# Preliminary FY2023 Tuition Scenarios and Education and General Budget Planning

## BACKGROUND

Planning for the 2022-2023 fiscal year is more straightforward than planning for the last year. While revenues and expenses have not returned to pre-pandemic levels, enrollment trends are better known, state funding is committed, expense distributions are more typical, and salary commitments are clearer than was the case a year ago.

The budget forecast for 2022-23 expects continued growth in OSU enrollment with strong growth in Ecampus, modest growth at OSU-Cascades, some increases in Corvallis undergraduates, and relatively flat graduate and professional enrollments. Overall inflationary costs are expected to be about 3.5% (influenced largely by salary and benefit commitments). Corvallis will see additional expense increases for new building operations, debt service on completed projects (including the Campus Operations Center, Research Way remodel, and Cordley Hall), another significant increase in property insurance premiums, investments in enrollment management and information technology, and potential investments in high-need areas of student affairs, academic program development, and human resources.

The University Budget Committee (UBC) is discussing tuition recommendations framed by continuing an 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 whether tuition and incidental fees should be charged on the basis of the student's primary campus, rather than by mode of delivery. The UBC anticipates sharing recommendations with Interim President Johnson by early February.

## CURRENT YEAR CONTEXT

Education and General (E&G) Fund operations (including Corvallis, OSU-Cascades, Statewide Public Services, and Outdoor School), as discussed at the October 2021 meeting, are tracking close to budget. The mix of revenues for Corvallis changed some with more state funding than forecasted in the budget but somewhat less net tuition revenue; however, overall total net revenue remains close to budget.

The change in net tuition revenue is a result of complexities in Corvallis enrollments. While headcount enrollment is up overall (Figure 1), most of that growth is in Ecampus enrollments, which are typically part-time and at a lower net revenue per credit hour than campus enrollments. While undergraduate enrollment at OSU-Cascades is showing good growth (significantly up in credit hours, though down in headcount), undergraduate enrollment at Corvallis is up slightly but still down from 2019 levels (Figure 1). This reflects a decline in resident undergraduate enrollments from FY2021 offset by strong growth in new, U.S. non-resident undergraduate students. International student enrollments (both undergraduate and graduate, remain significantly below FY2020 levels.

The two priorities for the FY2021-22 budget were to support all units in building towards pre-pandemic levels of operations (this will likely take a couple of years depending on the unit) and

continuing investments to advance SP4.0 and effect efficiencies in service and support operations. This year's budget included specific investments in:

- Advancing the Division of Enrollment Management's strategies to improve recruitment and retention and improved pathways for transfer students.
- Increasing tuition waivers to support strategies to increase enrollment of Pell-eligible Oregon residents and OSU's renewed participation in the Western Undergraduate Exchange program, which offers select out-of-state students from participating states a discount to 150% of resident tuition.
- Central research administration to improve services for principal investigators.
- Implementing the first phases of strategic upgrades in information technology.
- Supporting central and southern Oregon coordinators for the Juntos program in Extension (designed to provide resources to prevent youth in grades 8-12 from dropping out of school and to help them access college).
- Support for directors of the Baccalaureate Core and the Center for Teaching and Learning.
- Use of fund balance commitments to advance strategic improvements in Human Resources and University Information and Technology and establishing a central Program Portfolio Management Office.

## FY2023 BUDGET PROJECTIONS

### Enrollment Forecast

The enrollment forecast for FY2023 assumes 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 of about $11M, which will help improve undergraduate enrollment, student retention, and net positive tuition revenue earnings.

At present the revenue forecast (by headcount) assumes growth of 8% in Ecampus; 5% at OSU-Cascades; an increase of 1% at Corvallis, which includes flat enrollment in resident undergraduates; 4% growth in non-resident undergraduates (almost all in U.S. non-residents); and flat graduate enrollments (Figure 1). These estimates will be updated regularly as enrollment and recruitment proceed for next year.

Since its inception the Board has, maintained a commitment to retaining OSU's focus on serving Oregonians. This is reflected in the Board's commitment, established during a period of robust Corvallis campus enrollment growth and expected eventual capacity limits, that no more than one-third of all undergraduates in Corvallis would be non-residents (including international students). Indeed, the share of all non-resident undergraduates in Corvallis has remained below one-third to date. The university has also adhered strictly to a policy of accepting *all* qualified Oregon resident applicants while also continuing to work with statewide partners to help support the increase in the number of college-going Oregon high school graduates, consistent with the state's 40-40-20 goal.

In fall 2021, driven by higher-than-expected non-resident matriculations, the share of *new* Corvallis first-year non-resident students exceeded 33% of all new first-year students for the first time. While this was unexpected, and driven partly by pandemic-related dynamics that have made predicting enrollment more challenging, it speaks to a larger set of trends facing OSU. Demographic trends in Oregon have slowed resident enrollments, the university's revised admissions strategies are achieving success in attracting and matriculating more U.S. non-resident students and, given the softening of resident enrollment, there remains ample capacity on the Corvallis campus to serve more non-resident students without reducing capacity for residents. Thus, OSU has been able to continue to recruit and admit Oregon residents robustly while also offering admissions to more non-residents. In turn, the non-resident student enrollment, through higher net tuition earnings, has helped support the university's ability to provide financial aid and other supports to lower income resident students.

However, OSU may eventually face a situation where maintaining a third/two-thirds out-of-state/in-state mix in Corvallis will require curtailing the admission of non-resident students, even if it has the capacity to serve them without limiting resident slots. At this point, the recent decline in international non-resident enrollment has helped offset the growth in non-resident U.S. enrollment, helping to preserve the one-third/two-thirds mix.

This situation was recognized in the 2019 Ten-Year Forecast and it led to some modeling in the 2020 Ten-Year Forecast to test alternative enrollment mix scenarios and their implications. The 2020 forecast suggested OSU could maintain a minimum of 15,000 seats for resident students on the Corvallis campus and yet never reached that minimum over the forecast period. There are currently about 13,800 resident undergraduate students in Corvallis and current enrollment forecasts predict a maximum of about 14,300 in FY2027, the year following a peak of Oregon high school graduates. The predicted number of resident undergraduate students in Corvallis is then forecasted to decline slightly.

The Board may want to consider whether to maintain a strict enrollment mix ratio or to operationalize the Oregon commitment in the principle of accepting all qualified Oregon resident applicants, even if the share of non-resident students in Corvallis should rise above 33%. While it is important to emphasize that predicting enrollment is becoming more difficult over time, OSU's present forecasts do not suggest a dramatic departure from a 33%/66% distribution in Corvallis over the next ten years. However, some scenarios do show the non-resident share could eventually rise to between 33% and 38%.

**State Funding Outlook**

Oregon budgets on a biennial basis and the 2022-23 fiscal year will be the second year of the current biennium. The biennial legislative appropriations for the seven public universities (as for most state agencies) are distributed 49% in the first year and 51% in the second. This amounts to a 4.1% increase in the second year of the biennium. There are no major adjustments anticipated in that budget increase, given current state economic forecasts.

**Expense Projections**

Expense projections for 2022-23 include four kinds of cost increases. Inflationary escalation is estimated from known or estimated rates of salary, benefit, and supplies and services increases (Table 1). The weighted average estimate for inflation on E&G operations is 3.5%, nearly 80% of which is from increases in personnel costs.

Table 2 shows the inflationary increases and also assumes some costs for growth to accommodate rebounding enrollment in Corvallis and enrollment growth in Ecampus and at OSU-Cascades. The increases for growth are relatively modest.

There are also some areas where additional costs are expected outside of inflation and growth. A large increase, on the order of $1.5M, in insurance premiums is expected (as has been the case the last two years), as well as additional debt service on completed facilities projects, some increased operating costs for new facilities, and funding for capital renewal projects underway or planned shortly (about $5M total).

Finally, there are areas where some new investments are 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 information technology. There are assumed placeholders of $1.1M (Initiatives 2 and 3 in Table 2), given the significant number of requests for funding of programs or personnel.

The specific amounts in Tables 2 and 3 are for the Corvallis campus. OSU-Cascades and the Statewide Public Services (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 2 shows an estimate of Corvallis E&G revenues and expenses for FY2023 using the assumptions noted above and Scenario 3 in Table 3. (Note that Table 3 illustrates the tuition scenarios being used by the University Budget Committee for discussion.) The forecast includes an assumption of an additional $11M in tuition waivers (institutionally funded scholarships) to students. The additional tuition waivers will be used to increase enrollment of Pell-eligible Oregon residents and non-resident students participating in the Western Undergraduate Exchange. That enrollment growth is expected to offset the cost of the waivers and yield additional net revenue. The focus in the tables is on Corvallis E&G, as that budget supports the foundational services (infrastructure, faculty, business operations) that enable most of the other work of the university.

The estimated surpluses or deficits between revenues and expenses shown in Table 3 are for planning purposes. These scenarios identify the general size of gaps (likely have $2-3M ranges in accuracy) 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 Oregon statute.[1] The UBC includes faculty, staff, students from student government and students at large. The group has been meeting since October 2021 to consider tuition rate recommendations and other budget issues for FY2023. 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%.

In 2020-21 and 2021-22, OSU moved to a cohort tuition model, where tuition rates for continuing undergraduate students increased at the estimated rate of inflation (or less) and rates for incoming students increasing somewhat 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. The approach creates more predictability for continuing students but allows sufficient flexibility to address growth in university costs and program development and adjust to the competitive landscape for students. The proposal is to make this the default approach for setting undergraduate tuition at OSU.

The proposed approach being considered by the UBC would assume that:

- The Board policy of expecting tuition increases in the range of 2% to 5%, barring extreme financial change, would continue.
- Continuing 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.
- Students matriculating in the next academic year would have tuition increased at a slightly greater rate (for initial planning, an additional percentage point, but ultimately set with close attention to markets) than continuing students.
- Rates would comprise an instructional charge for all students, a distance education fee for Ecampus courses, and a campus charge for non-resident students. Differential tuition for particular programs may be charged.
- Differential tuition charges above base tuition and the distance education fee would be increased at the rate for continuing students (unless a unit asks for no change) so that the charges are 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 will be charged on a program-by-program basis consistent with program costs, peer comparisons, and market analyses.
- The committee is also discussing whether tuition and incidental fees should be charged on the basis of the student's primary campus, rather than by mode of delivery, beginning fall 2022 or fall 2023 depending on UBC and campus discussions.

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

The goals of the proposed approach are to:

- Provide more predictability in tuition rates for students who have committed to OSU.
- Make the structure of tuition clearer for students.
- Align tuition and fee charges with the campus students are primarily using.
- Make the annual tuition-setting process more transparent and simpler to reduce the time spent on the issue each year and allow more time for campus discussion.
- Provide sufficient flexibility for OSU to continue to improve academic and support services and to manage through unexpected financial downturns.

The UBC will consider scenarios for 2.5% to 4.5% increases in early January (Table 3) and will make its recommendations to the Interim President in a scenario format in early February. The scenarios in Table 3 include a maximum increase of 3.5% for continuing students and 4.5% for new students. Each 0.5% reduction in the increase reduces revenues by about $2.2M.

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

## PRINCIPAL ISSUES

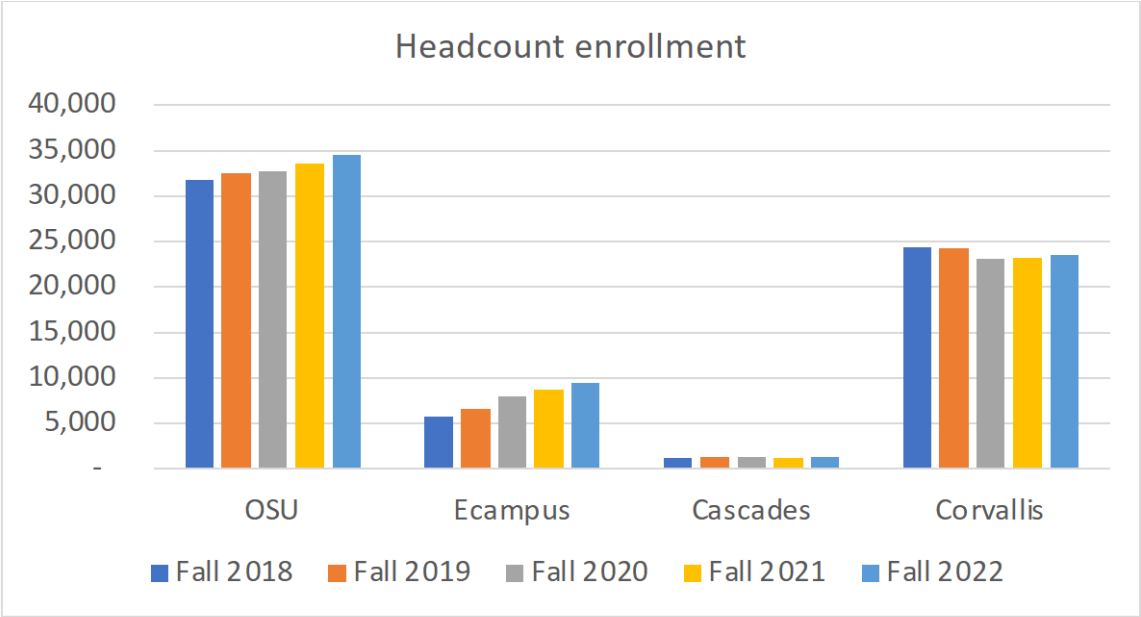
The most significant uncertainties in budget planning right now are enrollment trends for international students and resident undergraduates, and the volatile and high inflation rates (as measured by CPI) seen nationally.

## 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 approved by Interim President Johnson for FY2023 tuition rates and fees at the Board's April 2022 meeting, with an updated operating budget outlook.

**Figure 1**: Top: Headcount enrollment for the current year, three previous years, and projected for next year (all as fall headcount at census date). Most of the overall OSU growth has been driven by growth in Ecampus. Corvallis enrollments have improved over FY20, but have not recovered the levels of fall 2018. The changing mix of enrollment has an impact on tuition revenues, as Ecampus students tend to be part-time and Ecampus does not have the same non-resident rate as Corvallis and OSU-Cascades. Note that fall 2022 enrollments are for fiscal year 2022-23.

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. Note that non-resident undergraduate enrollments in Corvallis remain below one-third of total Corvallis undergraduate enrollments.



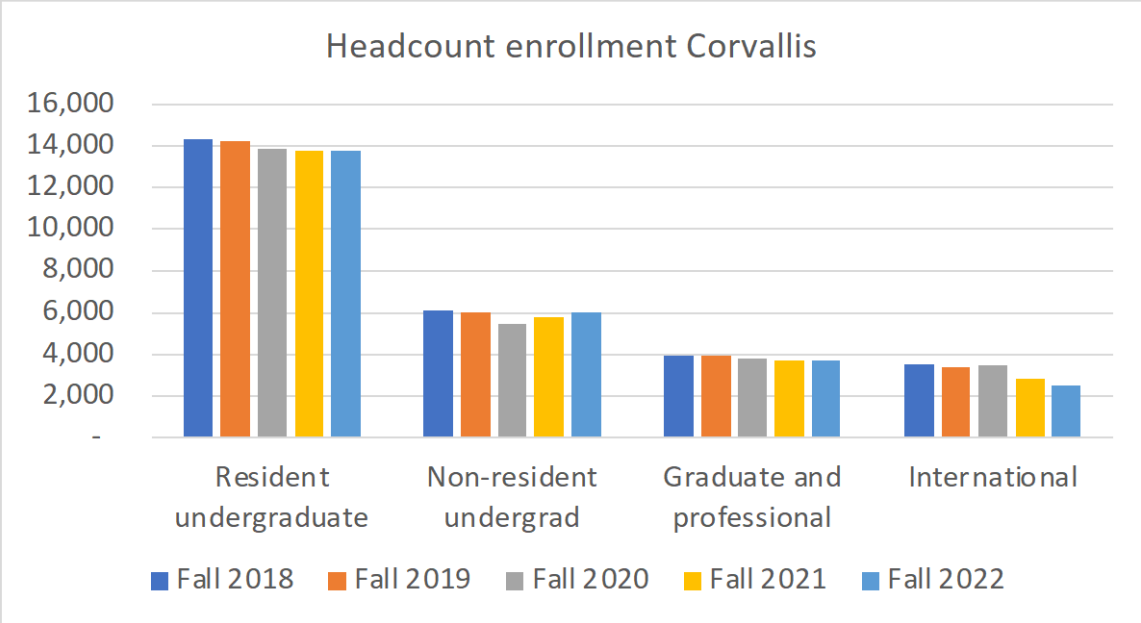



**Table 1:** Components of the calculation of inflation (or continuing service level increases) for FY23 for Corvallis Education and General funds (the same rate is assumed for other E&G operations). Salary and benefit increases contribute the largest portion of inflationary cost increases. The inflation rate for services and supplies assumes that that current high month-to-month CPI inflation rates moderate by next year.

| **Cost Category:** | Average % of total spend | Expected rate increase | Weight contribution to total |
|---|---|---|---|
| Unclassified Salary & Pay | 38.0% | 3.50% | 1.33% |
| Unclassified OPE | 19.2% | 3.87% | 0.74% |
| Classified Salary & Pay | 7.1% | 4.50% | 0.32% |
| Classified OPE | 4.6% | 4.16% | 0.19% |
| Graduate & Student Pay | 5.1% | 2.00% | 0.10% |
| Graduate Fee Remissions | 2.9% | 2.00% | 0.06% |
| Graduate & Student OPE | 0.9% | 4.00% | 0.04% |
| Services, Supplies, Capital | 21.1% | 3.50% | 0.74% |
| Other Salary Costs | 1.0% | 2.00% | 0.02% |
| | | | |
| **Estimated inflation increase FY22 to FY23 for E&G:** | | | **3.54%** |

**Table 2**: Preliminary estimates of revenue and expense for Corvallis Education and General budget. Table shows FY21 actuals, FY22 current estimates, rate changes and growth assumptions for each category, and the calculated FY23 projection. The new cost commitments include things that are obligatory (new building operations, insurance, and capital renewal funding, as projects have started) and things that could be deferred but that are strategically important (investments in enrollment management and information technology, as well as proposals for human resources, research support, and program initiatives in academic colleges).

| | | | | | |
|---|---|---|---|---|---|
| **Projected Costs** | **576,190,922** | **615,818,000** | | | **649,895,000** |
| **Projected Revenues** | **624,155,447** | **620,550,000** | | | **653,797,000** |
| **Balance** | **47,964,525** | **4,732,000** | | | **3,902,000** |
| **Balance as percentage of revenue** | | **0.8%** | | | **0.6%** |
| | | | | | |
| **Cost Projections:** | FY21 Actuals | FY22 Q1 | Inflation/ Rate Change | Growth | FY23 Preliminary Projection |
| | | | | | |
| Faculty and Staff Salaries | 266,362,902 | 279,768,000 | 3.7% | 0.8% | 292,137,000 |
| Faculty and staff benefits | 136,376,272 | 145,688,000 | 2.9% | 0.4% | 150,979,000 |
| Grad assistant & student salary | 29,930,077 | 31,197,000 | 2.0% | 1.5% | 32,298,000 |
| Grad assistant & student benefits | 24,043,389 | 23,063,000 | 2.5% | 1.5% | 23,903,000 |
| Supplies, services, other: | 112,074,295 | 130,683,000 | 3.5% | 0.5% | 135,859,000 |
| Total Direct Expenditures: | 568,786,935 | 610,399,000 | | | 635,176,000 |
| | | - | | | - |
| Net transfers out: | 7,403,987 | 5,419,000 | | | 5,419,000 |
| Total Expenditures | **576,190,922** | **615,818,000** | | | **640,595,000** |
| | | | | | |
| **New cost commitments:** | | | | | **9,300,000** |
| New building operations | | | | | 1,000,000 |
| Insurance increment | | | | | 1,500,000 |
| Incremental capital renewal funding | | | | | 1,500,000 |
| Incremental debt service | | | | | 2,500,000 |
| Enrollment management | | | | | 700,000 |
| Information technology | | | | | 1,000,000 |
| Initiative 2 | | | | | 500,000 |
| Initiative 3 | | | | | 600,000 |
| | | | | | |
| **Revenue Projections** | | | | | |
| Tuition | | | | | |
| Undergraduate | 221,137,170 | 220,117,000 | 4.1% | 1.2% | 233,815,000 |
| Graduate and Professional | 64,202,181 | 62,479,000 | 2.5% | 0.4% | 63,760,000 |
| Ecampus | 144,359,481 | 164,844,000 | 4.1% | 8.4% | 186,053,000 |
| Other tuition and fees | 18,547,594 | 18,981,000 | 3.5% | -0.8% | 19,338,000 |
| Tuition waivers | (58,447,333) | (69,000,000) | | 16.0% | (80,040,000) |
| State funding | 153,061,508 | 148,350,000 | | 4.1% | 154,355,000 |
| Indirect cost recovery | 43,295,958 | 41,472,000 | | 2.0% | 42,301,000 |
| Other | 37,998,888 | 33,307,000 | | 2.0% | 34,215,000 |
| **Total Revenues** | **624,155,447** | **620,550,000** | | | **653,797,000** |

**Table 3: Scenario planning for tuition recommendations**

Tuition Scenario Table (Corvallis campus): The right-hand column shows the increases at the inflation/inflation plus 1% scenario. The goal is to show both the impact on individual students and on overall institutional balance in a succinct format. 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). Note these estimates for overall Corvallis E&G surplus or deficit are probably plus/minus $1M to $3M, given uncertainties.

| | **Scenario A:**<br>**Continuing**<br>**Resident 2.5%, Non-resident 2.5%**<br>**New Resident 3.5%, Non-resident 3.5%** | **Scenario B:**<br>**Continuing**<br>**Resident 3.0%, Non-resident 3.0%**<br>**New Resident 4.0%, Non-resident 4.0%** | **Scenario C:**<br>**Continuing**<br>**Resident 3.5%, Non-resident 3.5%**<br>**New Resident 4.5%, Non-resident 4.5%** |
|---|---|---|---|
| **State funding at current levels** | Resident undergraduate (annual):<br>Before 2020: 2.5%, $252<br>Entered FY21: 2.5%, $260<br>Entered FY 22: 2.5%, $264<br>New FY23: 3.5%, $370<br>Non-res undergraduate (annual):<br>Before 2020: 2.5%, $754<br>Entered FY21: 2.5%, $777<br>Entered FY 22: 2.5%, $788<br>New FY23: 3.5%, $1103<br><br>Surplus or (deficit): $(0.5M), -0.1% of revenue | Resident undergraduate:<br>Before 2020: 3.0%, $302<br>Entered FY21: 3.0%, $311<br>Entered FY 22: 3.0%, $317<br>New FY23: 4.0%, $422<br>Non-res undergraduate:<br>Before 2020: 3.0%, $905<br>Entered FY21: 3.0%, $932<br>Entered FY 22: 3.0%, $945<br>New FY23: 4.0%, $1261<br><br>Surplus or (deficit): $1.7M, 0.3% of revenue | Resident undergraduate:<br>Before 2020: 3.5%, $352<br>Entered FY21: 3.5%, $363<br>Entered FY 22: 3.5%, $370<br>New FY23: 4.5%, $475<br>Non-res undergraduate:<br>Before 2020: 3.5%, $1056<br>Entered FY21: 3.5%, $1087<br>Entered FY 22: 3.5%, $1103<br>New FY23: 4.5%, $1418<br><br>Surplus or (deficit): $3.9M, 0.6% of revenue |
| | Base resident tuition & fees: %<br>Average res. tuition & fees: % | Base resident tuition & fees: %<br>Average res. tuition & fees: % | Base resident tuition & fees: %<br>Average res. tuition & fees: % |

Graduate tuition (0% residents and 3.5% non-residents), professional tuition (3.5%), and differential tuition (3.5%). Cost estimates include ~3.5% overall inflation this year because of modest increases in benefit costs; costs of growth (about 1% for modest growth in Ecampus and post-pandemic adjustments in Corvallis); and new commitments as noted in the projection in Table 2.