

FY2023 Q2 OSU Operating Management Report

BACKGROUND

Oregon State University's fiscal year (FY) 2023 second quarter (Q2, July 1–December 31, 2022) 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 2022 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%
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Additionally, accountability for 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 FY2023 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 \$831.5M, expenditures are expected to total \$808.0M, and transfers in and transfers out are projected to be \$3.9M and \$13.7M, respectively. The transfers schedule in Attachment 1 provides details about how this impacts the change to unrestricted net assets. Unrestricted net assets are projected to increase by \$13.7M to total \$201.0M at year's end.

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

Other Revenue

The realization rate is higher than the seven-year historical average due to the timing of F&A recovery dollars associated with grants.

The ending Unrestricted Net Assets balance is projected to be 24.2% of total operating revenues, which is above the board's established range of 10% to 20% of total operating revenues.

SELF-SUPPORT

Self-Support Fund revenues are projected to total \$269.8M, expenditures are expected to total \$263.3M, and transfers in and transfers out are projected to be \$10.6M and \$22.2M, 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 \$16.0M. Unrestricted net assets are projected to decrease by \$21.1M to a total surplus of \$2.7M at year's end. Fund balances in self-support units (in aggregate) were significantly impacted by COVID. Although deficits were reduced through the allocation of HEERF funds, the operating reserves are expected to remain smaller in the near term but continued strong performance in these units may yield better growth than the conservative projection.

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

Sales & Services

The \$6.1M positive variance from the prior quarter's projection is due primarily to \$2.7M in University Housing and Dining Services (UHDS), reflecting record occupancy levels and strong retention, a \$2.3M increase in Athletics for bowl game revenue and ticket sales, and \$0.6M of increased activity in Team Oregon (motorcycle safety program). The realization rate is lower than the seven-year historical average due to Athletics' anticipation of receiving bowl game revenues mentioned above and, this year, \$3.2M in sponsorship income historically received in the second quarter will be received in the third quarter.

Personnel Services

The burn rate is lower than the seven-year historical average due to UHDS experiencing ongoing staffing challenges, which resulted in unintended salary savings in the first half of FY23.

Supplies & Services & Capital Outlay

The \$7.8M negative variance from the prior quarter's projection is primarily due to \$4.0M of associated expenses to support record occupancy levels in UHDS, \$1.3M in Athletics for the bowl game, \$1.0M in Motor Pool for increased maintenance costs as a result of increased rentals, and \$0.8M in College of Agricultural Sciences designated operating funds to align with current spending levels.

The ending Unrestricted Net Assets balance is projected to be 1.0% of total operating revenues.

RESTRICTED

The Restricted Fund revenues are projected to total \$462.4M, expenditures are expected to total \$433.0M, and transfers in and transfers out are projected to be \$0.07M and \$20.7M, respectively. Restricted net assets are projected to increase by about \$8.8M, to total \$18.6M at year's end.

For Restricted funds, the following item is of note:

State

The realization rate is higher than the seven-year historical average due to an increase in the need-based financial aid received from the State of Oregon. This is a result of a change in the state's program to increase the number of eligible students, invest more dollars per student, and expand program support.

RECOMMENDATION

Staff recommend that the Finance & Administration Committee accept the FY2023 Q2 Operating Management Report.

Oregon State University
Quarterly Operating Management Report

(Unaudited, for management purposes only)

As of December 31, 2022
For the Fiscal Year Ended June 30, 2023

(in thousands except enrollment)

EDUCATION & GENERAL

	YTD Actual				Budget & YE Projection			Notes
	A	B	C	6/30/2022 Prior Yr. Actual	D	E	F	
	YTD	YTD as a % of Projected	Prior 7 yr. avg. YTD %		Budget	YE Projected 6/30/2023	Chg from prior qtr. projection	
State General Fund	\$160,100	59%	59%	\$260,758	\$266,518	\$270,284	\$1,396	
Tuition & Resource Fees, net of Waivers	299,928	68%	69%	401,907	425,033	442,913	(785)	
Other	52,114	44%	37%	111,243	112,745	118,293	4,371	(1)
Total Revenues	512,142			747,876	804,296	831,490	4,982	
Personnel Services	(284,978)	47%	46%	(585,801)	(609,082)	(608,782)	300	
Supplies & Services & Capital Outlay	(83,336)	42%	46%	(178,290)	(195,426)	(199,236)	(3,810)	
Total Expenditures	(368,314)			(764,091)	(804,508)	(808,018)	(3,510)	
Net from Operations	143,828			9,817	(212)	23,472	1,472	
Transfers In	2,759			32,598	5,663	3,943	(1,968)	
Transfers Out	(2,634)			(29,287)	(18,212)	(13,689)	4,755	
Fund Additions/(Deductions)	0			0	0	0	0	
Change in Unrestricted Net Assets	143,953			13,128	(12,761)	13,726	4,259	
Beginning Unrestricted Net Assets	187,311			174,183	187,311	187,311	0	
Ending Unrestricted Net Assets	\$331,264			\$187,311	\$174,550	\$201,037	\$4,259	
% Operating Revenues				24.2%	21.7%	24.2%		
Student FTE Enrollment-YTD Summer and Fall	11,627	40%	41%	28,693	29,123		(574)	

(1) The realization rate is higher than the seven-year historical average due to the timing of F&A recovery dollars associated with grants.

Oregon State University
Quarterly Operating Management Report

(Unaudited, for management purposes only)

As of December 31, 2022
For the Fiscal Year Ended June 30, 2023

(in thousands)

SELF-SUPPORT - Auxiliaries, Designated Operations and Service Departments

	YTD Actual				Budget & YE Projection			Notes
	A	B	C	6/30/2022	D	E	F	
	YTD	YTD as a % of Projected	Prior 7 yr. avg. YTD %	Prior Yr. Actual	Budget	YE Projected 6/30/2023	Chg from prior qtr. projection	
Enrollment Fees	\$31,334	67%	66%	\$43,238	\$46,681	\$46,836	\$439	
Sales & Services	64,718	36%	42%	164,712	172,544	179,894	6,103	(2)
Other	18,152	42%	42%	42,379	33,521	43,067	2,025	
Total Revenues	114,204			250,329	252,746	269,797	8,567	
Personnel Services	(60,334)	46%	49%	(115,115)	(129,501)	(130,092)	2,392	(3)
Supplies & Services & Capital Outlay	(61,225)	46%	49%	(114,120)	(119,801)	(133,202)	(7,891)	(4)
Total Expenditures	(121,559)			(229,235)	(249,302)	(263,294)	(5,499)	
Net from Operations	(7,355)			21,094	3,444	6,503	3,068	
Transfers In	174			18,966	9,649	10,555	674	
Transfers Out	(4,057)			(11,708)	(12,040)	(22,165)	(3,231)	
Additions/(Deductions) to Unrestricted Net Assets	(9,319)			(16,273)	(15,904)	(16,016)	17	
Change in Unrestricted Net Assets	(20,557)			12,079	(14,851)	(21,123)	528	
Beginning Unrestricted Net Assets	23,804			11,725	23,804	23,804	0	
Ending Unrestricted Net Assets	\$3,247			\$23,804	\$8,953	\$2,681	\$528	
% of Operating Revenues				9.5%	3.5%	1.0%		
Total Unrestricted Net Assets				\$211,115	\$183,503	\$203,718		
Days of Expenditures in Total Unrestricted Funds				78	64	69		

(2) The \$6.1M positive variance from the prior quarter's projection is due primarily to \$2.7M in University Housing and Dining Services (UHDS) for record occupancy levels and strong retention, a \$2.3M increase in Athletics for bowl game revenue and ticket sales, and \$0.6M of increased activity in Team Oregon (motorcycle safety program). The realization rate is lower than the seven-year historical average due to Athletics' anticipation of receiving bowl game revenues mentioned above and, this year, \$3.2M in sponsorship income historically received in the second quarter will be received in the third quarter.

(3) The burn rate is lower than the seven-year historical average due to UHDS experiencing ongoing staffing challenges, which resulted in unintended salary savings in the first half of FY23.

(4) The \$7.8M negative variance from the prior quarter's projection is primarily due to \$4.0M of associated expenses to support record occupancy levels in UHDS, \$1.3M in Athletics for the bowl game, \$1.0M in Motor Pool for increased maintenance costs as a result of increased rentals, and \$0.8M in College of Agricultural Sciences designated operating funds to align with current spending levels.

April 13-14, 2023 Board of Trustees Meetings

Oregon State University
Quarterly Operating Management Report

(Unaudited, for management purposes only)

As of December 31, 2022
For the Fiscal Year Ended June 30, 2023

(in thousands)

RESTRICTED FUNDS

	YTD Actual			Budget & YE Projection			Notes
	A	B	C	D	E	F	
	YTD	YTD as a % of Projected	Prior 7 yr. avg. YTD %	6/30/2022 Prior Yr. Actual	Budget	YE Projected 6/30/2023	Chg from prior qtr. projection
Federal	\$151,740	45%	47%	\$336,156	\$350,000	\$335,000	\$0
State	21,119	66%	48%	25,681	30,000	32,000	4,000
Other	44,225	46%	48%	95,087	96,000	95,402	(598)
Total Revenues	217,084			456,924	476,000	462,402	3,402
Personnel Services	(80,693)	50%	50%	(152,209)	(158,620)	(163,000)	(2,380)
Supplies & Services & Capital Outlay	(142,486)	53%	51%	(267,778)	(270,000)	(270,000)	0
Total Expenditures	(223,179)			(419,987)	(428,620)	(433,000)	(2,380)
Net from Operations	(6,095)			36,937	47,380	29,402	1,022
Transfers In	61			21	20	70	50
Transfers Out	(5,837)			(32,893)	(35,145)	(20,686)	(141)
Additions/(Deductions) to Restricted Net Assets	0			0	0		0
Change in Restricted Net Assets	(11,871)			4,065	12,255	8,786	931
Beginning Restricted Net Assets	9,789			5,724	9,789	9,789	0
Ending Restricted Net Assets	(\$2,082)			\$9,789	\$22,044	\$18,575	\$931
% of Operating Revenues				2.1%	4.6%	4.0%	

- (5) The realization rate is higher than the seven-year historical average due to an increase in the need-based financial aid received from the State of Oregon. This is a result of a change in the State's program to increase the number of eligible students, invest more dollars per student, and expand program support.

April 13-14, 2023 Board of Trustees Meetings

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

As of December 31, 2022
For the Fiscal Year Ended June 30, 2023

			Self-Support								
	E&G		Auxiliary		Designated Operations & Service Departments		Plant fund		Restricted	Other	Total
Transfers In - E&G	217				\$2,230		1,210		\$286		\$ 3,943
Transfers Out - E&G			8,623		1,832		3,164		70		13,689
Transfers In - Auxiliary	\$8,623						100				8,723
Transfers Out - Auxiliary	.		217				18,815				19,032
Transfers In - Designated Operations & Service Departments	1,832										1,832
Transfers Out - Designated Operations & Service Departments			2,230				903				3,133
Transfers In - Restricted	70										70
Transfers Out - Restricted	286						20,400				20,686

- (a) \$8.5M support for athletics
- (b) subsidies from E&G for supporting Designated Operations and Service Departments
- (c) transfers to plant fund for remodels and space renovations
- (d) mainly transfer of royalties to E&G

April 13-14, 2023 Board of Trustees Meetings