

## FY2020 Operating Budget Update

### BACKGROUND

At its May 2019 meeting, the Board of Trustees approved an operating budget for the fiscal year July 1, 2019, through June 30, 2020. At that time, there was significant uncertainty about the level of state funding that would support the E&G budget since the legislature was in session and the budget for higher education had not been finalized. The FY2020 operating budget approved by the Board assumed there would be a \$40M biennial increase to the Public University Support Fund (PUSF) for the seven public Oregon universities. This level of funding would require \$18M in reductions in Corvallis E&G spending, slowed investments in new programs at OSU-Cascades, and reductions in the Statewide Public Services (SWPS), since state funding levels for SWPS are not sufficient to cover inflationary costs. This docket provides an update on the FY2020 operating budget based on the state funding levels ultimately approved by the legislature.

### UPDATE

The final budget approved by the legislature provided a \$100M increase to the PUSF, a 5.5% biennial increase to the Engineering Technology Sustaining Fund (ETSF) and other State Programs, an 11.5% increase for the Extension Service and an 11.7% operating increase for the Forest Research Laboratory and the Agricultural Experiment Station. In addition, there was \$1.6M for the wave energy project (one-time funding), and full funding for the Outdoor School Program (administered by OSU Extension). The legislature approved \$65M in state bonds to be shared among the seven universities for deferred maintenance, but there are no additional commitments for capital funding. Instead, the legislature reserved \$315M in debt capacity for all state capital projects, with the distribution to be considered when it reconvenes in 2020.

The funding at this level provides the SWPS the ability to retain current services and replace some of the programs reduced during the current biennium. It will provide about an additional \$480,000 to OSU-Cascades to support campus development. The PUSF increase will provide an increase of about \$9M to the Corvallis E&G budget, which will help manage the gap between expense growth and revenues. However, revenues based on Corvallis enrollment projections are down an additional .5 to \$1M compared to those presented at the May Board meeting. Estimates will be more robust based on participation rates in summer orientation sessions.

The initial development of the Corvallis E&G budget assumed the need to close an \$18M gap between revenues and expense growth (including essential strategic commitments). The strategy to manage those expense reductions included:

- Central adjustments (\$4.1M)
  - Reduce next increment of E&G capital renewal funding
  - Reduce other central strategic increments as possible
  - Seek insurance savings of \$1.0M for FY2020 through spend of insurance trust reserves
- Services and supplies spending reduction (\$5.2M)
  - Set target at 1% less than FY2019 spending, excepting contractual increases, building operations
- Personnel reductions (\$8.7M)
  - Managed principally through FY2020 vacancies

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*July 30, 2019 Board of Trustees Meetings*

The practical consequence of this approach is that academic colleges received nearly flat funding relative to FY2019 budgets, plus any increases (or decreases) allocated within the budget model for changes in credit hours and degrees awarded. Service, support, and management units were essentially flat-funded in the recurring tuition and state portion of their budgets, which will require a significant reexamination of priorities and investments both within and across those units. This budget allocated an additional \$3.3M in financial aid but also left no central contingency funds.

The additional funding from the state helps greatly, but does not fill the entire expense gap. Consistent with the Board's discussion in May, the plan for the additional \$9M from the state is to make some essential investments while trying to moderate some of the reductions. Conversations are still ongoing with units and university leadership but at this time, the proposed plan for the additional \$9M calls for:

- Allocating \$1M more to financial aid to be used to retain students, including the use of completion grants,
- Budgeting a \$4.5M enrollment reserve as a cushion in case fall enrollment further lags projections. If enrollment meets projections, the current plan is that \$2M would be used to bring the capital renewal fund back to \$5M, \$0.5M would be budgeted for additional debt service, and the balance would be held as an investment fund to help colleges and service or management units with their expense reduction strategies. These may be adjusted depending on specific issues as units adjust their programs to their available budgets.
- Funding OSU Foundation at \$950K to build capacity for the next campaign (a decrease of \$250k from what was planned),
- Providing an increase to the allocations to academic colleges to maintain programs, faculty, and student support. This provides, on average, a minimum of half of their inflationary growth on tuition and state funds (about 1.9% vs. inflation of total inflation 3.8%), and
- Investing in enrollment management initiatives, including targeted marketing and surveys and the development of a more robust contact management system.

The \$1M for financial aid and the \$4.5M enrollment reserve are new budget commitments. The original budget gap of \$18M is decreased by the additional \$9M from the state, but it is increased by \$5.5M for those additional new commitments. There remains a challenge to make \$14.5M in expense reductions to balance the Corvallis E&G budget, so the original budget structure remains largely in place. Units will manage the reductions through reduced services and supplies spending and position vacancies, while considering longer term structural changes in staffing, organization, and program delivery.

### NEXT STEPS

Staff will continue to keep the Finance & Administration Committee updated on implementation of the budget through the quarterly operating and management reports.