

Education and General Budget Planning and FY2021 Tuition Outlook

BACKGROUND

Planning for the 2021 fiscal year (FY2021) is more straightforward than was planning for the current year. FY2021 is the second year of the biennium. Therefore, barring any sudden economic downturn, state operating funding is known; it will increase by about 4.1% and the rates for retirement benefits will remain the same (rates change at the beginning of each biennium). The challenges for the next year come principally from projected undergraduate enrollment declines in Corvallis and a significant number of new projected costs that include the next capital renewal increment, property insurance increases, growth in debt service, and increased commitments to the OSU Foundation.

CONTEXT

Current Year Update

The final Education and General (E&G) budget for the current year was higher than that approved at the June Board meeting, principally because of an increase in state funding approved near the end of session. The approximately \$9M increase in the Public University Support Fund funded the following: increased allocations to academic colleges (thus lowering the expense reductions required;), a \$1M fund for investments in enrollment management; a \$4M central reserve in Corvallis; supported additional program growth at OSU-Cascades; and funded part of continuing service level increases along with partial restoration of the previous biennium's shortfall for the Statewide Public Services (SWPS).

Other revenues are projecting close to the estimates in the budget approved in June by the Board. Total net tuition revenues (after institutional financial aid) are up 0.1%, although the mix of tuition revenues is a bit different than projected (Ecampus 3.8% above the June projection, undergraduate tuition 0.3% below, graduate and professional tuition 3% below, and summer tuition 8.1% below the projection). Other revenues are up 0.9% from the June estimate.

In spring conversations with the OSU community, the provost and vice president for finance and administration identified budget priorities to guide decisions about FY2020 allocations. Those four budget priorities and some of the actions to address them included the following:

- *Manage tuition & expand enrollment strategically.* This included a commitment of \$3.3M more in tuition waivers, \$1M in reserves for enrollment management strategies (including emergency financial aid), and a \$0.6M investment in enrollment management operations.
- *Continue the commitment to appropriate raises, even in difficult economic times, to recruit and retain faculty and staff.* The budget included funds for an unclassified mid-year raise at 3% and raises for SEIU-represented staff as settled in negotiations. The specific costs for raises for faculty represented by the United Academics of Oregon State University (UAOSU) are not yet known.
- *Reduce our administrative costs.* The budget provided a \$4.7M increase to colleges (including bridge funding for Science, Education, Liberal Arts, and Public Health and Human Sciences), but only a \$0.9M net increase to administrative and support units, which was not sufficient to cover current service level costs.

- *Implement the facilities renewal program at a reduced level.* An additional \$3M (down from the \$5M originally planned) was budgeted for capital renewal (\$13M total), \$1.4M for debt service and Marine Studies Initiative building operations, and \$2.1M for property insurance increases.

The FY2021 budget projections start from actual tuition and other revenues. The expense projections discussed here assume that units will be able to make necessary reductions in expenses this year (FY2020). The expense estimates will be updated when departments complete second quarter expense projections later in January 2020.

Enrollment Outlook

Corvallis fall enrollment was a little better than originally projected, but the freshmen class is down over 200 students and the senior class is up over 150 students. Barring significant changes in recruitment or transfer numbers, Corvallis enrollment projections for next year indicate a 2% to 4% decline in both resident and non-resident undergraduates, flat graduate enrollment, and 7% growth in Ecampus (an assumed slowing in growth rate from the current year's significant increase). 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. Growth in Bend is expected to exceed 4%.

There are efforts underway to increase recruiting of non-resident students (domestic and international), graduate students (which is impacted by the overall state of the economy), and resident undergraduates (both transfers and students direct from high school). Successful efforts here would improve the current projections, but it is too early to know if they will have an impact for FY2021.

FY2021 BUDGET PROJECTIONS

Cost Increase Projections

Figure 1 shows a summary of the cost and revenue projections for the Corvallis E&G budget for FY2021. 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 between 3.0% and 4.5%, depending on the employee group. There is significant uncertainty in salary costs, since negotiations are still underway with the UAOSU and the Coalition of Graduate Employees (CGE). Benefit costs are estimated to increase by about 2.7%, due principally to increases in health insurance rates, as rates for retirement programs are set at the beginning of a biennium. Inflation on services and supplies are projected at about 2.0%. Overall, aggregate inflation on existing services and programs is estimated to be 3.0%. 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. This growth requires some investment in additional faculty, teaching assistants, and materials, and these costs are estimated from historical trends (fairly modest at about \$1.3M). Some of these costs may be reduced if capacity created by declines in Corvallis

enrollments can be redirected to support Ecampus growth. However, the areas of growth and decline between Ecampus and on-campus programs often do not align.

Additional commitments are also needed in other areas to address long-term issues. The largest of these is an incremental \$7.0M (for a total of \$20.0M in FY2021) to address capital renewal needs. This allotment would restore the \$2M that was reduced in the current year (only \$3M additional was allocated instead of \$5M) and includes the planned \$5M annual increment for FY2021. The other major incremental costs include an estimated \$2.3M in additional debt service on new revenue bonds, \$2.0M in additional property insurance increases, 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 SWPS will see the same inflationary increases. 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 guidance and the need to balance continuing service level costs with new commitments.

Revenue Projections and Assumptions

The right-hand chart in **Figure 1** illustrates the current projection of major revenues for the Corvallis campus. Tuition rate increases (assumed here to be 3% for undergraduate and Ecampus, 4.5% for non-resident graduates, and 2.5% for resident graduates) provide about \$12.4M in new revenues (after accounting for growth in institutional financial aid). Growth in tuition from net enrollment changes is estimated to be \$1.4M, but that includes growth of \$7.5M in Ecampus and a decline of \$6.1M in other campus-based tuition. State funding will grow \$5.3M (4.1% of total state funding) and other funds are expected to grow by about \$1.4M.

OSU-Cascades and the SWPS would see the same 4.1% increases in state funding as Corvallis. Tuition at OSU-Cascades assumes the same rate increase as in Corvallis and growth over 4%.

Those revenue projections show a \$10M to \$12M shortfall to the projected expenses (while **Figure 1** shows an \$11.6M gap, there is significant uncertainty in several of the assumptions). This gap is not unexpected and, at this stage in budget development, the expense projections assume commitments to all existing programs as well as the most significant new commitments, while also making conservative estimates about revenue projections. The budget development process, including tuition recommendations in April and the budget proposal in June, will include strategies to balance the E&G operating budget.

TUITION PLANNING

The University Budget Committee (UBC) constitutes the tuition advisory committee required by HB 4141. The Student Budget Advisory Council (SBAC) 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 FY2021. 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%. 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. This process is easier in the second year of a biennium as there is more certainty in the level of state funding. Some of the consequences of the planning scenarios (budget shortfalls, cost to students, financial aid changes) are shown in **Table 1**. The UBC will make its recommendations to the president in a similar format.

PRINCIPAL ISSUES

The most challenging issue for budget planning this year, including setting tuition rates, is addressing the gap between projected growth in revenues and the cost of continuing services and high-priority strategic investments. 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. As enrollment slows over the next several years, developing a balanced budget will require the university to consider expense reductions, prioritization of new strategic investments, new enrollment strategies, and innovative approaches to revenue generation. Staff expects this kind of budget outlook to be common over the next few years.

NEXT STEPS

Based on input from the Board of Trustees, the University Budget Committee, the Student Advisory Council and other stakeholders, and after approval by the president, staff will present a proposal for FY2021 tuition rates and fees at the April committee and board meetings, together with an updated operating budget outlook.

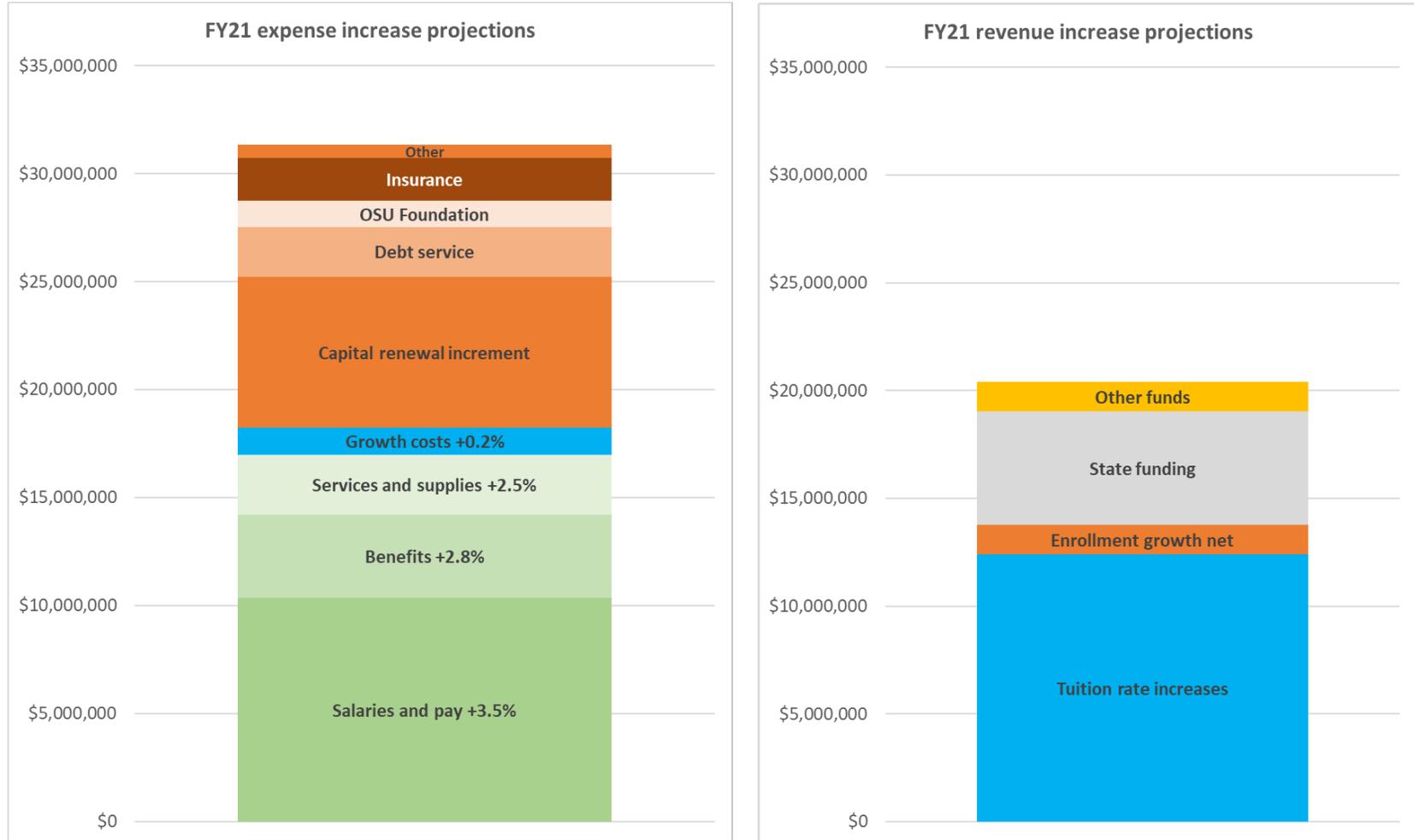


Figure 1: Projections of expense increases (left) and revenue scenarios (right) for Corvallis 2020-2021 Education and General budget. Green shaded cost increases are inflation on current service levels, blue shows costs for enrollment growth staffing, and brown are allocations to address long-term needs. The revenue graph shows the projected revenue changes including the portion from tuition rate increases (assuming 3% for undergraduates and Ecampus), from net enrollment (entirely from Ecampus as Corvallis enrollments decline), from state funding, and from other funds (interest, indirect cost recovery, and sales and service revenues). The gap in these planning projections is about \$11.6M, or 1.9% of the total Corvallis E&G budget.

Table 1: Tuition Scenario Table (Corvallis campus): 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. This is a starting point for discussion, not recommended rates. Scenario B is set at the estimated overall inflationary increase. Rates are applied to resident undergraduate (including Ecampus) and non-resident undergraduate tuition rates

	Scenario A: Resident 1.5%, Non-resident 1.5%	Scenario B: Resident 3%, Non-resident 3%	Scenario C: Resident 4.5%, Non-resident 4.5%
State increase second year of a biennium, +4.1%	Resident undergraduate: 1.52% Non-res undergraduate: 1.48% Financial aid increase \$0.4M Surplus or (deficit): \$(16.4M) \$148 annual increase residents \$442 annual increase non-res	Resident undergraduate: 3.05% Non-res undergraduate: 3.01% Financial aid increase \$1.1M Surplus or (deficit): \$(11.6M) \$295 annual increase residents \$883 annual increase non-res	Resident undergraduate: 4.57% Non-res undergraduate: 4.48% Financial aid increase \$1.7M Surplus or (deficit): \$(6.8M) \$443 annual increase residents \$1,325 annual increase non-res
	Base resident tuition & fees: 1.50% Average res. tuition & fees: 1.35%	Base resident tuition & fees: 3.10% Average res. tuition & fees: 3.00%	Base resident tuition & fees: 4.50% Average res. tuition & fees: 4.40%

- Graduate tuition increase assumed at 2.5% resident, 4.5% non-resident; professional tuition at 3-4%, and no increase in differential tuition.
- Cost estimates include about 3.0% overall inflation this year because of modest increases in benefit costs; costs of growth (about 0.2% for modest growth in Ecampus, but declines in Corvallis); and new commitments (this year largely for capital renewal and repair, insurance, debt service, and the OSU Foundation).