# Preliminary FY2022 Tuition Scenarios and Education & General Budget Planning

## BACKGROUND

Planning for the 2021-2022 fiscal year is complex because of the effects of the pandemic on enrollment, FY2021 spending levels, and state funding. There have also been changes made to the formula by which the state distributes funding to the seven public universities, which will decrease OSU's share. Projections of revenues and expenses for next year are more volatile than usual and budget planning will require continued constraints on spending. The University Budget Committee is considering tuition increases in the 2% to 4.5% range and is very unlikely to recommend increases over 5% to President Alexander, despite the challenging financial circumstances. The FY2022 budget will continue to make commitments to advance OSU's Strategic Plan (SP4.0), including capital repairs and improvements, improved student recruitment and retention, and expanded fundraising capacity. There are likely to be additional large increases in insurance premiums, as there were in the current year, and additional obligations for debt service and new facilities operations.

## CURRENT YEAR CONTEXT

The FY2021 Corvallis E&G initial budget that was distributed to units in June 2020 was $582.7M. To help units manage, that budget pushed all central reserves and contingency out to units, leaving about a $9M deficit in central reserves. That projected revenue was about $49M short of what normal FY2021 expenses would have been before the pandemic. Units have been managing to lower expenses through reductions in services and supplies spending, position vacancies, delayed hiring, and savings from the salary reduction program.

The June 2020 budget was an estimate in uncertain times. Since then, there have been a number of changes. The current FY2021 budget estimates are for $592.5M in revenue, about a $10M improvement. The notable changes include the following:

- There was $24M more in state revenue, as the state did not cut university funding in the August special session, as was anticipated. As was noted in the initial budget distribution, the first $9M of additional revenue will go to offset the central deficit. Revenues above that will help defray the costs of OSU's COVID response, including IT systems, cleaning, testing, childcare support, and other areas. Those costs will require use of institutional fund balance as well. Adjustments to unit initial budgets are not anticipated at this point.
- There was $12M less in net tuition revenue. This is a combination of increases in Ecampus enrollment, decreases in Corvallis tuition, and increases in institutional tuition scholarships.
- The university increased tuition waiver spending by about $10M to help students weather the pandemic and encourage them to continue or start their education at OSU. The university expects to continue that level of support in future years, with the goal of increasing net tuition revenue.
- Preliminary FY2022 revenue estimates are about $604M. This is a modest increase that will help, but it will not support a return to spending at FY2020 rates.
- Some self-support or revenue dependent units are facing significant operating deficits this year, particularly University Housing & Dining Services (UHDS) and Intercollegiate Athletics. For UHDS and Athletics, the university is considering restructuring debt portfolios or using loan opportunities under development by the Pac-12. For smaller units, there is planning in progress with the responsible vice provost or dean about strategies to address those operating deficits.

OSU-Cascades saw modest enrollment growth, which helped budget management there, though there are large losses in the housing and dining operations, as observed in Corvallis. The Statewide Public Services had to make some reductions in spending due to small reductions in state funding.

The two priorities for the FY2021 budget were to maintain programs and employees to the greatest extent possible and to continue to make progress on actions to advance SP4.0. Even in these challenging budget circumstances, leadership and units at all levels are continuing work on changes and innovations to improve the student experience, student outcomes, research success, and engagement in communities. The budget did include specific investments in:

- Student Affairs to support programs and student progress
- Comprehensive IT strategic planning
- Investment in Enrollment Management to improve recruitment and retention and improved pathways for transfer students
- Revised capital renewal strategy to continue to make progress on facilities improvements

## FY2022 BUDGET PROJECTIONS

### Enrollment Forecast

Enrollment in fall 2021 changed significantly from the previous year. Ecampus enrollments for fall were up 28% and an increase of 18% is estimated for the whole year (Figure 1). There were declines in Corvallis enrollments, mostly for undergraduate students with particular drops among international students. Graduate enrollments were down slightly and average credit hour load per student was also down to some extent.

Winter term enrollments are typically down 4% to 5% from fall enrollments. Current numbers for winter term enrollments do not show any unexpected loss of students and the financial projections for the year remain similar to those in late October. Ecampus enrollments remain strong.

Enrollment projections for next year are very uncertain. Applications are up significantly, but the yield may be very different than historical trends. Many students deferred enrollment and financial aid offers, and international students still face uncertain circumstances. The large declines in international students are expected to reverse, though enrollment is unlikely to return to pre-pandemic levels.

At present, the revenue forecast assumes growth of 5-6% in Ecampus and 6-8% at OSU-Cascades; a decline of 2% at Corvallis, which includes a 1% decline in resident undergraduates and U.S. non-residents; a 10-15% decline in international undergraduates; and flat graduate enrollments (Figure 1). These estimates will be updated regularly as enrollment and recruitment proceed for next year.

### State Funding Outlook

There are two factors impacting state funding for next year. The first is the overall level of funding. Governor Brown released the Governor's Recommended Budget (GRB) on Dec. 1, 2020. The Public University Support Fund (PUSF) for the seven public universities is flat-funded from 2019-21 in the 2021-23 budget, as are State Programs and the Statewide Public Services

(SWPS). The exceptions include an addition to State Programs to fund the Veterinary Diagnostic Laboratory and an addition to SWPS funding for the cost of facilities operations. Both items had previously been funded in the PUSF. The practical consequence of this is about a 4% decline from FY2021 to FY2022, as the state allocates 49% of the appropriation in the first year of a biennium and 51% in the second. The GRB is only the starting point for conversations with the Legislature, but it sets an important benchmark. Rarely has legislative funding been significantly less than the GRB. While flat funding does not seem to be great news, it is better than had been anticipated given the revenue shortfalls the state is facing. The seven universities, their government relations offices, students, and various stakeholders will continue to advocate for additional funding as the legislative session proceeds and a clearer picture emerges of the state's economic circumstances and the potential for additional federal stimulus support.

The second factor in state funding for OSU is a change in the formula for distributing the PUSF to the seven universities. A year-long workgroup process, led by the Higher Education Coordinating Commission, ended with a number of changes and simplifications to the formula. If the additions to State Programs and the SWPS facilities support noted above are funded, the change is expected to be about a 1.7% reduction in what OSU would have received relative to the previous version of the model (Figure 2). Growth in enrollment and degrees relative to the other universities is expected to offset some of those losses, but the final version of the model is not complete so some uncertainty remains.

**Expense Projections**

In many years, expense projections for the next year have been straightforward. Expected increases in salary and benefit rates, general inflation, and new commitments or charges are added to current year spending estimates to yield a projection. This provides a baseline to do budget planning and to adjust budget allocations, spending plans, and new commitments to match expected revenues.

This year, however, these projections are more complicated because of uncertainty in what an appropriate base level of funding should be. In a more typical year, FY2021 Corvallis E&G expenses would have been about $626M and would be the base for planning FY2022 expenses (Figure 3). However, the reductions required in the current year have reduced expenditures to about $584M (Figure 3). With the expectation that the university will continue to resume some, but not all, operations in FY2022, some increases in expenses over the current year will be necessary as critical positions are filled, equipment is replaced, and some travel resumes. However, the projected revenues will not be sufficient (dashed line in Figure 3) to sustain spending at a return to FY2020 rates. For planning purposes, we have assumed two baselines. The first is from current year levels, assuming a need to maintain stringent expense controls. The second assumes a blended baseline at 40% of FY2021 rates and 60% of FY2020 rates. The latter projection leaves a significant gap between revenue and expense but provides a starting point for planning.

Inflationary factors are known for next year. Salary costs are expected to grow 1.5% to 4.75%, depending on the employee group (the lower rate for unclassified staff and faculty, the higher rate for classified staff). There will be negotiations over salary increases for FY2022 with United Academics of OSU beginning in spring term. Benefit increases are more modest than at the beginning of many biennia, as PERS rates are not expected to increase dramatically. Aggregate benefit increases are 3.7% to 5.7%, depending on employee group. Inflation on services and supplies is projected at about 2.0%. Overall, aggregate inflation on existing services and programs is estimated at 2.8%. An assessment of whether any existing programs should be reduced will be part of the discussion on reaching a balanced budget. The assumption of continuing all existing programs simply provides a starting point for budget planning.

There are also some areas where additional costs are likely. Another large increase in insurance premiums is expected (on the order of $2.3M), as well as additional debt service on completed facilities projects, some increased operating costs for new facilities, and $1.2M for the OSU Foundation and Alumni Association to build staff capacity for the next campaign. The projections include an assumption of $2M in investments in critical support areas, though those are not specified yet.

The specific amounts in Figure 3 are for the Corvallis campus. OSU-Cascades and the SWPS will see the same inflationary increases and face the same uncertainties in forecasting. OSU-Cascades will see additional cost increases for growth as the campus grows and additional staff and programs are added. Growth in specific programs in the SWPS will be contingent on legislative commitments and the need to balance continuing service level costs with new commitments.

**Budget Scenarios**

Table 1 illustrates some budget scenarios in reference to different tuition rate increases, different levels of state funding (the Governor's Recommended Budget corresponds to the middle row), and the two current year expense baselines noted above. The table shows the costs to undergraduate student in each tuition scenario and the gap between revenues and expenses for Corvallis E&G budgets (there are two expense scenarios). The financial aid increases noted are in addition to the $10M increment made in the current year, which is projected to continue in FY2022.

The estimated gaps between revenue and expense are for planning purposes; they do not imply a plan for deficit spending. These scenarios identify the general size of those gaps and help inform decisions about budget commitments, hiring plans, and expense management.

## TUITION PLANNING

The University Budget Committee (UBC) constitutes the tuition advisory committee required by statute. The Student Budget Advisory Council is advisory to the UBC and comprises student volunteers from several different parts of campus. Both groups have been meeting since October to consider tuition rate recommendations and other budget issues for FY2022. The UBC is considering rate recommendations based on the information above and the Board's statement on expectations for tuition rate increases between 2% and 5%. Tuition rate increases near the 5% threshold (Table 1) are not sufficient by themselves to close the projected budget gap.

The UBC is discussing undergraduate tuition rates through a scenario approach, as it has in previous years. Some of the consequences of the initial planning scenarios (budget shortfalls, cost to students, financial aid changes) are shown in Table 1. The preliminary consensus in the UBC is that a tuition freeze, in combination with expected declines in state funding, creates too large a gap between revenues and expenses and could cause damage to essential academic and support programs.

The discussion of tuition in UBC has historically focused on net revenue and the budget deficit or surplus a particular tuition scenario yields. In planning for FY2022, the discussion has shifted more to what it is reasonable for a tuition increase to support. Expense increases fall in three categories:

- Inflationary increases (raises, benefits, general inflation), about 2.8% in FY2022;
- Mandatory non-inflationary increases (insurance premiums, charges from the city, etc.), about 0.7% in FY2022; and
- Discretionary increases (investments in new services, additional fundraising capacity, etc.), about 0.6% in FY2022.

There was general agreement that it is fair for tuition to pay a proportional share of inflationary increases (after considering any existing services or programs that should be reduced) and consensus that contributing to mandatory increases was reasonable. There was less agreement that a tuition increase to support discretionary investments was appropriate, particularly in current circumstances.

The UBC will consider scenarios for 2.8% to 4.1% increases in early January and will make its recommendations to the president in a scenario format in early February. Tuition forums are conducted beginning in January.

## PRINCIPAL ISSUES

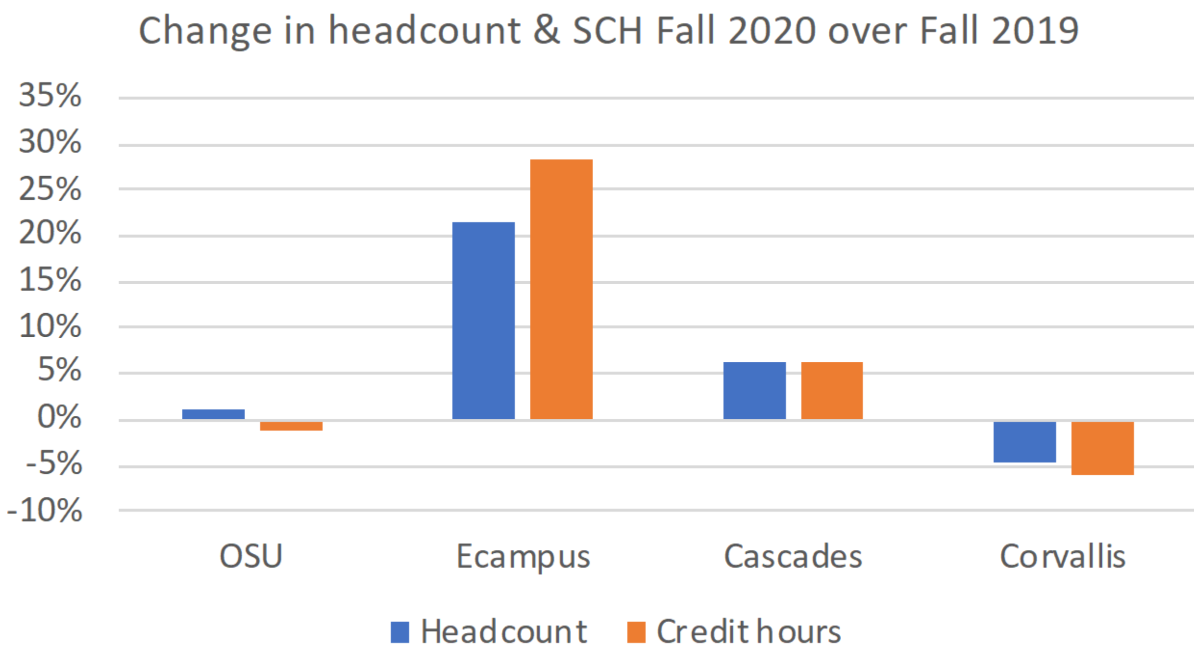
The most challenging issue for budget planning this year is the uncertainty in enrollments and expense projections. Enrollment growth in the past has provided many of the resources for investments in capital improvements, new initiatives, and some of the costs of inflation. Corvallis campus enrollment growth was already slowing before the pandemic, and in developing a balanced budget in FY2022, the university will need to consider expense reductions, prioritization of new strategic investments, new enrollment strategies, and innovative approaches to revenue generation. This kind of budget outlook, at this point in the year, has been typical in recent years and is exacerbated by the additional uncertainties created by the pandemic.

## NEXT STEPS

Based on ongoing input from the Board of Trustees, the University Budget Committee, the Student Advisory Council and other stakeholders, staff will present a proposal approved by the president for FY2022 tuition rates and fees at the April 2021 meeting, together with an updated operating budget outlook.

**Figure 1.** Top: Headcount enrollment and credit hour change for fall 2020 compared to fall 2019. OSU overall grew very slightly in headcount but was down in credit hours. There was significant growth in Ecampus, some growth at OSU-Cascades, but significant declines in Corvallis (both headcount and credit hours), largely because of losses of non-resident undergraduates.

Bottom: Enrollment for the last three fall terms with a preliminary projection for fall 2021. We expect to see similar patterns with declines in Corvallis undergraduates, growth in Ecampus (though at a slower rate), small gains at OSU-Cascades, and relatively flat graduate and professional enrollments.



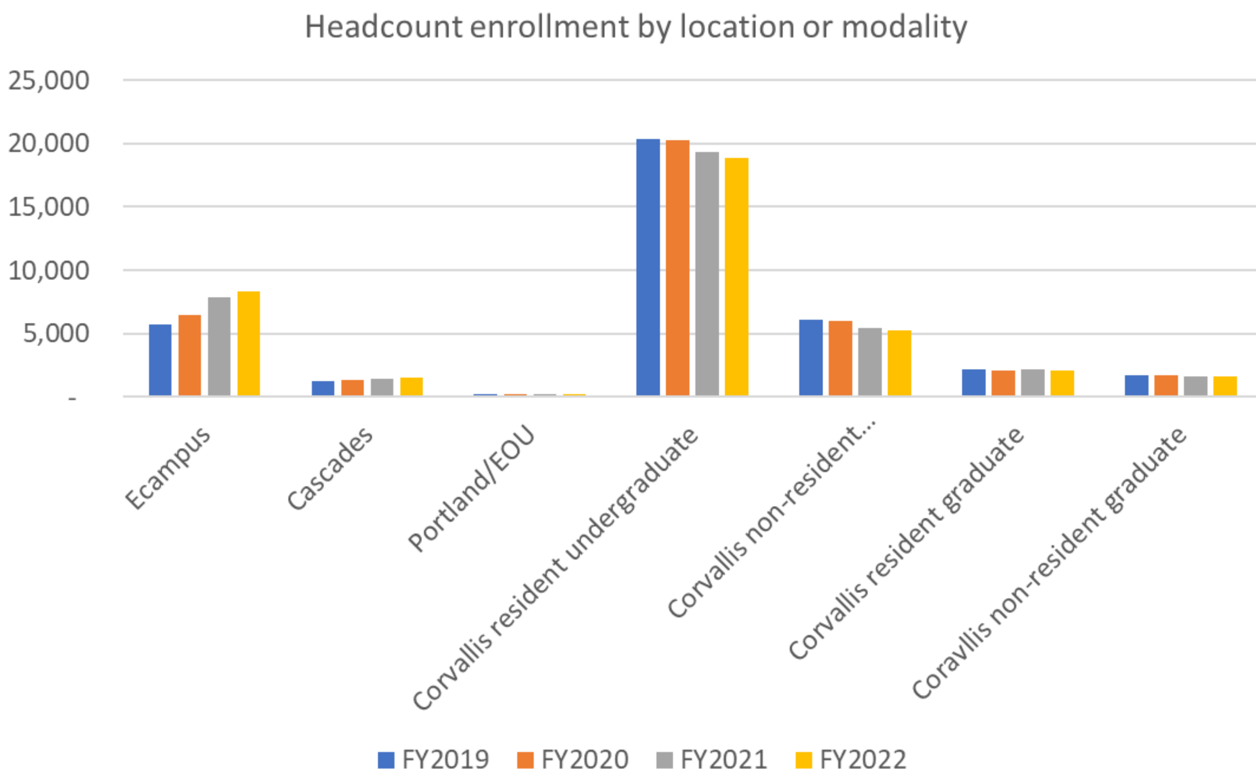



**Figure 2.** Summary of the impact of changes in the state's Student Success and Completion Model (SSCM) on OSU's funding. The HECC workgroup modeled changes based on FY2020 allocations. The revision included a number of technical updates to data, changes in definition, and simplification of the mission differentiation part of the SSCM. In the past, OSU had received funding for the Oregon Veterinary Diagnostic Laboratory and for operating facilities for the SWPS on the Corvallis campus within the SSCM. As part of the revisions, those funds were moved outside the PUSF to line items in the State Programs and SWPS budgets, respectively. The net effect on OSU was a 1.7% decrease in state funding. This will change some in FY2022 depending on changes in degrees and credit hours, but will be in addition to any declines in overall state funding.

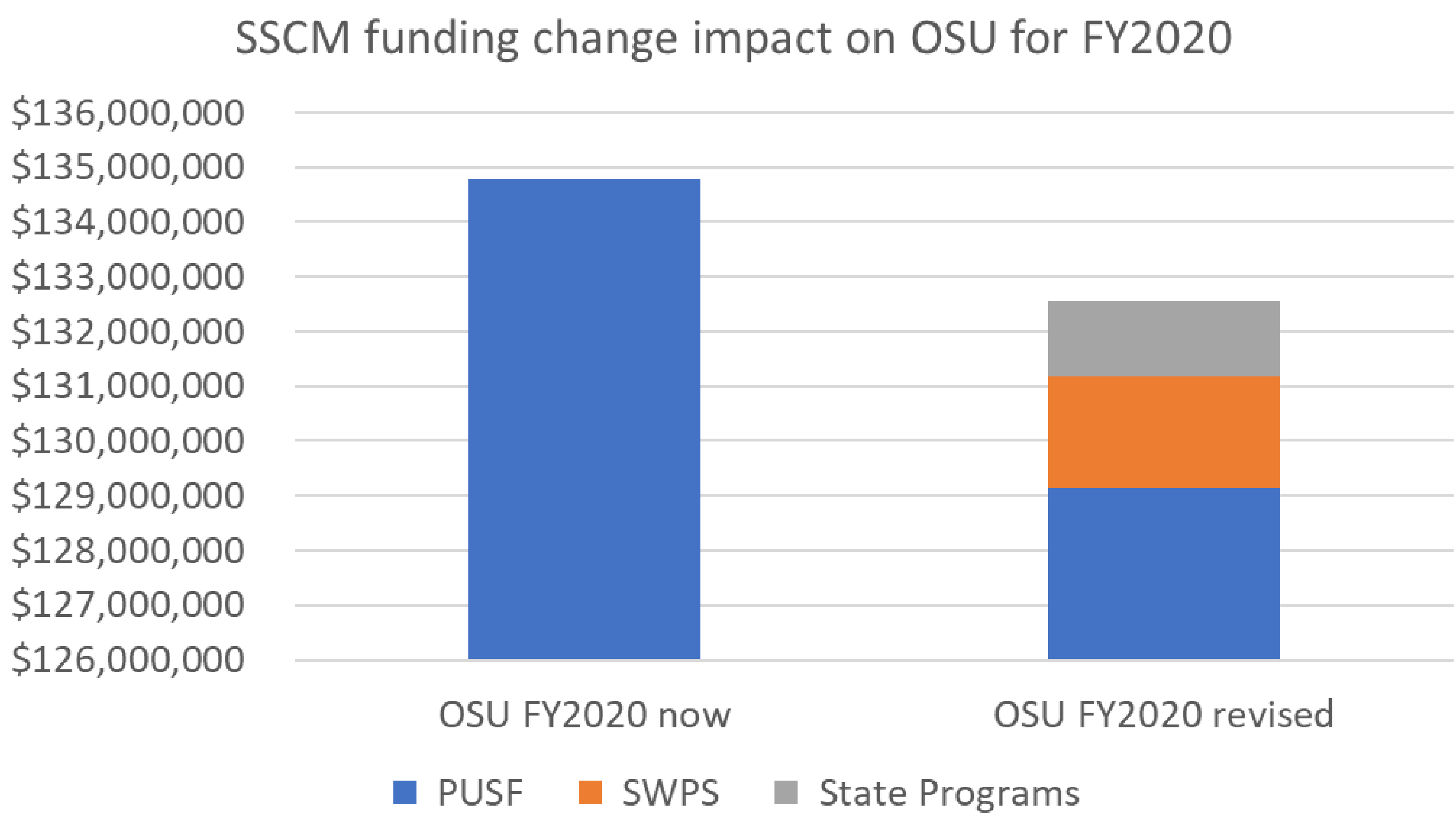


**Figure 3:** Comparison of actual (FY2020), estimated (FY2021 pre-pandemic and Q1) and projected (FY2022 for two cases) expenses. Estimates of expenses for FY2022 are complicated by the sharp reduction in spending in the current year (FY2021 Quarter 1 Estimate). It is likely that as operations return closer to normal that expense growth will exceed simple inflationary growth (the next-to-right bar) based on a blended base spending at 60% of FY2020 levels and 40% of FY2021 levels vs. the rightmost bar, based on base spending at current FY2021 levels. The gaps between revenue and expense shown in Table 1 are in reference to the two FY2022 projections. The dashed line is a preliminary estimate of FY2022 Corvallis E&G revenues.

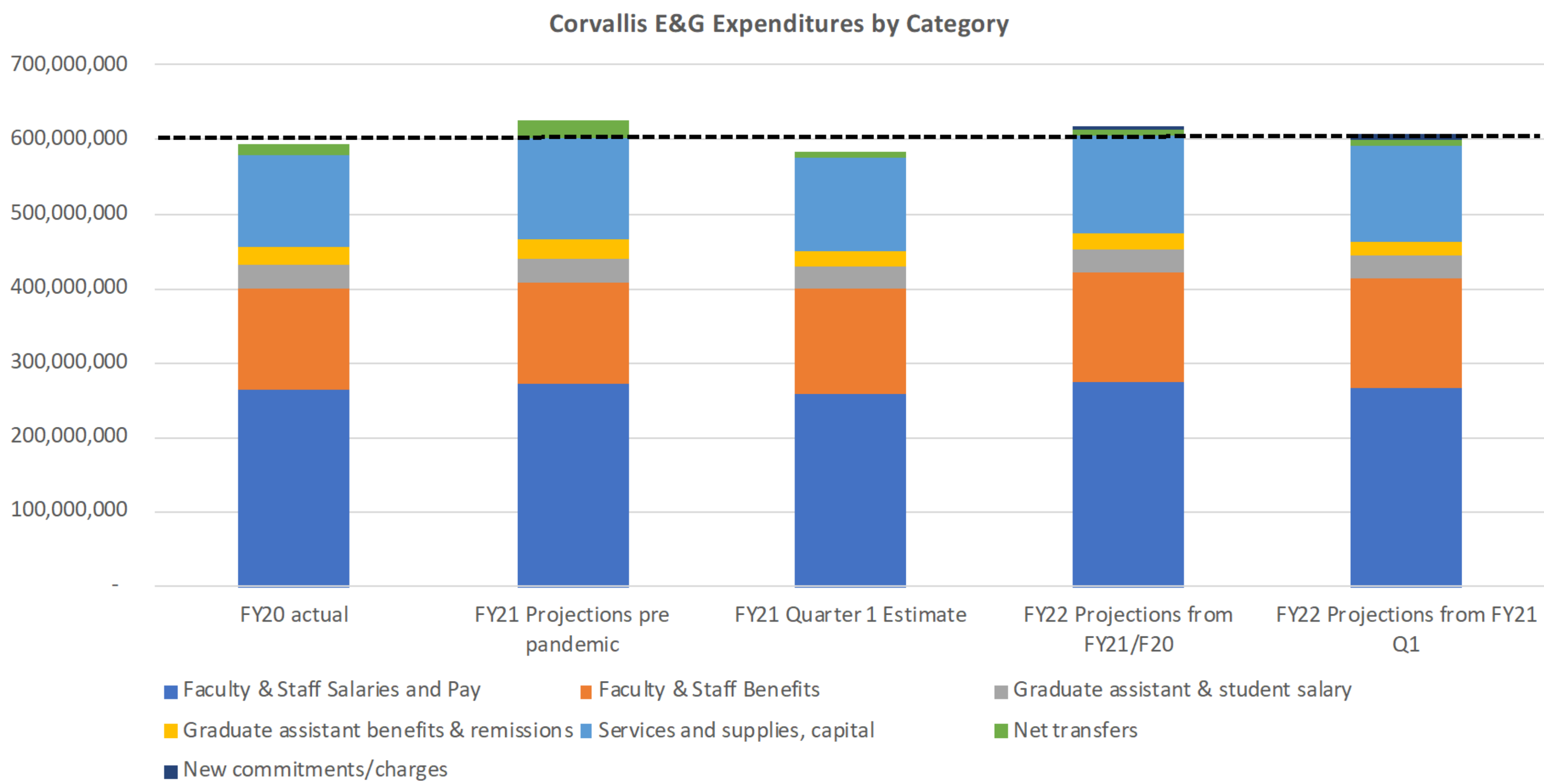


**Table 1: FY2022 Corvallis Tuition scenario (rate change the same for Cascades)**

Precise percentage increases in each box are different than the nominal increases in per credit hour charges at the top because there is a fixed zero-credit hour charge that is part of undergraduate tuition and rates are rounded to the nearest whole dollar**.** Middle column scenario set at estimated overall continuing service level increase. Rates are applied to resident undergraduate (including Ecampus) and non-resident undergraduate tuition rates.

| | **Scenario A:**<br>**Resident 0.0%, Non-resident 0.0%** | **Scenario B:**<br>**Resident 3.5%, Non-resident 3.5%** | **Scenario C:**<br>**Resident 4.1%, Non-resident 4.1%** |
|---|---|---|---|
| **State funding change year over year: 0%** | Resident undergraduate: 0.00%<br>Non-res undergraduate: 0.00%<br>Financial aid increase $0.8M<br>Surplus or (deficit): $(11M) to $(22M)<br>$0 annual increase residents<br>$0 annual increase non-res | Resident undergraduate: 3.55%<br>Non-res undergraduate: 3.41%<br>Financial aid increase $1.4M<br>Surplus or (deficit): $2M to $(10M)<br>$360 annual increase residents<br>$1035 annual increase non-res | Resident undergraduate: 3.99%<br>Non-res undergraduate: 4.00%<br>Financial aid increase $2.0M<br>Surplus or (deficit): $4M to $(8M)<br>$405 annual increase residents<br>$1215 annual increase non-res |
| **State funding change year over year: -4%** | Resident undergraduate: 0.00%<br>Non-res undergraduate: 0.00%<br>Financial aid increase $0.8M<br>Surplus or (deficit): $(17M) to $(28M)<br>$0 annual increase residents<br>$0 annual increase non-res | Resident undergraduate: 3.55%<br>Non-res undergraduate: 3.41%<br>Financial aid increase $1.4M<br>Surplus or (deficit): $(4M) to $(16M)<br>$360 annual increase residents<br>$1035 annual increase non-res | Resident undergraduate: 3.99%<br>Non-res undergraduate: 4.00%<br>Financial aid increase $2.0M<br>Surplus or (deficit): $(2M) to $(14M)<br>$405 annual increase residents<br>$1215 annual increase non-res |
| **State funding change year over year: -8%** | Resident undergraduate: 0.00%<br>Non-res undergraduate: 0.00%<br>Financial aid increase $0.8M<br>Surplus or (deficit): $(22M) to $(34M)<br>$0 annual increase residents<br>$0 annual increase non-res | Resident undergraduate: 3.55%<br>Non-res undergraduate: 3.41%<br>Financial aid increase $1.4M<br>Surplus or (deficit): $(10M) to $(21M)<br>$360 annual increase residents<br>$1035 annual increase non-res | Resident undergraduate: 3.99%<br>Non-res undergraduate: 4.00%<br>Financial aid increase $2.0M<br>Surplus or (deficit): $(8M) to $(16M)<br>$405 annual increase residents<br>$1215 annual increase non-res |
| | Base resident tuition & fees: 0.61%<br>Average res. tuition & fees: 0.76% | Base resident tuition & fees: 3.57%<br>Average res. tuition & fees: 3.49% | Base resident tuition & fees: 3.94%<br>Average res. tuition & fees: 3.81% |

Graduate tuition 4.5% non-resident, 1.5% resident, professional tuition 3.5%. Cost estimates include ~2.7% overall inflation this year because of modest increases in benefit costs; costs of growth (about 0.5% for modest growth in Ecampus but declines in Corvallis); and new commitments (this year largely for capital renewal and repair, insurance, debt service, investments in research, student affairs and enrollment management; and the OSU Foundation).