2021-23 Biennial Funding Request to HECC: Operating

BACKGROUND

Each spring of even-numbered calendar years, public universities formally request state operational funding for the next biennium. An inter-institutional work group convenes to develop, in consultation with their respective leadership, a Consolidated Funding Request (CFR) to the Higher Education Coordinating Commission (HECC) that provides broad context for the universities' operations and the importance of state funding in accomplishing shared instructional, research, and public service missions. The CFR incorporates information specifically requested by the HECC, which typically includes a request for universities to respond to various funding level scenarios.

The HECC will use the CFR to inform its Agency Request Budget (ARB) to be submitted to the Governor by August 31, 2020. The Governor's Recommended Budget (GRB) will be published by December 1, 2020. Once the legislature convenes in February 2021, a series of cumulative budgetary decisions made through the end of session in June will result in the Legislatively Adopted Budget (LAB) and include appropriations to the universities for the 2021-23 biennium in several categories:

- The **Public University Support Fund** (PUSF) is the primary state support for operations, currently accounting for about 25% of the universities' educational and general (E&G) revenues. The HECC allocates this appropriation to individual universities using the Student Success and Completion Model (SSCM), a primarily outcomes-based formula.
- **State Programs** comprise a group of line-item appropriations for specific programs of interest to the legislature, particularly areas related to public service and research.
- The **Statewide Public Services** (SWPS) are managed by OSU in its land-grant capacity and include the Agricultural Experiment Station, Extension Service, and Forest Research Laboratory.
- **Outdoor School** functions largely as a pass-through program funded by lottery revenues and administered by OSU Extension Service.
- **Sports Lottery** directs lottery revenues to support athletics (primarily funds to support student athletes) and graduate student scholarships.

UNIVERSITY FULL BASE COSTS

The inter-institutional work group began its usual process in fall of 2019. The first step was to identify expected biennial cost increases to continue current operations. For this purpose, major assumptions include flat enrollment, no new hires or position eliminations, and no new programmatic initiatives. Projection of retirement costs used advisory Public Employees Retirement System (PERS) rates. Once final PERS rates are published in the fall, the university base funding calculation will be refreshed. Final PERS rates are expected to be lower than the advisory rates, because they will be based on December 2019 market valuations, which were quite favorable. However, it is possible the PERS Board could elect to depart from the usual calculation protocol due to current extraordinary economic conditions.

Cost projection data from the seven universities is compiled to calculate a single biennial percent increase needed to cover expected cost increases. Because the formula used by the state to calculate Current Service Level ("state CSL") regularly underestimates the actual costs

universities encounter, it is important to calculate and communicate the full base costs. The universities previously referred to this calculation as "true CSL," but to eliminate confusion with the state's definition of "CSL," are now referring to it as "**full base costs**," which the HECC considers the "status quo" level of funding for universities.

As shown in Table 1, the most significant driver in the difference between the two calculations is that the state's calculation does not adequately account for salaries, including expected increases per collective bargaining agreements.

Table 1: Differences in the calculations by cost category.

Comparison of Methologies to Calculate Cost Increases			
Cost Categories	**State CSL**	**Full Base Costs**	**Variance**
Salary and Pay (plus other OPE)	2.5%	4.0%	1.5%
Retirement	1.5%	2.3%	0.8%
Health Benefits	0.7%	1.0%	0.3%
Operating Expense	0.8%	0.8%	0.0%
Total growth factor	**5.5%**	**8.1%**	**2.6%**

HECC SCENARIOS AND COVID-19 ADJUSTMENTS

On March 10, the HECC provided guidance including several PUSF funding scenarios to be considered as the universities developed their request. These scenarios ranged from 10% decreases in funding to 20% increases in funding.

The initial efforts of the work group to develop the funding request and begin to address the HECC scenarios by mid-March required adjustment as circumstances changed dramatically, the state began its swift response to COVID-19, and it became clear that the pandemic would have immediate and lasting effects. Once a building block to grow legislative support and dollars for higher education, the CFR has now become more of a "first iteration."

In recognition of the impacts of COVID-19, HECC changed the requested scenarios to the following:

1) No change in total funding from 2019-21 levels;
2) 10% decrease in funding from "status quo" (i.e., university calculated base costs);
3) 10% increase in funding from "status quo";
4) Funding level needed to keep tuition and fee increases for resident undergraduate students to 5% or less for each year of the biennium;

5) 20% decrease in funding from “status quo”; and
6) 10% decrease from state calculated CSL.

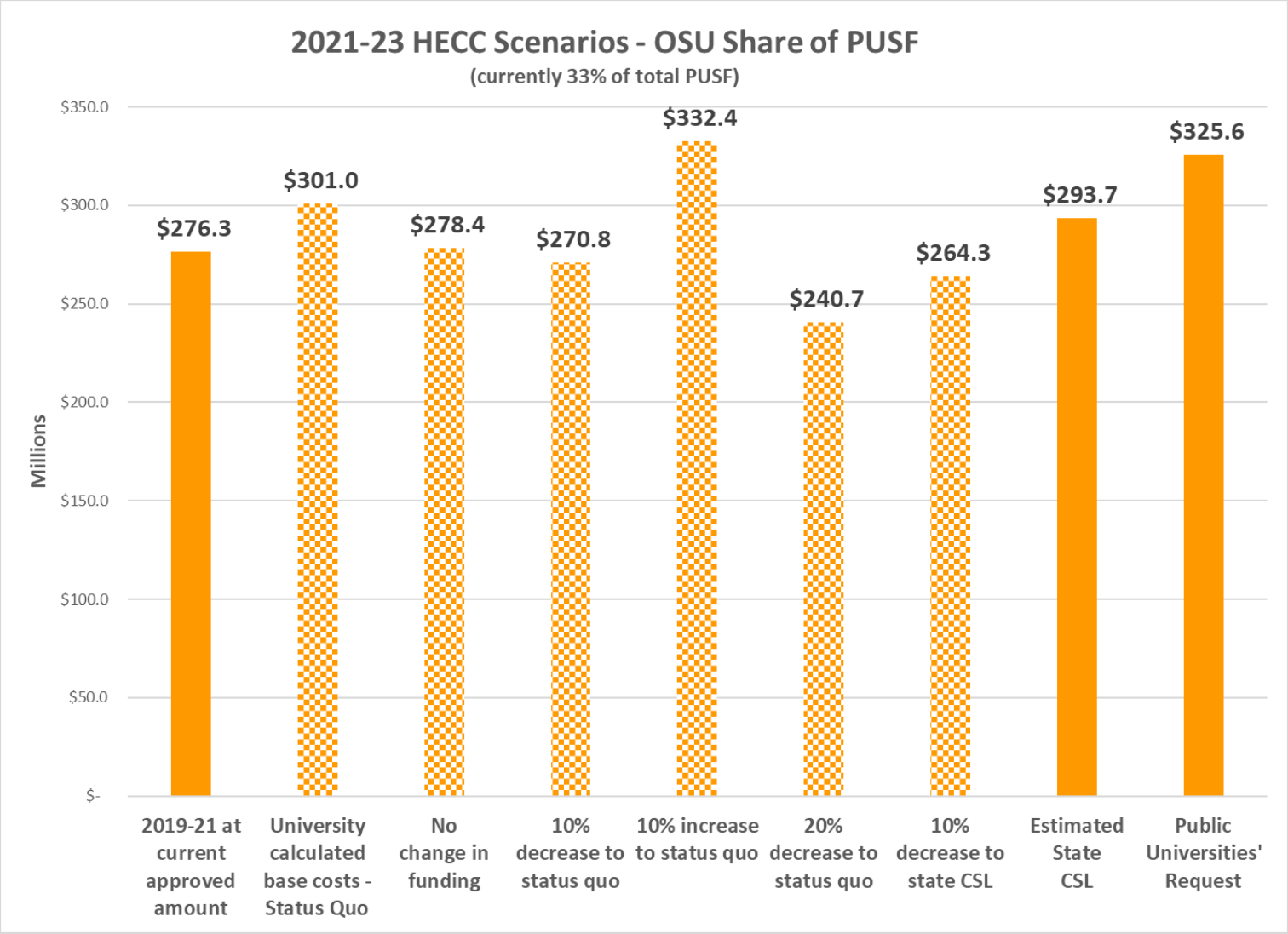
Funding levels at each scenario are provided in Table 2. Most scenarios are in relation to full base costs/status quo. The flat funding scenario is in relation to 2019-21 funding, and the 10% decrease to state CSL is in relation to the state calculated CSL.

Table 2 illustrates the different funding levels for each HECC scenario as well as the biennial impact to OSU of each.

HECC 2021-23 PUSF Scenarios (Updated Guidance)	PUSF (in millions)	Change from 2019-21		Biennial Impact to OSU		Fiscal Year Impact to OSU from FY2021 to FY2022*	
2019-21 PUSF at current legislatively approved amount	$ 836.9			$276.3			
University calculated full base costs (“status quo”)	$ 904.7	$ 67.8	8.1%	$ 24.7	8.9%	$ 6.0	4.2%
No change from 2019-21 levels of total funding	$ 836.9	$ -	0.0%	$ 2.1	0.7%	$ (5.1)	-3.6%
10% decrease from “status quo”	$ 814.2	$ (22.7)	-2.7%	$ (5.5)	-2.0%	$ (8.8)	-6.2%
10% increase to "status quo"	$ 995.2	$ 158.3	18.9%	$ 56.1	20.3%	$ 21.3	15.1%
Resident Undergrad Tuition/Fees Capped at 5%	TBD						
20% decrease from “status quo”	$ 723.7	$(113.1)	-13.5%	$ (35.6)	-12.9%	$ (23.6)	-16.7%
10% decrease to state calculated CSL	$ 794.6	$ (42.3)	-5.1%	$ (12.0)	-4.3%	$ (12.0)	-8.5%
For reference:							
Estimated State CSL at current PUSF plus 5.5%	$ 882.9	$ 46.0	5.5%	$ 17.4	6.3%	$ 2.4	1.7%
Universities' Request	$ 975.4	$ 138.6	16.6%	$ 49.3	17.8%	$ 18.0	12.7%

* *State funding is allocated 49% in year one of a biennium and 51% in year 2.*
FY2021 funding is 51% of the 2019-21 biennial funding while FY2022 funding is 49% of the 2021-23 biennial funding.

Figure 1 illustrates OSU's estimated share for each HECC scenario (with reference points as solid bars and scenarios designated by patterned bars).



CONSOLIDATED FUNDING REQUEST DATA AND OSU PARTICIPATION

The CFR requests $975M in PUSF support, which includes $138 million beyond the full base costs calculated by the universities. In light of the uncertainty facing the state, the CFR emphasizes the importance of higher education in the state's economic recovery. The universities would like state funding to return to the state funding in 2010, which represented about 35% of E&G. To get to that level immediately would require an increase to the PUSF of over $554M. The universities' request is to move towards that over four biennia, resulting in a requested increase for 2021-23 of $138.6M.

For all other appropriation categories, the CFR includes increases of 8.1% to cover the full base costs increase calculated by the universities. Table 3 summarizes the request for each appropriation category and identifies the estimated proportion that OSU would receive.

2021-23 Public Universities Consolidated Funding Request						2021-23 Proportion Specific to OSU (based on recent allocation levels)	
Appropriation Category State General Fund (GF) Lottery Funds (LF)		2019-21 Legislatively Approved to date	2021-23 Consolidated Funding Request	Change from 2019-21			
Public University Support Fund	GF	836,898,583	975,000,000	138,101,417	16.5%	312,188,729	32.0%
State Programs							
Ongoing	GF	42,601,998	46,405,573	3,803,575	8.9%	23,998,070	51.7%
Targeted/One-time	GF	2,350,000	-	(2,350,000)			
Subtotal State Programs		44,951,998	46,405,573	1,453,575			
Subtotal Education & General (E&G)		881,850,581	1,021,405,573	139,554,992			
Statewide Public Services (SWPS)							
Agricultural Experiment Station (AES)	GF	76,058,861	82,219,629	6,160,768	8.1%	6,160,768	100.0%
AES one-time	GF	125,000	-				
Extension Service (ES)	GF	56,002,403	60,538,598	4,536,195	8.1%	4,536,195	100.0%
Forest Research Laboratory (FRL)	GF	11,424,041	12,349,388	925,347	8.1%	925,347	100.0%
Subtotal SWPS		143,610,305	155,107,615	11,622,310		$11,622,310	100.0%
Sports Lottery	LF	14,099,809	16,128,000	*Statutory 1%* [1]		1,030,000	6.4%
Outdoor School (Administered by ES	LF	45,305,847	44,000,000	*Ballet Measure 99 (2016)* [2]		44,000,000	100.0%
Debt Service							
General Fund		191,502,929	*Actual Obligations*				
Lottery		33,744,795					
State Funding Grand Total		1,310,114,266					

1) Statutory 1% Per March 2020 OEA Revenue Forecast
2) Per Ballot Measure 99 (2016), the lesser of 4% of Lottery transfers (adjusted for inflation) - $49,656,000 as of March 2020 OEA Forecast - or $22M per year

State Programs with OSU Participation				
Engineering Technology Sustaining Funds	27,004,433	29,191,792	16,045,147	55.0%
OSU (w UO) TallWood Design Institute	3,754,328	4,058,429	4,058,429	100.0%
OSU Fermentation Science	1,369,036	1,479,928	1,479,928	100.0%
Signature Research (UO, OSU, PSU)	1,149,231	1,242,319	590,102	47.5%
OSU Marine Research Vessel program	684,519	739,965	739,965	100.0%
OSU Institute for Natural Resources	440,776	476,479	476,479	100.0%
OSU Climate Change Research Institute	345,502	373,488	373,488	100.0%
OSU College of Ag Channel Study	239,583	234,533	234,533	100.0%
Targeted/One-time Appropriations				
OSU PacWave (one-time)	1,600,000			

TIMELINE

The universities provided HECC with the executive summary shown in Attachment 1 to allow commissioners to consider and discuss their feedback at the Funding and Achievement Committee and full Commission meetings on May 13 and 14. The full CFR is being finalized and will be provided to the Finance & Administration Committee as a supplement to this docket.

RECOMMENDATION

Staff propose that the Finance & Administration Committee recommend to the Board endorsement of the public universities' 2021-23 Consolidated Funding Request to the Higher Education Coordinating Commission, which includes a request for base funding for all appropriation categories and an additional increase for the Public University Support Fund.

Oregon Council of Presidents

To:	Jim Pinkard – Director of Postsecondary Finance and Capital, HECC
From:	Dana Richardson – Executive Director, OCOP
RE:	Consolidated Funding Request Executive Summary
Date:	May 11, 2020

On behalf of Oregon's seven public universities, please accept the attached executive summary of our consolidated operating funding request for the 2021-2023 biennium. We sincerely appreciate your collaboration and flexibility as we have worked on this submission within the context of the Covid-19 pandemic.

It is safe to say that the request and submission of our full consolidated funding request is not the one that we anticipated or would have wanted. Before the onset of Covid-19, the public universities were eager to partner with the Commission and Legislature to make significant investments in higher education, targeted at closing persistent retention and completion gaps for traditionally underrepresented students. With the advent of the pandemic and the anticipated impact on state revenues, we now find ourselves in the place where we want to partner with you to ensure that looming cuts to budgets don't exacerbate these disparities and that higher education remains a priority in our state.

We look forward to our continued work together for Oregon students, families, and businesses and the opportunity to develop and articulate budget scenarios that recognize our collective fiscal challenges and opportunities for success.

Oregon Council of Presidents

Oregon Public Universities
2021-2023 Combined Funding Request

Executive Summary

An Equitable Path to a Better Tomorrow

In the midst of the single most significant societal challenge many of us have ever faced, Oregon's seven public universities join the Higher Education Coordinating Commission in re-affirming our shared commitment to Equity, Access, and Quality for students, faculty, and workers. Through the transformative power of learning, we can emerge a stronger more resilient state.

It is a pivotal moment. The willingness of policymakers to commit resources to protect the state's fragile cradle-to-career public education system may determine if the impact of COVID-19 is measured in years or in generations. Preserving investments in today's students will create a brighter future. More than ever before, we must offer steady, supported pathways out of poverty for our most severely impacted citizens and provide hope for all Oregonians across the state.

Oregon's public universities are committed partners in reimagining a better tomorrow. The work is well underway. Creative instructors went remote in weeks. Researchers pivoted immediately to understand and cure the virus. Innovation is accelerating. Education is adapting.

Business as usual is not an option. We cannot just rebuild our economy; we must rediscover our confidence.

Empower Equitably

COVID-19 is uniquely impacting communities of color – their physical and financial well-being. It is exacerbating socioeconomic disparities across all demographics, across all of Oregon. Investments in public universities promote equity, increase opportunity, and erode income inequality. The increasingly diverse face of Oregon is reflected in the 130,000 students that enroll at Oregon's public universities.

- 1 in 3 are students of color,
- 1 in 5 are first generation students,
- 2 in 5 receive need-based grants,
- 3 in 5 are unable to meet expenses.

These first-generation, Pell-eligible, and traditionally underserved students face new and different challenges. Studies show they are more likely to be at a disadvantage before they even step onto

campus. Robust student services and affordable tuition are critical to their success. Many face profoundly disruptive housing and food insecurity that threatens their education. Empowering the new generation of Oregon university-bound students will uplift communities and help address systemic inequities that have pervaded Oregon since its founding.

Preserve Access

A university degree continues to be one of the most important steps on the path to economic prosperity. Yet without affordable tuition, too many Oregonians simply cannot attend a public university and opportunity is extinguished. For those who can attend, too many of today's students and their families are stretched to their financial limit. Students cannot afford more debt.

State investments are critical to affordability, to containing student debt, to preserving access, and to creating opportunity. Too often, economic crises lead to disproportionate disinvestments in public university funding. The burden is shifted to students and the impacts are felt long after the economy recovers, as exemplified by the Great Recession of the late 2000s.

- Student portion of tuition in 2008: 60%, student portion today: 76% (Oregon),
- Student debt in 2008: $859 billion; student debt today: $1.57 trillion (U.S),
- Average Oregon university tuition in 2008: $7,346, average tuition today: $10,111.

Oregon's university students are still paying the bill for the last recession. They cannot afford another. Maintaining state investment is critical to ensure that Oregon does not foreclose post-secondary education to an entirely new generation of students.

Protect Quality, Promote Community and Rebuild the Economy

It is vital that Oregon's public post-secondary education system retain the resources necessary to respond to the needs of communities across the state. Universities are regional bedrocks that curate the arts, convene community leaders, promote civic engagement, and drive economic vitality.

- Universities employ more than 40,000 Oregonians in living wage jobs.
- Universities stimulate over $3 billion in economic impact for the state.
- Universities graduated 5,000 engineers in five years.
- Universities graduated nearly 2,800 educators in 2018, almost a quarter of whom were people of color.

Oregon public universities serve as engines for economic growth, anchors for cultural activity, and inspiration to legions of dreamers. Today, more than ever, it is these unique features of Oregon's collegiate enterprise that will help drive recovery that reaches all corners of the state.

An Equitable Path to a Better Tomorrow

The challenges ahead are severe, and we do not always agree on the best solution for each problem. However, we are united in our commitment to protecting our collective well-being and rebuilding our way of life. A critical component of our recovery is equitable access to a quality higher education for Oregonians. Such access provides a pathway out of poverty for the many Oregon students who are working hard to overcome difficult obstacles, and a path to healing for communities and a state looking for hope in the days that lie ahead. Policymakers should pursue the following goals for post-secondary education:

- Avoid shifting the financial burden to students;
- Undertake a multi-biennial effort to restore state funding to 2008, pre-Recession levels;
- Promote town and gown integration thorough strong community programs;
- Encourage lifelong learning.

To accomplish these goals the HECC, Governor Brown, and Legislature should work together to:

- Increase funding in the public university support fund and university programs by 8.1% to ensure state funding covers ongoing base costs, and the state continues to pay 24.5% of the cost of education for Oregon students. This would increase the PUSF by $69 million and bring total funding for the PUSF to $905 million, and

- Going further by beginning a four-biennium reinvestment in higher education that would return to a model where the state paid 35% of the cost of attendance, just as they did in 2010. This investment would increase the PUSF by $138 million, bringing the total PUSF to $1.39 billion. An investment of this magnitude would keep tuition increases low, and allow campuses to invest in proven wrap around services for students thus increasing retention and graduation rates for Oregonians.