FY2022 Q2 OSU Operating Management Report

BACKGROUND

Oregon State University's fiscal year (FY) 2022 second quarter (Q2, October 1– December 31, 2021) Operating Management Report presents the first six months of operating results for the three operating fund groups: Education and General, Self-Support, and Restricted funds. Detailed reports can be found in Attachment 1.

The quarterly management report is a summary-level report that compares:

- Year-to-date actual activity relative to the projected total for the year to the same relationship in prior years or to expected current year totals; and
- The current quarter projection for year end to the budget presented in the May 2021 board meeting.

The percentage of year-to-date actual revenue and expenditures as compared to the total projected annual amounts is calculated to help ensure that the Board and management have an early warning regarding unanticipated operating trends in the major categories. This percentage is called the *realization rate* for revenues and the *burn rate* for expenditures. The current year realization/burn rate is compared to the seven-year average of prior years' actual rates. The seven-year average is used to smooth out one-time operating changes. This method has proven to be very successful in identifying when the current year actual results are not tracking as expected, allowing management to make any necessary changes to address unanticipated results.

The low standard deviation of the actual year-to-date results for each quarter over the past seven years provides support for the predictive value of the data. The standard deviation, coupled with the materiality of the amounts, provides the basis for OSU's established tolerance ranges, within which the actual results should track. If the actual year-to-date amounts fall outside the established tolerances, the data is flagged for further analysis.

This approach is applied with the following tolerances of plus or minus:

Tuition & Resource Fees, net of waivers	2%
Enrollment Fees	2%
Sales & Services	5%
Other revenue	7%
Federal restricted	5%
State restricted	7%
Other restricted	6%
Personnel Services	2%
Supplies & Services & Capital Outlay	5%

To provide similar precision to the State General Fund category in the report for which actual results do not track similarly from year to year, the anticipated current year results provide similar predictive value to the report. We have established a tolerance range based upon materiality. This approach is applied with the following tolerances of plus or minus:

State General Fund	2%

Additionally material changes made to the year-end projection as compared to the previous quarterly report is provided by highlighting those fluctuations greater than 1% of total operating revenues for further analysis and reporting to the committee. Transfer variances are tracked quarterly and are generally explained at Q4 because of the frequency of schedule changes for major transfers. Material variances in transfers that are decision-related are explained within each quarterly report.

The breakdown and discussion of the variances in the FY2022 Q2 report for each major operating fund type are as follows:

EDUCATION AND GENERAL

Education and General Fund (E&G) revenues are projected to total $768.0M, expenditures are expected to total $757.2M, and transfers in and transfers out are projected to be $10.0M and $16.4M, respectively. The transfers schedule in Attachment 1 provides details about how net transfers impacts the change to unrestricted net assets. Unrestricted net assets are projected to increase by $4.4M to total $178.6M at year's end

For E&G funds, the following item is of note:

Tuition & Resources Fees, net of Waivers

The $8.3M negative variance from the prior quarter projection is due primarily to lower enrollment than previously projected for Ecampus of $3.4M, graduate students of $3.1M and summer session of $1.1M.

The ending Unrestricted Net Assets balance is projected to be 23.3% of total operating revenues, which is above the Board's established range of 10% to 20% of total operating revenues. FY2021 ended higher than expected due to unspent Outdoor School funds and from units anticipating a return to pre-pandemic levels that had not yet occurred. Additionally, it was decided to fund capital improvement and renewal projects through the internal bank to help preserve operational cash flow.

SELF-SUPPORT

Self-Support Fund revenues are projected to total $238.6M, expenditures are expected to total $244.1M, and transfers in and transfers out are projected to be $9.9M and $12.2M, respectively. The transfers schedule in Attachment 1 provides details about how this impacts the change to unrestricted net assets. Deductions from unrestricted net assets, primarily representing debt principal payments and purchases of fixed assets, are expected to total $11.9M. Unrestricted net assets are projected to decrease by $19.7M to a total deficit of $8.0M at year's end. This is a $8.6M improvement from the $16.6M budgeted deficit for unrestricted net assets presented to the Board at its May 2021 meeting.

For Self-Support funds, the following items are of note:

Sales & Services

The $3.4M negative variance from the prior quarter's projection is due primarily to lower-than-anticipated revenue for international student insurance in Student Health Services totaling $8.5M. The negative $8.5M variance is offset by a $2.8M increase in Athletics for ticket sales and Bowl revenue. Additionally, UHDS and Cascades are projecting increased occupancy and retention totaling $1.4M and $0.4M, respectively.

Personnel Services

The burn rate is lower than the seven-year historical average due primarily to UHDS and Athletics anticipating increased spending in the second half of the year, $2.4M and $2.0M, respectively. UHDS is expecting to fill COVID-era staff vacancies. Athletics is anticipating increased personnel costs with the elimination of COVID-related salary reduction programs.

Supplies & Services & Capital Outlay

The burn rate is lower than the seven-year historical average due to anticipating increased spending for Athletics and UHDS in the second half of the year. UHDS will be making targeted deferred investments, which include minor maintenance for buildings and unfreezing professional development funds. Additionally, UHDS is anticipating high COVID isolation hotel costs and increased food costs due to inflation and improved retention in housing occupancy. Athletics is anticipating Bowl game expenses totaling $2.0M.

The ending Unrestricted Net Assets balance is projected to be (3.4)% of total operating revenues.

RESTRICTED

Restricted Fund revenues are projected to total $445.5M, expenditures are expected to total $437.0M, and transfers in and transfers out are projected to be $0.1M and $2.2M, respectively. Restricted net assets are projected to increase by about $6.4M, to total $12.1M at year's end.

For Restricted funds, the following items are of note:

Federal

The $4.5M negative variance from prior quarter projection is due primarily to anticipating a quicker resumption in project spending than is occurring.

State

The $5.5M positive variance from prior quarter projection is due primarily to larger increases in need-based aid from the state and state awards associated with Health & Human Services such as Human Development & Family Science and Epidemiology.

Other

The $5.0M negative variance from prior quarter projection is due primarily to lower spending of gift-related funds in athletics and academic units. Staff had anticipated a return to historic levels of gift-related spending that is not occurring yet.

Supplies & Services & Capital Outlay

The $7.0M positive variance from prior quarter projection is due primarily to a reduction in shipyard expenses from COVID and Hurricane Ida for the RCRV project, along with reduced Athletic spending using Foundation funds.

RECOMMENDATION

Staff recommend that the Finance & Administration Committee accept the FY2022 Q2 Operating Management Report.

Oregon State University
Quarterly Operating Management Report
(Unaudited, for management purposes only)

As of December 31, 2021
For the Fiscal Year Ended June 30, 2022

	YTD Actual				Budget & YE Projection			
	A	*B*	*C*		*D*	*E*	*F*	
	YTD	YTD as a % of Projected	Prior 7 yr. avg. YTD %	6/30/2021 Prior Yr. Actual	Budget	YE Projected 6/30/2022	Chg from prior qtr. projection	Notes
(in thousands except enrollment)								
EDUCATION & GENERAL								
State General Fund	$154,505	59%	60%	$247,675	$245,851	$260,037	$21	
Tuition & Resource Fees, net of Waivers	279,349	70%	69%	389,707	415,446	401,359	**(8,326)**	(1)
Other	41,287	39%	37%	110,494	107,748	106,580	33	
Total Revenues	475,141			747,876	769,045	767,976	(8,272)	
Personnel Services	(268,028)	46%	46%	(552,317)	(578,571)	(578,771)	2,128	
Supplies & Services & Capital Outlay	(80,946)	45%	47%	(140,734)	(181,660)	(178,384)	(1,554)	
Total Expenditures	(348,974)			(693,051)	(760,231)	(757,155)	574	
Net from Operations	126,167			54,825	8,814	10,821	(7,698)	
Transfers In	4,653			27,270	3,214	9,988	3,129	
Transfers Out	(4,561)			(16,484)	(14,216)	(16,421)	(4,565)	
Fund Additions/(Deductions)	0			0	0	0	0	
Change in Unrestricted Net Assets	126,259			65,611	(2,188)	4,388	(9,134)	
Beginning Unrestricted Net Assets	174,183			108,572	174,183	174,183	0	
Ending Unrestricted Net Assets	$300,442			$174,183	$171,995	$178,571	($9,134)	
% Operating Revenues				23.3%	22.4%	23.3%		
Student FTE Enrollment-YTD Summer and Fall	11,627	40%	41%	28,355	28,780	28,780	0	

(1) The $8.3M negative variance from the prior quarter projection is due primarily to lower enrollment than previously projected for Ecampus of $3.4M, graduate students of $3.1M and summer session of $1.1M.

Oregon State University **As of December 31, 2021**
Quarterly Operating Management Report **For the Fiscal Year Ended June 30, 2022**
(Unaudited, for management purposes only)

	YTD Actual				Budget & YE Projection			
	A	*B*	*C*		*D*	*E*	*F*	
	YTD	YTD as a % of Projected	Prior 7 yr. avg. YTD %	6/30/2021 Prior Yr. Actual	Budget	YE Projected 6/30/2022	Chg from prior qtr. projection	Notes
(in thousands)								
SELF-SUPPORT - Auxiliaries, Designated Operations and Service Departments								
Enrollment Fees	$29,369	68%	66%	$41,503	$41,703	$43,359	($63)	
Sales & Services	59,202	38%	43%	84,982	147,321	156,144	**(3,391)**	(2)
Other	16,198	41%	42%	34,548	38,290	39,138	(339)	
Total Revenues	104,769			161,033	227,314	238,641	(3,793)	
Personnel Services	(53,958)	**45%**	49%	(103,660)	(122,402)	(121,199)	233	(3)
Supplies & Services & Capital Outlay	(49,113)	**40%**	49%	(91,074)	(122,982)	(122,919)	5,408	(4)
Total Expenditures	(103,071)			(194,734)	(245,384)	(244,118)	5,641	
Net from Operations	1,698			(33,701)	(18,070)	(5,477)	1,848	
Transfers In	174			39,507	9,085	9,861	296	
Transfers Out	(4,057)			(5,529)	(7,094)	(12,206)	(1,135)	
Additions/(Deductions) to Unrestricted Net Assets	1,462			(8,209)	(12,274)	(11,927)	282	
Change in Unrestricted Net Assets	(723)			(7,932)	(28,353)	(19,749)	1,291	
Beginning Unrestricted Net Assets	11,725			19,658	11,725	11,725	0	
Ending Unrestricted Net Assets	$11,003			$11,725	($16,628)	($8,024)	$1,291	
% of Operating Revenues				7.3%	-7.3%	-3.4%		
Total Unrestricted Net Assets					$155,367	$170,547		
Days of Expenditures in Total Unrestricted Funds					56	62		

(2) The $3.4M negative variance from the prior quarter's projection is due primarily to lower-than-anticipated revenue for international student insurance in Student Health Services totaling $8.5M. The negative $8.5M variance is offset by a $2.8M increase in Athletics for ticket sales and Bowl revenue. Additionally, UHDS and Cascades are projecting increased occupancy and retention totaling $1.4M and $0.4M, respectively.

(3) The burn rate is lower than the seven-year historical average due primarily to UHDS and Athletics anticipating increased spending in the second half of the year, $2.4M and $2.0M, respectively. UHDS is expecting to fill COVID-era staff vacancies. Athletics is anticipating increased personnel costs with the elimination of COVID-related salary reduction programs.

(4) The burn rate is lower than the seven-year historical average due to anticipating increased spending for Athletics and UHDS in the second half of the year. UHDS will be making targeted deferred investments, which include minor maintenance for buildings and unfreezing professional development funds. Additionally, UHDS is anticipating high COVID isolation hotel costs and increased food costs due to inflation and improved retention in housing occupancy. Athletics is anticipating Bowl game expenses totaling $2.0M.

Oregon State University
Quarterly Operating Management Report
(Unaudited, for management purposes only)

As of December 31, 2021
For the Fiscal Year Ended June 30, 2022

	YTD Actual				Budget & YE Projection			
	A	*B*	*C*		*D*	*E*	*F*	
	YTD	YTD as a % of Projected	Prior 7 yr. avg. YTD %	6/30/2021 Prior Yr. Actual	Budget	YE Projected 6/30/2022	Chg from prior qtr. projection	Notes
(in thousands)								
RESTRICTED FUNDS								
Federal	$153,349	48%	48%	$313,306	$324,500	$320,000	**($4,500)**	(5)
State	14,512	48%	42%	23,890	22,890	30,000	**5,500**	(6)
Other	45,742	48%	47%	90,173	100,528	95,500	**(5,028)**	(7)
Total Revenues	213,603			427,369	447,918	445,500	(4,028)	
Personnel Services	(76,941)	50%	50%	(145,842)	(148,006)	(154,000)	(3,019)	
Supplies & Services & Capital Outlay	(134,837)	48%	51%	(260,602)	(292,320)	(283,000)	**7,000**	(8)
Total Expenditures	(211,778)			(406,444)	(440,326)	(437,000)	3,981	
Net from Operations	1,825			20,925	7,592	8,500	(47)	
Transfers In	2			3	14	70	0	
Transfers Out	(9,744)			(28,287)	(3,500)	(2,177)	58	
Additions/(Deductions) to Restricted Net Assets	0			0	0	0	0	
Change in Restricted Net Assets	(7,917)			(7,359)	4,106	6,393	11	
Beginning Restricted Net Assets	5,724			13,083	5,724	5,724	0	
Ending Restricted Net Assets	($2,193)			$5,724	$9,830	$12,117	$11	
% of Operating Revenues				1.3%	2.2%	2.7%		

(5) The $4.5M negative variance from prior quarter projection is due primarily to anticipating a quicker resumption in project spending than is occurring.

(6) The $5.5M positive variance from prior quarter projection is due primarily to larger increases in need-based aid from the state and state awards associated with Health & Human Services such as Human Development & Family Science and Epidemiology.

(7) The $5.0M negative variance from prior quarter projection is due primarily to lower spending of gift-related funds in athletics and academic units. Staff had anticipated a return to historic levels of gift-related spending that is not occurring yet.

(8) The $7.0M positive variance from prior quarter projection is due primarily to a reduction in shipyard expenses from COVID and Hurricane Ida for the RCRV project, along with reduced Athletic spending using Foundation funds.

OREGON STATE UNIVERSITY
Transfers schedule
(in $000's)

As of December 31, 2021
For the Fiscal Year Ended June 30, 2022

	E&G	Self-Support: Auxiliary	Self-Support: Designated Operations & Service Departments	Plant fund	Restricted	Other	Total
Transfers In - E&G		$819	$2,766	$4,346	$2,058		$ 9,989
Transfers Out - E&G		8,512	1,128	6,711	70		16,421
Transfers In - Auxiliary	$8,512			85			8,597
Transfers Out - Auxiliary	819			8,222			9,041
Transfers In - Designated Operations & Service Departments	1,128			17	119		1,264
Transfers Out - Designated Operations & Service Departments	2,766			400			3,166
Transfers In - Restricted	70						70
Transfers Out - Restricted	2,058	119					2,177

(a) $8.2M support for athletics
(b) subsidies from E&G for supporting Desginated Operations and Service Departments
(c) transfers to plant fund for remodels and space renovations
(d) mainly transfer of royalties to E&G