FY2024 Tuition Scenarios and Education and General Budget Planning

BACKGROUND

Enrollments, revenues and expenses are resuming trends and volumes more typical of pre-pandemic operations, which helps with planning for the 2023-24 fiscal year. Principal uncertainties are likely to come from state funding decisions and concerns about a mild recession in late 2023. Not all revenues and expenses have returned to pre-pandemic levels, but enrollment trends are strong, expense distributions are more typical, and salary and benefit obligations are reasonably well known.

The University Budget Committee (UBC) is discussing tuition recommendations that continue the undergraduate cohort approach, with rates for continuing students increasing at no more than the estimated rate of inflation, and rates for new students increasing at the rate of inflation plus potentially an additional amount determined by program needs and market considerations. The committee is also discussing how to charge tuition and incidental fees on the basis of the student's primary campus and is reviewing policies on course fees and differential tuition. The UBC anticipates sharing recommendations with President Murthy by mid-February.

The budget forecast for 2023-24 reflects continued growth in OSU enrollment with strong growth in Ecampus, modest growth at OSU-Cascades, increases in Corvallis undergraduates driven by recent large new student classes, and relatively flat or slightly declining graduate and professional enrollments. Overall inflationary increases are expected to be about 3.9% (influenced largely by salary and benefit commitments and assuming CPI inflation returns to about 4% by late 2023). Corvallis will see additional expense increases for new building operations, required participation in the Oregon Paid Family Leave Act, debt service on completed projects, a significant increase in utility costs (energy and custodial), investments in enrollment management and information technology, and potential investments in high-need areas of student affairs, academic program development, and human resources.

CURRENT YEAR CONTEXT

The updated 2022-23 revenue forecast (as discussed in October 2022) totals $1.547B. Total projected revenues for Education and General Funds (E&G) have improved by about $22.2M, as a net result of a $2.3M improvement in state funding (much of it for one-time project support), a $1.2M increased estimate of other revenue, and an $18.7M increase in net tuition and fee revenues (largely due to stronger than forecast Ecampus and domestic non-resident undergraduate enrollments).

Projected ending balances have improved significantly because of stronger ending balances in FY2022 in self-support operations and the increased FY23 tuition revenues in E&G funds. E&G funds are forecast to end with fund balance of $196.8M or 23.8% of revenue, self-support funds to end at unrestricted net assets of $2.1M or 0.8% of revenue, and restricted funds to end at net assets of $17.6M or 3.8% of revenue. These improved balances provide a strong foundation for planning the 2023-24 budget.

TUITION PLANNING

The University Budget Committee (UBC) constitutes the tuition advisory committee required by Oregon statute.[1] The UBC includes faculty, staff, students from student government and students at large. The group has been meeting since October 2022 to consider tuition rate recommendations and other budget issues for FY2024.

In 2020-21 and 2021-22, OSU moved to a cohort tuition model, where tuition rates for continuing undergraduate students were increased at the estimated rate of inflation (or less) and rates for incoming students were increased more in line with market comparators and to provide resources for program improvements while those students are at OSU. The result is that undergraduate students now have tuition rates that vary by their year of matriculation. This approach creates more predictability for continuing students while also giving the university sufficient flexibility to address growth in costs and program development and adjust to the competitive landscape for students.

The recommendations to the Board for the 2022-23 tuition rates were based on an approach that assumed:

- Continuation of the Board policy of expecting tuition increases in the range of 2% to 5%, barring a change necessitated by changes in state funding, state-provided benefits, or reductions in program scope or costs.
- Continuing undergraduate students (for all campuses, residencies and modalities) would have tuition increased at no more than the estimated rate of inflation, based on a weighted average across spending categories.
- Undergraduate students matriculating in the next academic year would have tuition increased at a slightly higher rate (for initial planning, an additional percentage point, but ultimately set with close attention to markets) than continuing students.
- Differential tuition charges above base tuition would be increased at the rate for continuing students (unless a unit asks for no change) so that the charges would be the same across all cohorts. Only base tuition charges would vary by cohort.
- The additional increase for incoming students would be monitored to make sure rates were appropriate and competitive relative to peer institutions.
- Graduate and professional tuition would be charged on a program-by-program basis consistent with program costs, peer comparisons, and market analyses.

The approach implicitly assumes that in committing to hold tuition increases for continuing students to the rate of inflation—to aid in students' financial planning—the university will manage any shortfalls in other funding sources or commitments to new costs and programs by reducing spending, growing new revenues, or reallocating existing budget. The university would depart from these assumptions only in certain, likely extreme, circumstances.

The UBC is discussing its 2023-24 tuition recommendations using these assumptions, considering how OSU's tuition rates compare to peers, and what the weighted average inflationary increases are expected to be next year. Table 1 shows that OSU's tuition rates are

[1] In previous years a Student Budget Advisory Council comprising student volunteers was used as advisory to the UBC. The group has been suspended because participation at the end of the previous two years was low. UBC is exploring, with student government, ways to gain more meaningful engagement with the general student population in February and March.

similar to peers among public, R1 institutions. It is worth noting that there is a wide range of rates within those averages, from $4,477 (Florida) to $20,046 (Penn State) per year for undergraduate residents and $25,162 (Iowa State) to $42,954 (UCLA and Berkeley) for undergraduate non-residents.

The composite inflationary increase in expenses is estimated to be about 3.9% and is detailed in Table 2. The largest contributors to expense growth are salary and benefit increases. This forecast assumes a 3% salary increase for unclassified faculty and staff and a 0.5% salary reserve for equity and other adjustments; benefit rate increases as published; and a CPI inflation rate (currently 7.1%) that returns to 4% by mid- to late 2023.

The UBC has discussed these projections and has concluded that a 3.9% increase for continuing students would be warranted given the approach noted above. The committee is still discussing what, if any, increase would be appropriate for new students. Table 2 shows what some different rate increases would add to annual costs for undergraduate students. For reference:

- In 2020-21, the increase for continuing undergraduate students was 0% and for new students 3.2%;
- In 2021-22, the increase for continuing students was 2.5% and for new students 4.0%; and
- In 2022-23 the increase for continuing students was 3.5% and for new students 4.5%.

The committee is also discussing a 0% increase for resident graduate rates and Ecampus graduate rates given that both rates are somewhat high relative to peers (Table 1).

The recommendations to President Murthy from the UBC may also include the results of discussions on:

- Limiting the number of undergraduate cohorts to six, with students who have been at OSU more than six years included in the oldest of the six cohorts.
- More narrowly defining appropriate uses of course fees and rolling some course fees into tuition rates, which would add a fractional percentage increase to the rates noted above.
- Providing more definition to when a college may seek differential tuition and what appropriate limits on differential tuition rates should be.

Tuition forums for campus and other engagement with students at large will be conducted beginning in January and will continue through March.

FY2024 BUDGET PROJECTIONS

Enrollment Forecasts

Enrollment at OSU was very strong for fall term, with the biggest incoming class in OSU's history. Ecampus continues to show strong growth and OSU-Cascades is up over 7% in credit hours and over 3% in headcount. The large incoming classes this year and the growth in the previous two years' incoming classes have built a strong pipeline for Corvallis undergraduate enrollments. If incoming classes can be maintained at the size of this year's class (which is about the maximum that can be sustained in the current housing capacity), progression rates for students remain the same, and the decline of graduate enrollment is stemmed, then the forecast is for modest growth in Corvallis enrollment (2.5% to 4.5%) through FY26 (Figure 1).

Beyond fiscal year 2026, Corvallis enrollments would stabilize at about 26,000 students, and after that most OSU enrollment growth would come from Ecampus and OSU-Cascades. The enrollment forecasts for FY24, FY25, and FY26 assume historical progression rates, new student class sizes similar to those that matriculated this year, and slowing (though still significant) growth rates in Ecampus credit hours. Graduate and professional enrollments are projected to be flat. The forecast is conservative with regard to international enrollments, assuming no significant improvement. The forecast assumes continued growth in tuition waivers—about an additional $11M in FY24 (and proportional growth after that)—which will help improve undergraduate enrollment, affordability, student retention, and net positive tuition revenue earnings.

Revenue and Expense Forecasts

The enrollment forecasts allow for estimates of revenues under an assumption of no major recession-driven downturn in state funding (which remains a possibility), as shown in Table 4. Net tuition and fee revenues are estimated on average tuition increases, the enrollment forecast, growth in institutional financial aid, and historical progression trends.

The new legislature will consider state funding for the 2023-2025 biennium (FY24 and FY25) beginning in February 2023. The state of Oregon budgets on a biennial basis and the 2023-24 fiscal year will be the first year of the biennium. As for most state agencies, the biennial legislative appropriations for the seven public universities are distributed 49% in the first year and 51% in the second. The universities requested an 8.67% increase for the biennium, which would yield about a 4% increase from FY23 to FY24.

The state's December economic forecast projected a mild recession like that in 1990, beginning in the third quarter of 2023. The state's forecast has been incorporated into OSU's projections in two ways. First, it is assumed that the FY23 to FY24 state funding increase will be in the 2% range, as the legislature is likely to be cautious about commitments. Second, estimates of what reductions might occur after FY24 if a recession occurs are included. Typically, state appropriations are reduced beginning a year or two after the onset of a major recession. These reductions are in real dollars, not inflation-adjusted dollars. The 2001 recession led to a reduction of 13.7% in state funding by FY05 and the 2007 recession to a reduction of 28.5% by FY12. The recession modeling referenced here assumes a reduction in state funding would be proportional to the job losses in Oregon. Comparing to the two recent large recessions, this estimate would be about 4.2% in absolute dollars for a 1990 type recession. That has been modeled as a 1% reduction in FY25 and a 3.2% reduction in FY26. This recession scenario and its impact is highly speculative, of course, and assumes no buffering from use of state reserves to help higher education. The estimates for FY25 and FY26 are not included in the projections in Table 4 but help identify the likely scale of such an event.

The expense projections in Table 4 include inflationary escalation from known or estimated rates of salary, benefit, and supplies and services increases; estimated costs for growth to accommodate increased enrollment in Corvallis, Ecampus and at OSU-Cascades; additional contractual costs outside of inflation and growth (property insurance, debt service on completed capital projects, increased operating costs for new facilities, etc.); and new investments (most still under discussion) important to create revenue growth through enrollment, meet strategic goals in academic program development, and create efficiencies (and long-term cost savings) in service and support operations. There are specific investments proposed for enrollment management and modernizing OSU's administrative systems.

Coupled with estimates of expense growth (historical or known trends of salary and benefit increases and an assumption that CPI returns to about 4% annually by late 2023) and historical allocations for growth in enrollment, the forecast shows revenues sufficient to cover inflationary and growth costs, sustain the capital renewal program, invest in student and research growth, operate new buildings (including the Reser Center for the Creative Arts and the Jen-Hsun and Lori Huang Collaborative Innovation Complex), and make selective investments in service and support needs. After FY26, when enrollments in Corvallis reach a steady state, these investments will have to be made more carefully, as revenue growth will slow.

PRINCIPAL ISSUES

The most significant uncertainties in budget planning at this time are the level of state funding, the impacts of concerns about a recession on student behavior and legislative decisions, enrollment trends for international students, and the trend of high inflation rates (as measured by CPI) seen nationally.

NEXT STEPS

Based on ongoing input from the board of trustees, the University Budget Committee, student government and students at large, and other stakeholders, staff will present a proposal with the President's recommendations for FY2024 tuition rates and fees at the board's April meeting, together with an updated operating budget outlook.

Table 1: Comparison of OSU tuition rates to peer institutions (noted below table). There is a wide range of rates within these averages.

	Annual Tuition		Annual Tuition and Fees	
	Resident	Non-resident	Resident	Non-resident
Undergraduate-per academic year, 15 credits per term				
Oregon State	**11,010**	**32,910**	13,248	35,148
Average Strategic Peers	10,699	32,605	12,504	34,410
Average All Land Grants here	10,978	32,741	12,580	34,344
Average Public Pac-12	11,154	37,589	12,966	39,401
Median Strategic Peers	11,266	29,861	12,559	32,517
Median All Land Grants here	11,238	30,153	12,346	33,101
Median Public Pac-12	11,442	39,036	13,108	40,740
Graduate-per academic year, 12 credits per term				
Oregon State FY16	**13,446**	**28,242**	15,684	30,480
Average Strategic Peers	12,251	29,290	13,946	30,985
Average All Land Grants here	12,379	29,181	13,887	30,689
Average Public Pac-12	13,144	30,737	14,990	32,582
Median Strategic Peers	11,468	28,163	13,348	29,078
Median All Land Grants here	11,584	28,232	13,364	29,604
Median Public Pac-12	12,014	32,308	14,080	33,464

Ecampus-per credit (compared on semester equivalent basis)				
	Annual Undergrad Tuition		**Annual Graduate tuition**	
	Resident	Non-resident	Resident	Non-resident
Oregon State quarter basis	337	337	560	560
OSU Semester equivalent	506	506	840	840
Average	399	498	614	762
Median	423	464	575	650
Standard Deviation	138	194	153	295

Land grant strategic plan peers include Ohio State, Penn State, UC Davis, Purdue, Illinois, Wisconsin, Florida, Iowa State, Colorado State, Washington State, North Carolina State, Tennessee, UC Riverside

Other land grants include Michigan State, Texas A&M, Virginia Tech, Louisiana State, Kansas State, Arizona, Georgia

Other PAC-12 include Arizona State, Utah, Colorado, UCLA, Berkeley, Oregon, Washington

Online comparators include public top 20 programs from US News and World Report and BestSchools.org

Table 2: Components of the calculation of inflation (or continuing service level increases) for FY24 for Corvallis Education and General funds (the same rate is assumed for other E&G operations and will impact the operations of most funds). Salary and benefit increases contribute the largest portion of inflationary cost increases. The inflation rate for services and supplies assumes that the current high month-to-month CPI inflation rates moderate by next year consistent with current economic forecasts for Oregon.

Cost Category:	Average % of total spend	Projected inflation change	Weighted contribution to total
Unclassified Salary & Pay	37.91%	3.50%	1.33%
Unclassified OPE	18.22%	4.60%	0.84%
Classified Salary & Pay	7.19%	4.75%	0.34%
Classified OPE	4.63%	4.79%	0.22%
Graduate & Student Pay	5.58%	4.00%	0.22%
Graduate Fee Remissions	3.29%	0.00%	0.00%
Graduate & Student OPE	1.04%	8.00%	0.08%
Other Salary Costs	0.81%	2.00%	0.02%
Services & Supplies, Other	21.33%	4.00%	0.85%
Estimated inflation increase FY23 to FY24 for E&G funds:			**3.90%**

- Unclassifed salary rate change includes 3% raise and reserve for equity and other potential adjustments.
- OPE increases include changes in rates, benefits costs linked to raises, and employer contribution for state paid leave program

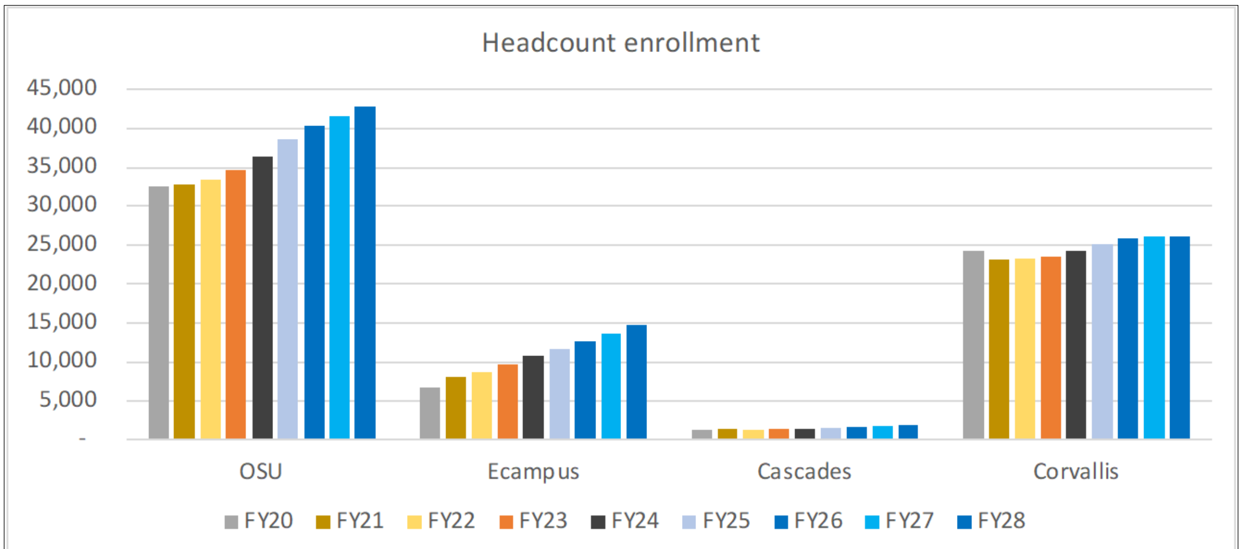
Table 3: Scenario planning for undergraduate tuition recommendations (Corvallis campus) The middle-column shows the default recommendation at about inflation, given the positive enrollment forecast and is the same for new and continuing students. The left-hand scenario decreases the increase for both categories by 1% point. The right-hand version adds a percentage point for new students. The table shows the annual impact on individual students in different tuition cohorts. State funding above a 2% increase year-over-year (about inflation) could support some reduction in tuition rates or investments in particular student support programs. Rates are applied to resident undergraduate and non-resident undergraduate tuition rates (including Ecampus). All scenarios include an assumption of an increase of about $11M in institutional financial aid (continuing a four-year initiative to reenter the Western Undergraduate Exchange and to regain enrollment of Pell eligible resident students). Overall inflation costs for OSU Corvallis Education and General funds are estimated at about $26M. The central scenario adds about $19.6M in gross revenue due solely to the rate increase; the revenue change in Scenarios A and C is in reference to that amount.

	Scenario A: **Continuing Res. 2.9%, Non-resident 2.9%** **New Resident 2.9%, Non-resident 2.9%**	**Scenario B:** **Continuing Res. 3.9%, Non-resident 3.9%** **New Resident 3.9%, Non-resident 3.9%**	**Scenario C:** **Continuing Res. 3.9%, Non-resident 3.9%** **New Resident 4.9%, Non-resident 4.9%**
State funding at +2% FY24 over FY23	Resident undergraduate (annual): Before 2020: $302 Entered FY21: $311 Entered FY 22: $317 Entered FY23: $319 New FY24: $319 Non-res undergraduate (annual): Before 2020: $905 Entered FY21: $931 Entered FY 22: $945 Entered FY23: $954 New FY24: $954 Change in revenue: $(4.2M)	Resident undergraduate (annual): Before 2020: $407 Entered FY21: $419 Entered FY 22: $426 Entered FY23: $429 New FY24: $429 Non-res undergraduate (annual): Before 2020: $1217 Entered FY21: $1252 Entered FY 22: $1271 Entered FY23: $1283 New FY24: $1283 Change in revenue: $0M	Resident undergraduate (annual): Before 2020: $407 Entered FY21: $419 Entered FY 22: $426 Entered FY23: $429 New FY24: $539 Non-res undergraduate (annual): Before 2020: $1217 Entered FY21: $1252 Entered FY 22: $1271 Entered FY23: $1283 New FY24: $1613 Change in revenue: $2.4M
		Base resident tuition & fees: 3.9% Average res. tuition & fees: TBD%	

Figure 1: Top: Headcount enrollment for the current year (orange), three previous years, and projected for the next five years (all as fall headcount shortly before census date). Ecampus growth has been strong and Corvallis enrollments are forecast to exceed those in FY20 by FY25. The Corvallis increases results from large incoming classes of domestic resident and non-resident undergraduates. Assuming current student progression rates and similar size incoming classes Corvallis enrollments will grow until FY26 and then reach a relative steady-state.

Bottom: Enrollment for Corvallis for the same years by student type. The international enrollments include undergraduate (which headcount also contributes to the counts for non-residents) and graduate students. While non-resident undergraduate enrollments have recovered significantly, it has been because of growth in U.S. non-residents helping to offset the loss of international students. It is likely to be several years before international enrollments rebound, if they do. Graduate enrollments have declined in recent years largely from declines in master's degree enrollments. The forecast assumes the erosion of international and graduate enrollment is stopped but does not assume growth beyond that.

Data were taken a few days before census and will not be the same as final fall enrollment but the trends shown are the same.



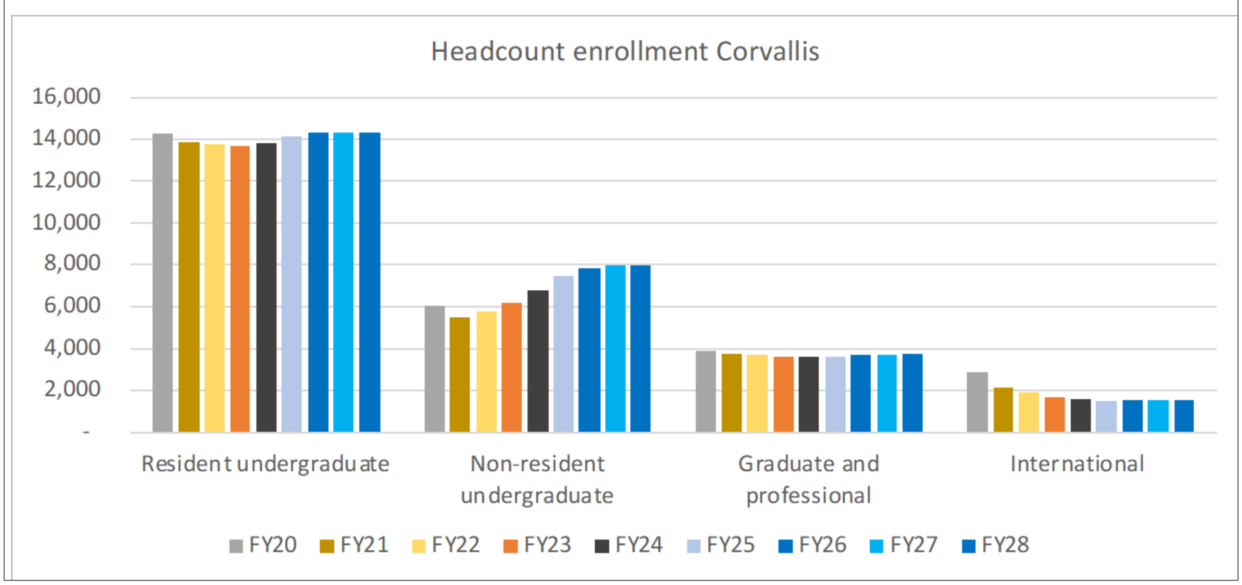


Table 4: Preliminary estimates of revenue and expense for Corvallis Education and General budget. Table shows FY22 actuals, FY23 current estimates and projections of revenues and expense for the next three years. The personnel and S&S expenses are escalated for estimates of inflation and the historical costs of staffing for the projected enrollment growth. New costs (beyond inflation and growth) that are known commitments or are under discussion are noted by broad category in the lower half of the table and rolled up in the cost estimates for the following three years. Some of these commitments are out of OSU's control (utility and insurance costs) and some are institutional decisions (the level of support for research services or for matching campaign gifts). These estimates are part of the current planning cycle and decisions are not final. Also noted for reference is the estimate of annual cost increases due to inflationary factors and the possible impact of a mild recession in late 2023 on state funding levels. The FY24 recession impact is included (as the legislature will be making those decisions shortly) but the FY25 and FY26 impacts are not included in the projections yet.

	FY22 Actual	FY23 Q1	FY24 Projection	FY25 Projection	FY26 Projection
Corvallis Net tuition revenues	$ 390,060,253	$ 426,143,000	$ 465,185,224	$ 511,457,457	$ 554,275,748
Other revenues	$ 228,677,027	$ 239,420,849	$ 245,794,478	$ 255,711,929	$ 263,892,290
Total	**$ 618,737,280**	**$ 665,563,849**	**$ 710,979,702**	**$ 767,169,386**	**$ 818,168,039**
Corvallis E&G personnel	$ 487,291,386	$ 501,843,345	$ 527,936,910	$ 552,337,751	$ 579,440,558
S&S and Other	$ 132,859,477	$ 136,405,978	$ 145,307,462	$ 152,617,811	$ 159,589,321
Net transfers	$ (4,079,161)	$ 12,132,614	$ 11,884,800	$ 11,884,800	$ 11,884,800
Cost of new commitments (existing and in discussion)			$ 22,270,750	$ 33,591,623	$ 46,081,040
Total	**$ 616,071,702**	**$ 650,381,937**	**$ 707,399,922**	**$ 750,431,984**	**$ 796,995,719**
Margin:	$ 2,665,578	$ 7,585,327	$ 3,579,780	$ 16,737,401	$ 21,172,320
Estimated cost of inflation for reference			*$ 25,694,150*	*$ 21,909,320*	*$ 26,316,350*
Modeled potential recession impact for reference (not included above)			*$ (2,794,277)*	*$ (10,500,892)*	*$ (21,873,050)*
Categories of new commitments (existing and under discussion)			**$ 22,270,750**	**$ 11,320,873**	**$ 12,489,418**
Ecampus services growth costs			$ 1,630,000	$ 1,180,000	$ 1,360,000
Capital renewal commitment			$ 3,500,000	$ 3,500,000	$ 3,500,000
Administrative modernization program financing			$ 1,000,000	$ 1,700,000	$ 1,700,000
Insurance, utilities, custodial over inflation			$ 2,990,000	$ 600,000	$ 500,000
Insurance/leave reserve funding			$ 2,500,000	$ 100,000	$ 100,000
Bad debt and vacation liability			$ 150,000	$ 150,000	$ 150,000
New building operations and programming			$ 1,055,000	$ 324,500	$ 1,849,000
Research support services			$ 1,698,750	$ 156,840	$ 111,353
Campaign gift matches and support			$ 1,500,000	$ 1,500,000	$ 1,000,000
Faculty hiring initiative			$ 1,000,000	$ 2,000,000	$ 2,000,000
Enrollment management, student services, academic support			$ 2,100,000	$ 24,500	$ 49,000
Executive services, tribal relations			$ 1,149,500	$ 15,120	$ 30,240
Human resources services, background check process			$ 776,000	$ 27,160	$ 54,320
Institutional operations			$ 1,221,500	$ 42,753	$ 85,505