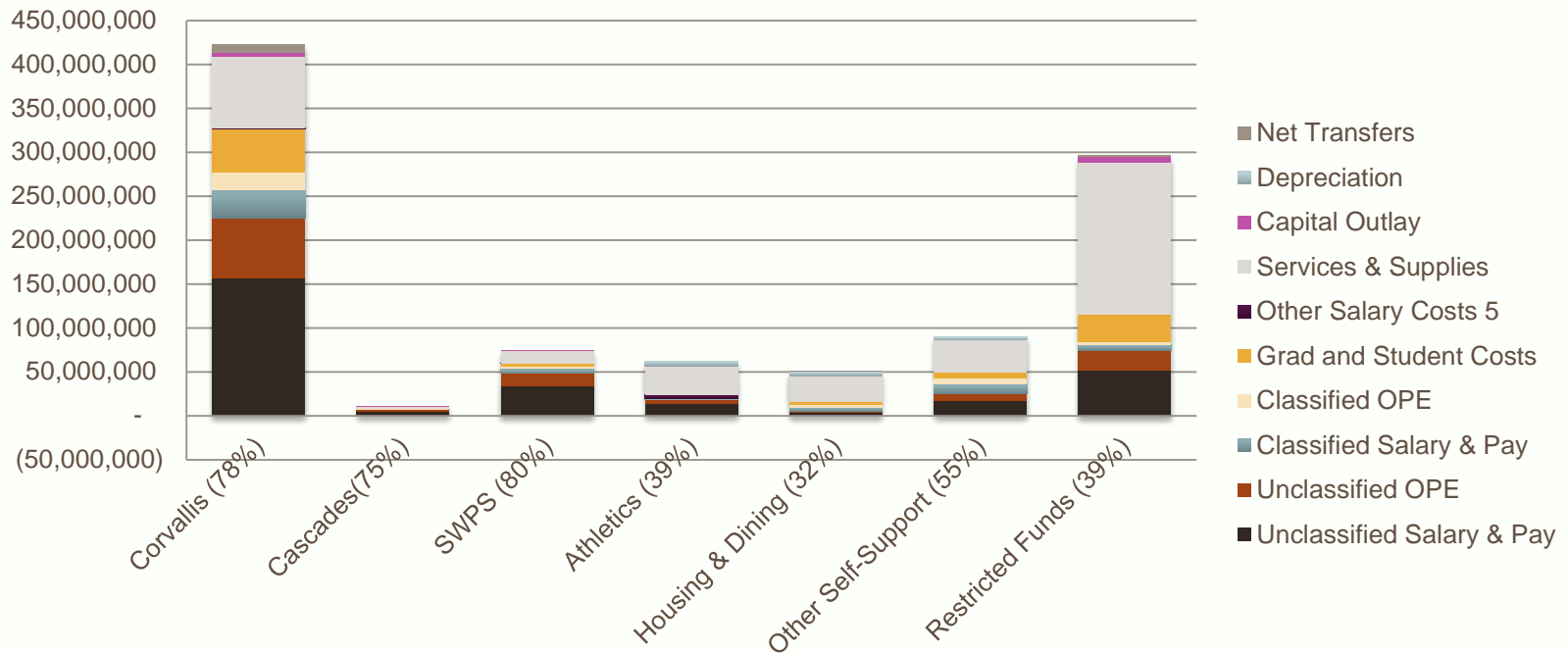
- Federal grant availability
- Endowment and gift performance
- State agency funding

FY14 Expenditure Distribution For All Funds



FY14 Expenditure Distribution For All Funds

Cost Drivers



Personnel:

University-wide salary increases
 New faculty and staff hiring
 Negotiated salary and benefits, SEIU, CGE
 Statewide PEBB and PERS rates

Other costs:

General inflation
 Insurance, utilities, risk, compliance
 Debt service

A Detailed Look at Corvallis Campus E&G Revenues and Costs



What's Changed on the Revenue Side Since 2005-06?

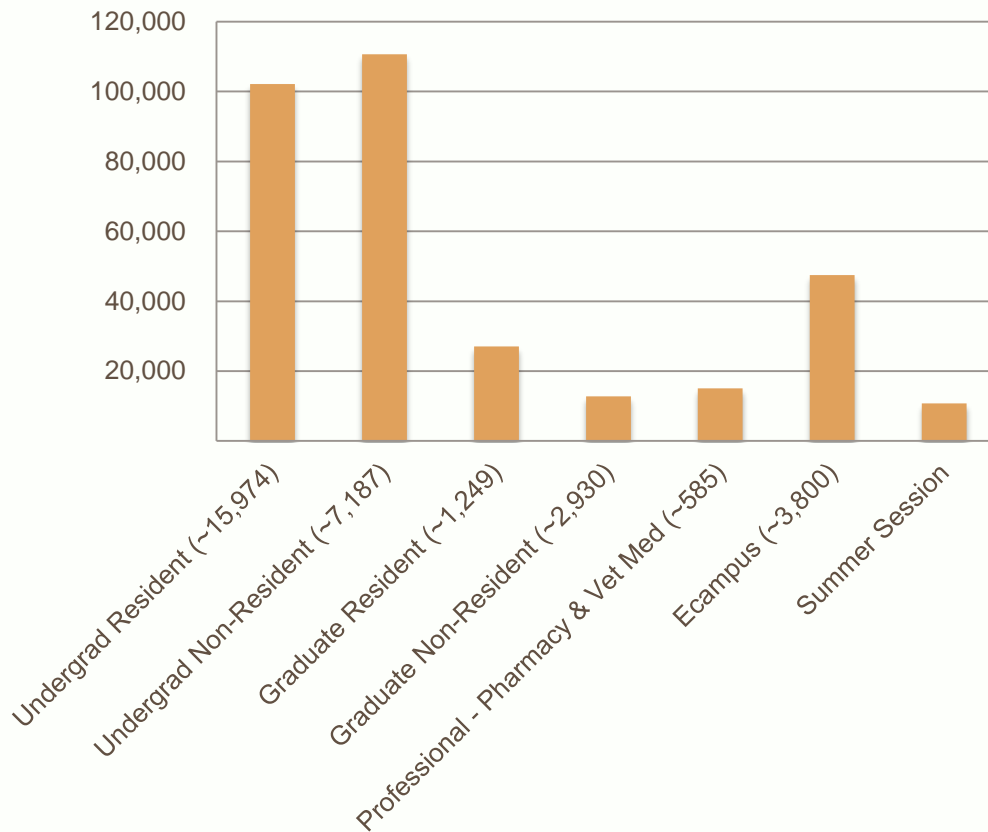
	FY2006	% of Total	FY2014	% of Total	\$ Change FY06 to FY14	% Change FY06 to FY14
State Appropriation	\$ 84,960,456	35.9%	\$ 86,164,724	20.3%	\$ 1,204,268	1.4%
Tuition & Fees	116,788,384	49.4%	285,112,633	67.3%	168,324,249	144.1%
Sales & Service	7,540,828	3.2%	12,097,989	2.9%	4,557,160	60.4%
Other Revenue	27,140,644	11.5%	40,527,977	9.6%	13,387,333	49.3%
Total Revenue	\$ 236,430,312		\$ 423,903,322		\$ 187,473,010	

- 90% of the revenue growth has been from tuition and fees
- 0.6% has been from the State allocation

Tuition is over 65% of E&G revenue

85% of that is from undergraduates

FY15 Corvallis Tuition by Group
(in \$1,000s)



- A 1% drop in resident undergraduates is about 160 students or \$1.0M
- A 1% drop in non-resident undergraduates is only about 70 students, but is \$1.2M in lost revenue
- Tuition revenues reflect:
 - Enrollment
 - Tuition rates
 - Institutional financial aid or discount
 - Credit hour enrollment per student

Critical Financial Needs and Risks

Our most critical financial need:

- Recruit and retain graduate and undergraduate students at the current mix of resident and non-resident (including international)

The principal risks are:

- Flattening demographics in college age students
- National competition for high-achieving and affluent students across state lines
- Global competition for international students (INTO has several similar competitors now)
- The tuition “discount” in terms of institutional and scholarship aid is a key piece of the recruitment competition

What About the Cost Side?

Corvallis E&G FY06 through FY14

- Cost distribution across categories
- Trends with time
- Expenditures per student or degree



Education and General Spending by Category

Expenditure Category	FY2006	FY2014	Average FY06 to FY14	Standard Deviation
Unclassified Salary & Pay	38.2%	37.8%	38.1%	1.2%
Unclassified OPE	16.4%	16.5%	16.2%	0.6%
Classified Salary & Pay	8.2%	7.7%	8.2%	0.5%
Classified OPE	4.7%	4.8%	4.8%	0.1%
Graduate & Student Pay	5.2%	6.4%	5.6%	0.4%
Graduate Fee Remissions	3.2%	4.8%	3.7%	0.6%
Graduate & Student OPE	0.4%	0.9%	0.6%	0.2%
Other Salary Costs	0.5%	0.3%	0.2%	0.3%
Services & Supplies	20.6%	19.6%	20.1%	0.8%
Capital Outlay	2.5%	1.1%	2.5%	1.1%
Total Expenditures	100.0%	100.0%		
All Benefits Costs	25.3%	27.3%		
Net transfers	1.1%	2.2%		
E&G expenditures per student FTE*	13,043	17,165		

*including cost of institutional tuition waivers and excluding F&A recovery revenue

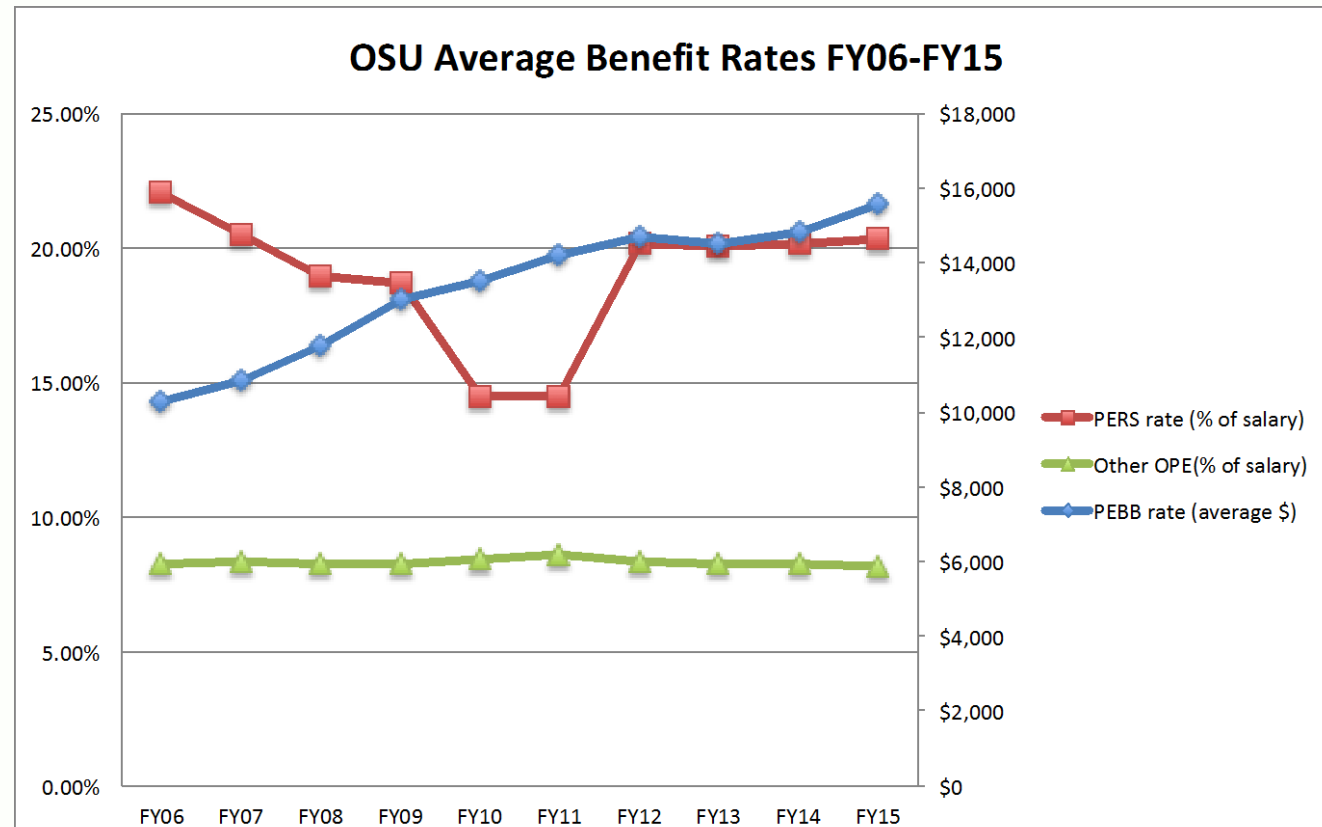
Distribution of costs very consistent over the 9 years

The Largest Benefit Rate Change has been in Health Care Costs (PEBB)

However, while rates have not increased dramatically, overall costs are high.

In FY15, for an average unclassified employee at \$83,000, the average benefit cost is \$38,900 (47%).

For an average classified employee at \$43,400, the average benefit cost is \$27,900 (64%).



Expenditures Per Student FTE: A High Altitude Look

	FY06	FY14
Student FTE	17,846	24,451
Total E&G Expenditures	\$ 246,714,591	\$ 422,578,891
Plus tuition waivers	\$ 11,158,824	\$ 32,732,749
Minus F&A recovery (research \$)	\$ (25,104,582)	\$ (35,612,371)
Adjusted E&G Expenditures	\$ 232,768,833	\$ 419,699,269
Adjusted Expenditures per FTE	\$ 13,043	\$ 17,165
\$ per FTE adjusted for inflation to FY14	\$ 16,011	\$ 17,165
Increase per student over inflation		\$ 1,154

Adjusted expenditures per student, adjusted for inflation,
were 7.2% (\$1,153) higher in FY14 than in FY06

Expenditures Per Student FTE:

What are the Components of the Increase (\$1,154 per student)?

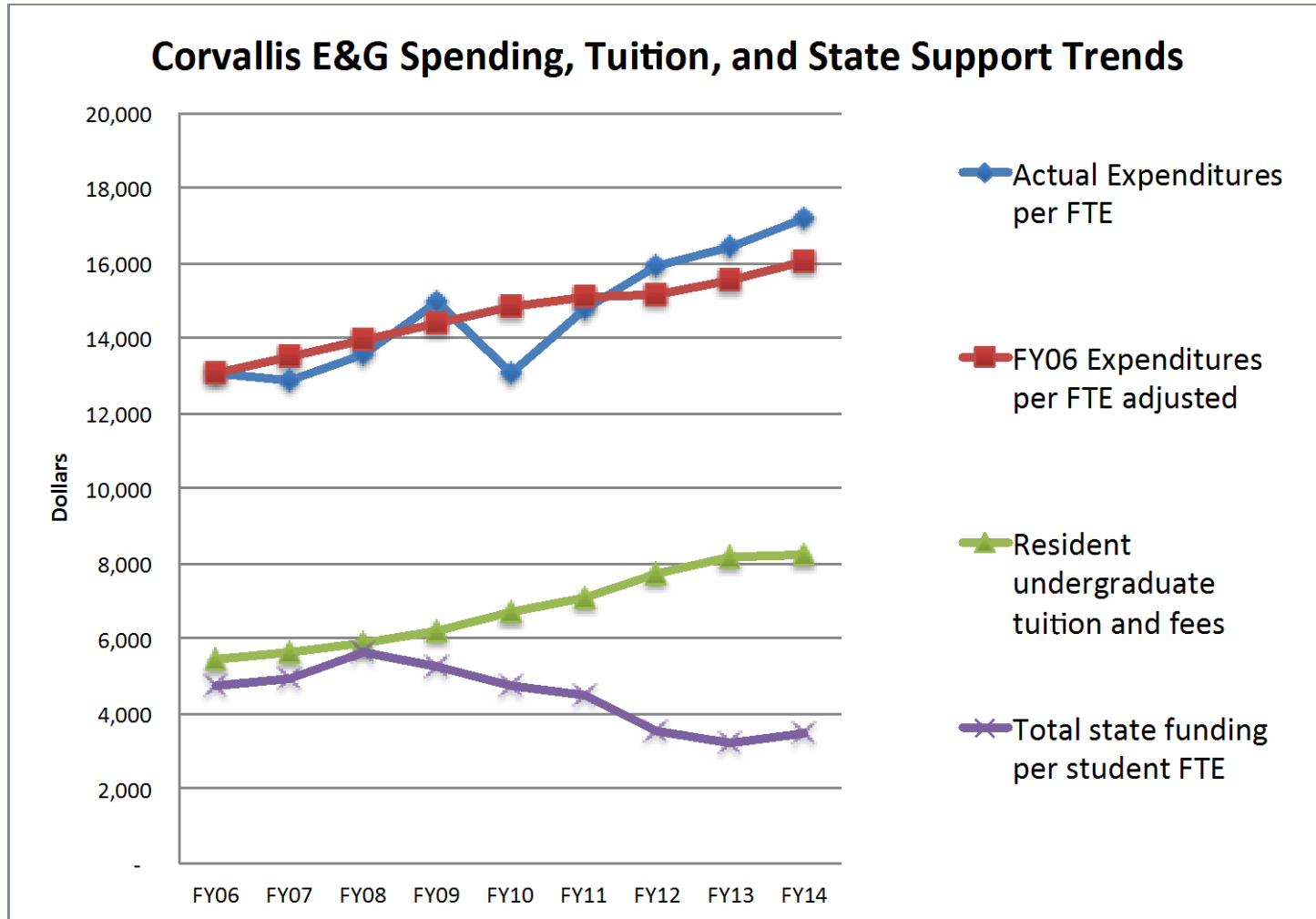
\$571 of that increase is from increased institutional financial aid (tuition waivers) per student.

The largest other change, \$569, is increases in the expenditures for graduate assistants per student.

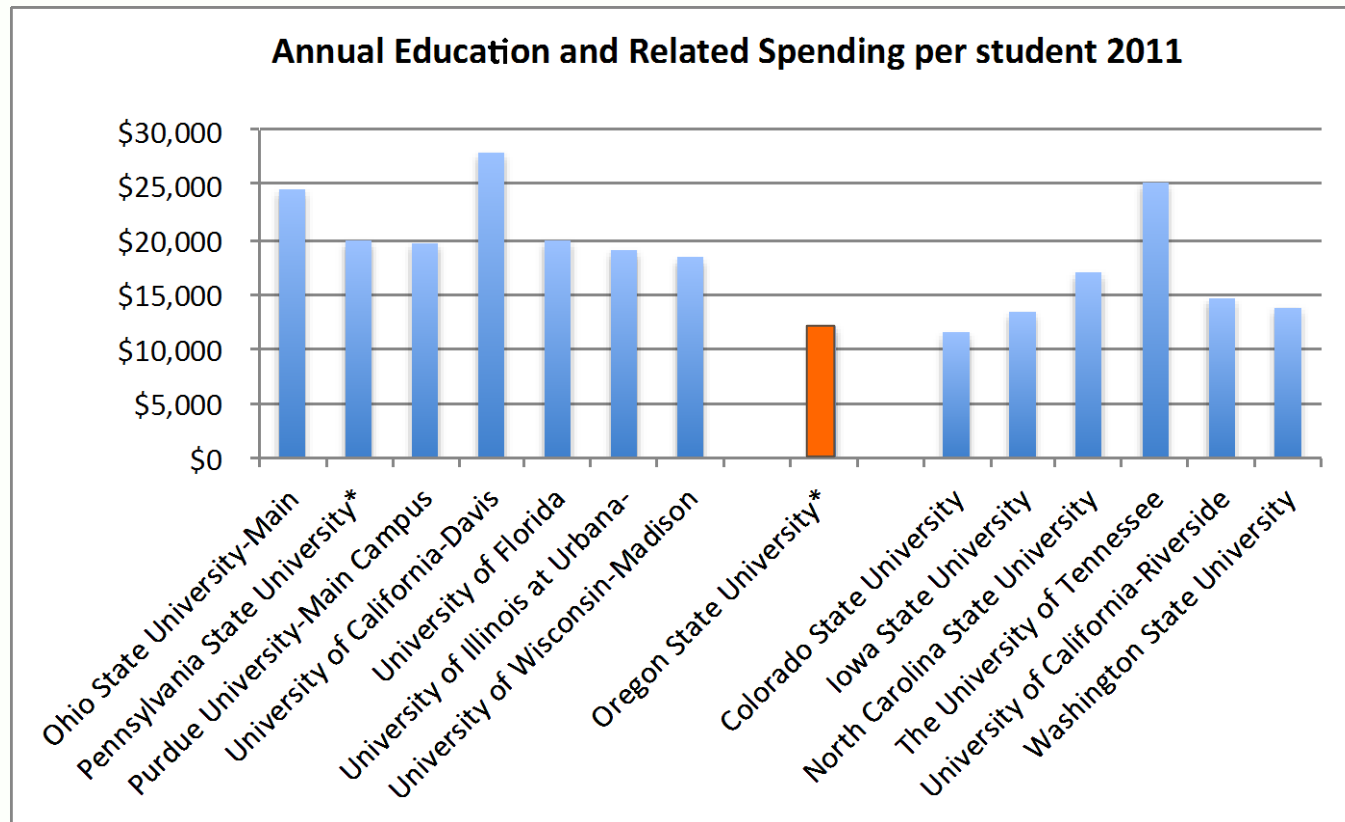
Faculty and staff salaries, S&S, and capital outlay expenditures have decreased per student FTE.

Expenditures Per Student FTE:

While the spending per student has not changed significantly,
who pays for those costs has



As costs have shifted from the state to students, we have held down investments in staff, equipment replacement, and capital outlay. This is reflected in comparisons of our spending per student relative to our peers:



- Group to left of OSU are Tier 1 Strategic Plan peers, those to right are Tier 2 peers
- Data from Delta Cost project Trends in College Spending database
- Note that “Education and Related” spending is a more restricted set of expenditures than what you saw in the previous slide—we will come back to this

Components of Education and Related Spending

Per student expenditures, 2011

	OSU	Tier 1 Peer Median	OSU % of Tier 1 Peer	Tier 2 Peer Median	OSU % of Tier 2 Peer
Instruction	\$8,444	\$14,589	58%	\$9,076	93%
Student Services	\$1,059	\$1,886	56%	\$1,134	93%
Admin, support, maintenance	\$2,544	\$4,936	52%	\$3,546	72%
Total	\$12,047	\$21,411	56%	\$13,755	88%

So What About Costs?

One of the More Complicated Conversations in Higher Education

- Can include from the institution's point of view:
 - Expenditures per student (by defined categories at various levels)
 - Direct instructional cost per credit hour (by disciplines and by level—undergraduate, graduate, professional)
 - Total cost per credit hour (sometimes by discipline and level)
 - Total cost per degree (sometimes by discipline and level)
- From the student's point of view:
 - Price per credit hour (or degree)
 - Cost per credit hour (or degree) after financial aid and before loans
- And none of these are quite the same measure

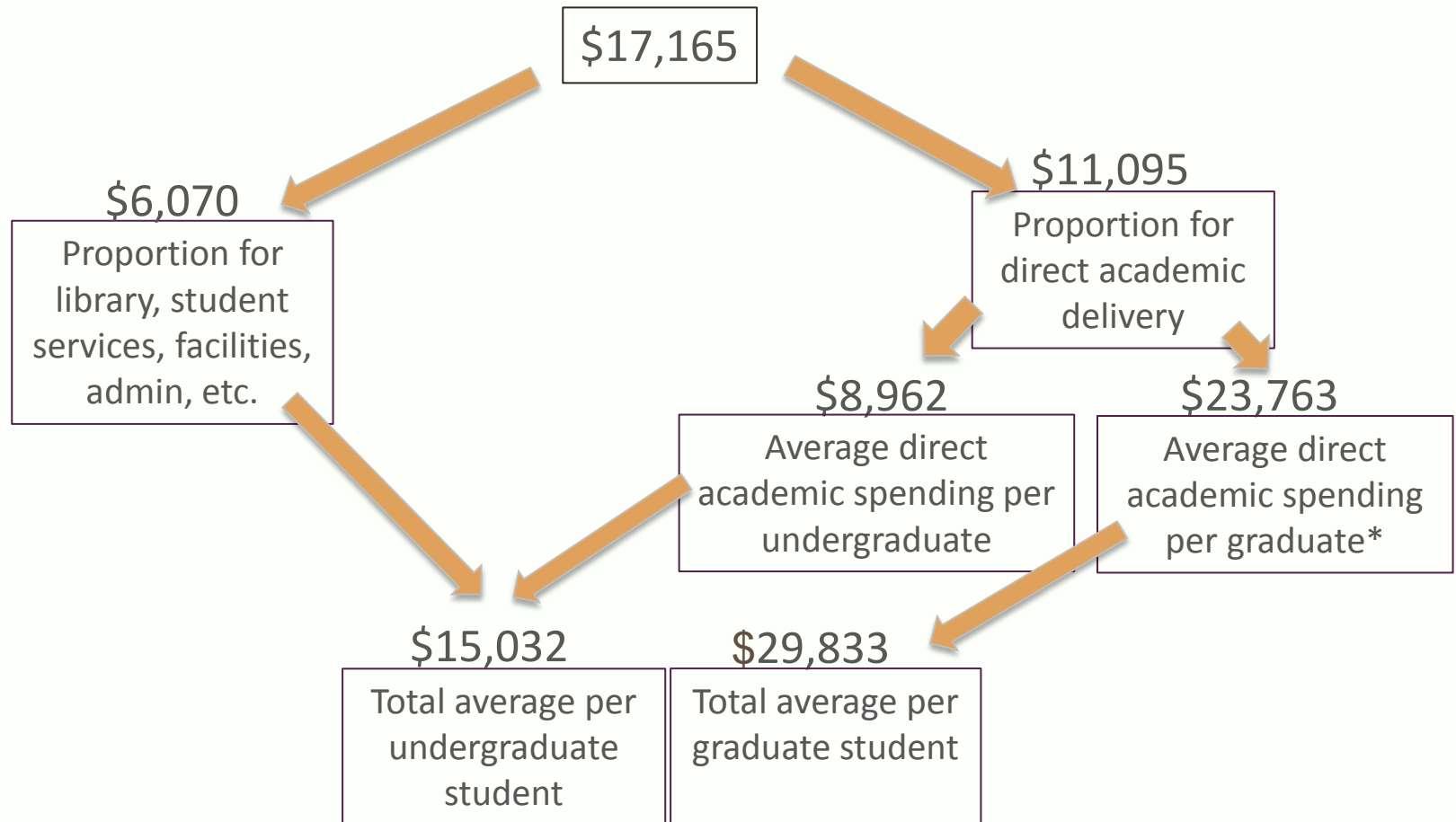
So What About Costs?

The key component is the faculty member.
Faculty jobs are diverse and include instruction, research, and service.

- The components of a faculty position description:
 - Teaching, Advising, and Other Assigned Duties
 - Scholarship and Creative Activity
 - Service (to Department, University, discipline)
- *The proportions of effort can vary significantly across units and disciplines, but the components are the same*

At a public research university like OSU, each of these components is a key part of the undergraduate educational experience

The Average Total Annual Expenditure per Student FTE is \$17,165



*assuming average graduate delivery costs of 2.75 the average undergraduate costs, based on a 2010 study of detailed cost data from Florida, Ohio, and Illinois

Academic Delivery Costs Vary Significantly by Discipline

Due to differences in salary, equipment or lab needs, field trips, research emphasis, etc.

For illustration, five departments...

	Lower- division SCH	Upper- division SCH	Graduate & Professional SCH	Total Student credit hours (SCH)	BS Degrees, average last 3 years	Graduate & professional degrees, average last 5 years
Biochemistry and Biophysics	74	5,881	1,303	7,258	20.3	4.0
Mathematics	59,120	8,445	2,999	70,564	26.0	18.0
Statistics	3,980	8,134	4,307	16,421	n.a.	17.2
Molecular & Environmental Toxicology	-	514	844	1,358	n.a.	4.8
Pharmacy	850	62	17,443	18,355	n.a.	92.4
Psychology	8,232	8,814	309	17,355	141.0	n.a.

...Very different missions and outcomes

Direct Cost of Delivery Estimates for 2013-14

Based on annual direct instructional expenditures
(including a share of College Administration and services)

	Average cost per SCH	Cost per lower- division SCH	Cost per upper- division SCH	Cost per graduate SCH
Biochemistry and Biophysics	\$320	\$179	\$256	\$617
Mathematics	\$114	\$99	\$141	\$339
Statistics	\$163	\$88	\$126	\$303
Molecular & Environmental Toxicology	\$411	\$154	\$220	\$528
Pharmacy	\$561	\$169	\$242	\$582
Psychology	\$155	\$123	\$176	\$424

Ratios of graduate to upper-division to lower-division costs are based on national studies of average ratios; very similar across disciplines

Direct Cost of Delivery Estimates for 2013-14

Is this Reasonable?

Cost per SCH compared to some national measures for 2012-13

	Average cost per SCH	Average cost per SCH 2012- 2013 national
Biochemistry and Biophysics	\$320	\$339
Mathematics	\$114	\$182
Statistics	\$163	\$182
Molecular & Environmental Toxicology	\$411	\$429
Pharmacy	\$561	na
Psychology	\$155	\$204

Cost of delivery is a complicated question at a public research university, but the information exists to compare those costs at different levels, disciplines, and institutions.

The approach depends on the problem to be addressed.

Questions?

