Education and General Budget Planning and Preliminary FY2020 Tuition Outlook

BACKGROUND

Planning for the 2019-2020 fiscal year (FY2020) is challenging because of large variations in proposed state funding and uncertainties in the timing of state funding decisions, significant cost increases, and pressures on tuition and enrollment. Even with a planned $7.2M budget reduction in the current fiscal year, preliminary FY2020 scenarios for Corvallis Education and General (E&G) budgets yield projected budget deficits of $24.0M to budget surpluses of $2.0M depending principally on state funding levels.

CONTEXT

Current Year Changes

Current year undergraduate tuition revenues in Corvallis were $7.2M short of initial budget projections, about 70% from resident enrollment shortfalls and 30% from less than projected growth in non-resident enrollments. Ecampus and OSU-Cascades tuition has met projections so far. All of the projected revenues were budgeted out to units this year to support the implementation of the budget model and initiatives to improve revenue generation in future years. As a result, there are no central reserves to offset this shortfall, and it was necessary to adjust initial budget allocations for campus units. A reduction of $7.2M in initial budget was distributed to E&G units in Corvallis in mid-December 2018.

The FY2020 budget projections start from tuition revenues this year to account for the revenue shortfall. The expense projections assume that units will be able to make accompanying reductions in expenses this year, so the expense base is reduced $7.2M as well. To the extent that the reductions are not made this year (because of contractual or programmatic obligations), they will have to be made in addition to any reductions discussed here for FY2020.

Enrollment Outlook

Corvallis enrollment projections for next year are for a 2% decline in resident undergraduates (this assumes some success in retention and transfer recruitment; otherwise, this would be a 4.1% decline), a 1.5% increase in non-resident undergraduates, flat graduate enrollment, and 7% growth in Ecampus (a continued slowing in growth rate). The resident undergraduate declines are a result of demographics for Oregon high school graduates, the expanding use of the Oregon Promise community college program, and increased competition from other four-year universities. Overall the projections are for a reduction in headcount of 0.8% in Corvallis and an increase in headcount of 4.9% in Bend and 7.0% in Ecampus enrollments (11.0% in total Ecampus revenues) for a total OSU headcount enrollment of 32,580 (1.0% growth overall).

State Budget Planning

The state is projecting about 5% revenue growth the next biennium, slowing from double-digit increases over the last two biennia. Despite the revenue growth, there is expected to be a substantial gap between revenues and continuing service level expenses due principally to increases in Public Employees Retirement System (PERS) costs and a shift of healthcare costs from the federal government to the state.

The governor released her budget in December, essentially in two versions. The Governor's Recommended Budget (GRB) assumes no new revenue sources and adds significant state funding to K-12. The GRB recommends flat funding for the Public University Support Fund (PUSF) and eliminates funding for the Engineering Technology Sustaining Fund (ETSF, about $7.1M annually to OSU) and lottery funds that support athletic programs at the seven universities. This would result in about a $12M budget reduction to OSU from FY2019 to FY2020. The budget "flat-funds" the Statewide Public Services, provides $65M in state bonding for capital improvement and renewal across the seven universities, and delays bonding for OSU's major capital projects to the FY2020 session, contingent on a ten-year capital plan from the Higher Education Coordinating Commission (HECC).

The second version is an investment budget premised on about $1.9B in new revenues. In this case there is a proposed $120M increase to the PUSF, restoration of the ETSF and the lottery funding, an additional $35M for the ETSF (though the distribution is to be determined), $20M additional for the Statewide Public Services and a $10M Public University Innovation Fund. The investment budget also doubles the funding for the Oregon Opportunity Grant.

The two budget scenarios are very different in their impact on OSU and neither is likely to be the final version approved by the Legislature. The Office of Budget and Fiscal Planning, after consultation with Government Relations and other offices, is assuming a $40.0M biennial increase to the PUSF (about a 2% increase to OSU from FY2019 to FY2020) and flat funding for the ETSF for planning purposes. An assumption of a 2% increase in state funding for the Statewide Public Services is also being used for planning purposes.

FY2020 PROJECTIONS

Cost Increase Projections

Figure 1 shows a summary of the cost and revenue projections for the Corvallis E&G budget for FY2020. The left-hand chart shows cost increases in three categories: inflationary drivers (green shades), costs for enrollment growth (blue), and new commitments for long-term issues (brown shades).

Salary costs are expected to grow a bit more than 3% while benefits increase 6.9%, due principally to increases in PERS rates. Inflation on services and supplies is projected at about 2.8%. Overall, inflation on existing services and programs is 4.1%. 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.

While we are expecting small enrollment declines in Corvallis, there is still substantial growth projected in Ecampus, including enrollments in hybrid-delivery programs at the Portland site. This growth requires some investment in additional faculty, teaching assistants, and materials and the costs are estimated from historical trends. Some of these costs may be reduced if capacity created by declines in Corvallis can be redirected to support Ecampus growth. However, the areas of growth and decline between Ecampus and on-campus programs do not often align.

There are also some areas where additional commitments are needed to address long-term issues. These include an incremental $5.0M (for a total of $15.0M in FY2020) to address capital renewal needs, an estimated $3.5M in additional debt service on new revenue bonds, $0.7M for the last increment in the athletics sustainability plan, and $1.2M for the OSU Foundation and Alumni Association to build staff capacity for the next campaign.

The specific amounts in Figure 1 are for the Corvallis campus. OSU-Cascades and the Statewide Public Services (SWPS) will see the same inflationary increases. OSU-Cascades will see additional cost increases as the campus grows and additional staff and programs are added. Growth in specific programs in the SWPS will be contingent on increased appropriations from the Legislature.

Revenue Projections and Assumptions

The right-hand chart in Figure 1 illustrates three revenue scenarios for the Corvallis campus, corresponding to different levels of state funding. Each assumes the same increases in other funds (interest, indirect cost recovery from grants, and sales and services incremented at recent historical growth rates), tuition revenues from rate increases (these assume undergraduate resident rate increases of 5% and non-resident undergraduate increases of 3.5%), and tuition revenues from enrollment growth (based on the projections outlined above).

The state-funding scenarios include the GRB, which flat funds the PUSF and eliminates the ETSF (left most bars); an assumption of a $40M addition to the PUSF for the biennium and continuation of the ETSF funds (middle bars); and the Governor's Investment Budget, which adds $120M to the PUSF for the biennia and restores the ETSF (rightmost bars). The GRB scenario nets to an overall revenue increase of $13.8M after the state reductions of $11.9M, offset by increases in revenues from tuition driven by rate increases and Ecampus revenue growth.

The GRB scenario leaves a gap of $23.8M between projected revenues and cost increases; the $40M scenario has a revenue shortfall of $9.7M; and the Investment scenario yields a revenue surplus of $3.2M. Each of these assumes that the $7.2M of budget reductions made in the current year are addressed by recurring expense reductions in all units. These are planning scenarios, and the budget presented in June will include adjustments to provide a balanced E&G budget.

OSU-Cascades and the SWPS would see about 2% increases in state funding in the $40M scenario and a 4% reduction in the GRB scenario. In the Investment scenario, OSU-Cascades would see an increase of $0.9M in state funding and the SWPS would get a $20M increase.

TUITION PLANNING

The University Budget Committee (UBC) constitutes the Tuition Advisory Committee required by House Bill 4141 adopted by the 2018 Legislature. 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 FY2020. While the revenue scenarios in Figure 1 make assumptions about tuition rates for illustration neither group has settled on specific rate recommendations yet. 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%.

The UBC is discussing undergraduate tuition rates through a scenario approach as it has in previous years. Some of the consequences of those scenarios (such as budget shortfalls, cost to students, and financial aid changes) are shown in Table 1. The UBC will make its recommendations to the President in a similar format, informed by updates on Legislative discussions.

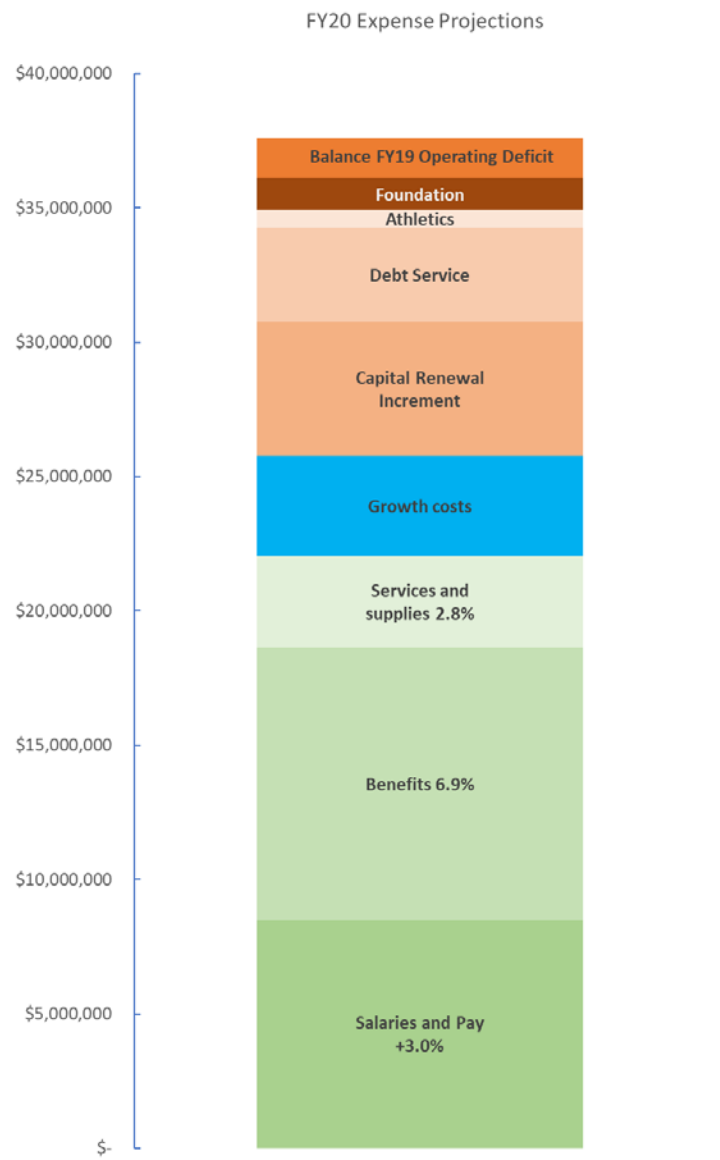
PRINCIPAL ISSUES

The two most challenging issues for budget planning this year, including setting tuition rates, are the large disparity between the governor's two funding recommendations and the timing of Legislative decisions. The two funding scenarios in the governor's recommendations are a swing of over $26.0M for the Corvallis campus, and legislative decisions on funding for higher education are unlikely to be completed before June. Tuition rates will be decided by the Board at the April meeting so that financial aid packages for students can be finalized. If the Legislature adopts significant tax increases those will likely be referred to voters in November adding additional uncertainty to FY2020 budget planning.

Oregon's public universities may be asked to consider committing to tuition increases of 5% or less on the promise that increased funding will materialize. Most of the other campuses are discussing rate increases significantly higher than 5% if state funding is less than the investment scenario and would prepare a set of tuition rates contingent on particular levels of state funding. For OSU, given the Board's discussions to date, our planning would more likely be focused on expense or program reductions of various levels depending on state funding rather than various tuition rates over 5%.

NEXT STEPS

Based on input from the Board of Trustees, the University Budget Committee, the Student Advisory Council and other stakeholders, staff will present a proposal from the President for FY2020 tuition rates and fees at the April committee and Board meetings, together with an updated budget outlook.



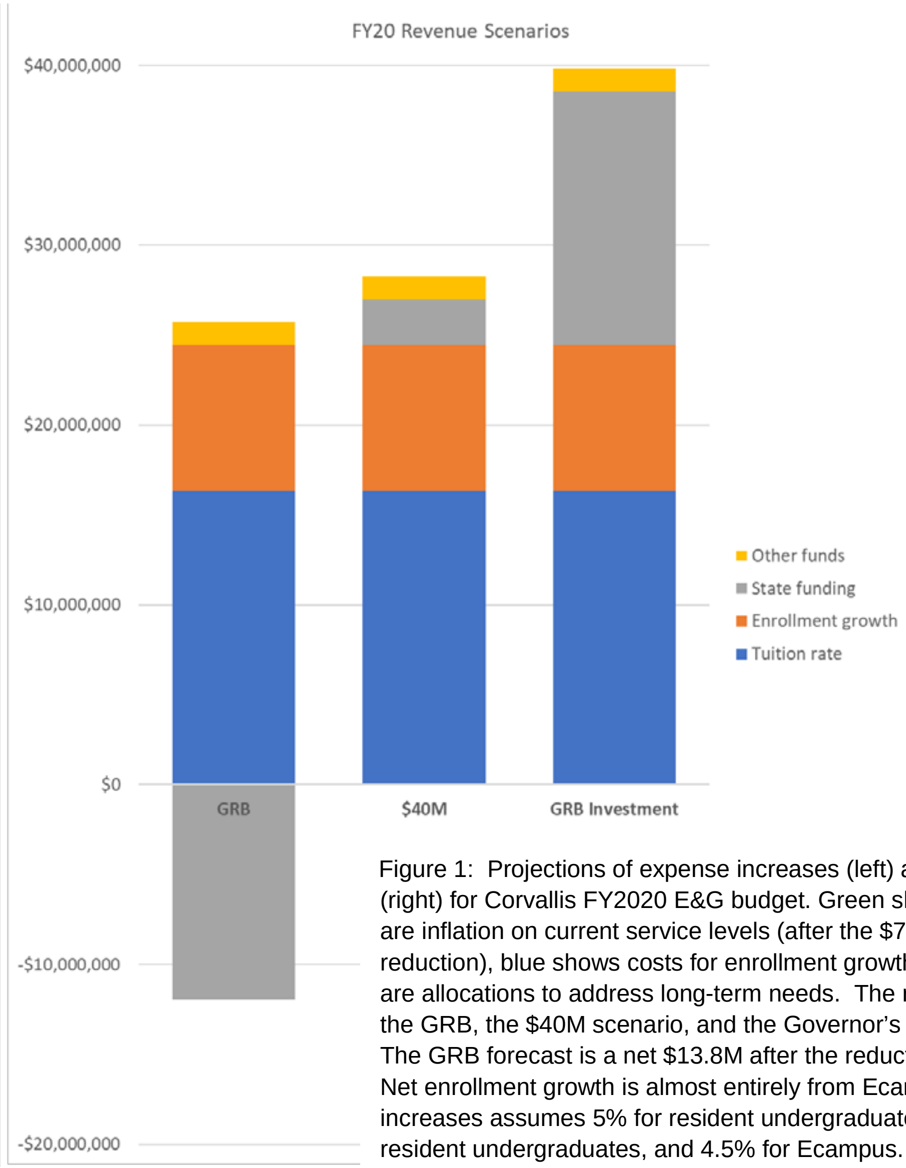


Figure 1: Projections of expense increases (left) and revenue scenarios (right) for Corvallis FY2020 E&G budget. Green shaded cost increases are inflation on current service levels (after the $7.2M FY2019 reduction), blue shows costs for enrollment growth staffing, and brown are allocations to address long-term needs. The revenue graph shows the GRB, the $40M scenario, and the Governor’s investment budget. The GRB forecast is a net $13.8M after the reductions in state funding. Net enrollment growth is almost entirely from Ecampus; tuition rate increases assumes 5% for resident undergraduates, 3.5% for non-resident undergraduates, and 4.5% for Ecampus.

Table 1: Preliminary tuition scenario table to frame discussions by the University Budget Committee. These scenarios assume $7.2M of recurring expense reductions are completed in FY2019. Any reductions not made this year will be carried over in addition to the budget deficits noted here. These are not adjusted for enrollment sensitivity yet, but do assume a 2% decline in resident undergraduates. Scenarios also assume graduate resident tuition, professional tuition, and Ecampus increase at local rate of inflation (3.5-4.2%), and non-resident graduate tuition increase about 5% (long-term adjustment to get closer to peers). Most differential tuition charges flat, though some adjustments in Engineering and Business may be necessary.

	Scenario A	**Scenario B**	**Scenario C**	**Scenario D**
GRB State $0M PSUF -$4.5M FY2020 to OSU	Resident undergraduate: 2% Non-res undergraduate: 2% Financial aid increase $0.9M Surplus / (deficit): $(28.3M) $189 annual increase residents $567 annual increase non-res	Resident undergraduate: 4% Non-res undergraduate: 3% Financial aid increase $1.3M Surplus / (deficit): $(25.3M) $377 annual increase residents $851 annual increase non-res	Resident undergraduate: 5% Non-res undergraduate: 3.5% Financial aid increase $1.5M Surplus / (deficit): $(23.8M) $472 annual increase residents $993 annual increase non-res	Resident undergraduate: 7% Non-res undergraduate: 4.9% Financial aid increase $1.9M Surplus / (deficit): $(20.4M) $660 annual increase residents $1390 annual increase non-res
State +$40M PUSF +$2.0M FY2020 to OSU	Resident undergraduate: 2% Non-res undergraduate: 2% Financial aid increase $0.9M Surplus / (deficit): $(14.2M) $189 annual increase residents $567 annual increase non-res	Resident undergraduate: 4% Non-res undergraduate: 3% Financial aid increase $1.3M Surplus / (deficit): $(11.2M) $377 annual increase residents $851 annual increase non-res	Resident undergraduate: 5% Non-res undergraduate: 3.5% Financial aid increase $1.5M Surplus / (deficit): $(9.7M) $472 annual increase residents $993 annual increase non-res	Resident undergraduate: 7% Non-res undergraduate: 4.9% Financial aid increase $1.9M Surplus / (deficit): $(6.3M) $660 annual increase residents $1390 annual increase non-res
Governor's Investment Budget State +$120M PUSF +$12.7M FY2020 to OSU	Resident undergraduate: 2% Non-res undergraduate: 2% Financial aid increase $0.9M Surplus / (deficit): $(1.3M) $189 annual increase residents $567 annual increase non-res	Resident undergraduate: 4% Non-res undergraduate: 3% Financial aid increase $1.3M Surplus / (deficit): $1.7M $377 annual increase residents $851 annual increase non-res	Resident undergraduate: 5% Non-res undergraduate: 3.5% Financial aid increase $1.5M Surplus / (deficit): $3.2M $472 annual increase residents $993 annual increase non-res	Resident undergraduate: 7% Non-res undergraduate: 4.9% Financial aid increase $1.9M Surplus / (deficit): $6.6M $660 annual increase residents $1390 annual increase non-res