FY2017 Operating Budget

SUMMARY OF PROPOSAL

The Board of Trustees is charged with reviewing and approving the University's annual operating budget. The budget supports the educational, research, and outreach goals of OSU's Strategic Plan 3.0. Figure 1 shows some key metrics for the University.

For the fiscal year July 1, 2016, through June 30, 2017, the University proposes an operating budget with three principal components totaling $1.17 billion in revenues and $1.17 billion in expenditures and net transfers (Figure 2 and Tables 1, 2, 3 and 4):

- Education and General (E&G) Funds support instructional, research, and outreach work on the Corvallis Campus, on the Bend Campus, and in the Statewide Public Services (SWPS). The revenue budget is projected as $618.3M, with projected expenditures of –$603.9M and net transfers of –$6.6M. The projected fund balance change is a positive $7.9M, with an ending fund balance of $83.3M (13.5%).
- Self-Support Funds include Auxiliaries (Athletics, Housing & Dining, Student Centers, etc.), Service Centers, Designated Operations, and Royalties. The revenue budget is projected at $220.2M, with projected expenditures of –$223.6M and net transfers of $1.9M. There are also –$8.2M in other deductions to unrestricted net assets. Unrestricted net assets are projected to decline by $9.8M, with an ending balance of $28.1M (12.7%).
- Restricted Funds include expenditures from externally funded grants and contracts and gift expenditures from the OSU Foundation and other entities. Revenues and expenses are consistently at or near balance in these funds as expenditures are limited by revenue. FY2016-17 revenues are projected to be $334.3M, expenditures –$334.0M, and net transfers at –$0.1M. Restricted net assets are projected to increase $0.2M with an ending balance of $12.9M (3.9%).

BUDGET CONTEXT

The operating budget of the University provides a plan to develop and distribute resources for the faculty, staff, and leadership to pursue the goals outlined in Strategic Plan 3.0 (SP3.0) and consistent with the draft ten-year business strategy. OSU's strategic vision states that "to best serve the people of Oregon, Oregon State University will be among the Top 10 land grant institutions in America." The plan has a strategic focus on three signature areas (Advancing the Science of Sustainable Earth Ecosystems, Improving Human Health and Wellness, and Promoting Economic Growth and Social Progress) and three strategic goals:

- Provide a transformative educational experience for all learners;
- Demonstrate leadership in research, scholarship and creativity while enhancing preeminence in the three signature areas of distinction; and
- Strengthen OSU's impact and reach throughout the state and beyond.

These goals guide decisions about developing and investing incremental revenue.

In any given year, there are many places in which the University can invest and more good ideas and initiatives than there is incremental revenue. The University has made significant investments over the first two phases of our strategic plan, and a part of annual revenue growth is committed to support the existing staff, faculty, and facilities that have been developed over those years. Advancing SP3.0 requires both investments in new activities and managing or redirecting existing budget. There are also some new expenditures (such as additional plumbers, added accountants, new department support staff, etc.) that may be difficult to tie to a single strategic plan strategy but provide essential support to many parts of the University.

Achieving the SP3.0 goals will require a multi-year look at where and how OSU makes investments. We may not make large investments in every strategy recommended in the strategic plan every year, but each of those strategies will need investments over time.

EDUCATION AND GENERAL FUNDS

Education and General (E&G) Funds support Corvallis academic and support operations (including the Hatfield Marine Science Center), Cascades academic and support operations, and the operations of the SWPS. Flattening enrollment trends and the beginning of Oregon Promise (Oregon's "free" community college pilot program) create more uncertainty than usual in enrollment projections for the next fiscal year.

Strategic Intent

There are a number of strategic choices in the proposed budget, as well as support for the people and programs that OSU has built over the last several years. The most important of these are:

- Funding of the Office of Institutional Diversity and associated initiatives to create campus programs to help all students and staff succeed and have positive experiences at OSU;
- Operating and staffing the new four-year campus at Bend;
- Expanding the Division of Undergraduate Studies and positions in associated programs through investments of both E&G and OSU Foundation funding to develop best practices for student success across all groups;
- Opening and operating Johnson Hall, an important new facility for supporting the significant student growth in Engineering and continuing to build the research portfolio of the College;
- Completing the staffing and program development in the Statewide Public Services that were expected by the stakeholders who advocated for the increased state investment in those units; and
- Increasing academic support in key areas including new graduate programs in the College of Liberal Arts and undergraduate student growth in the College of Engineering.

Revenues

The total revenue growth in E&G funds is projected to be 3.8% or $22.8M ($1.4M at Cascades, $0.9M in the Statewide Public Services, and the balance at Corvallis). Revenue growth in E&G funds is projected to slow after significant increases in state funding in FY2016 and tuition revenue growth in FY2016 supported by the transition away from the tuition plateau and increased enrollment, particularly in Ecampus.

The increase in state funding in FY2017 is from the standard increases in the second year of a biennium for both campuses and the Statewide Public Services. The tuition revenue increase of $15.7M is largely from increased enrollments in Ecampus (accounting for about $11.2M of that total). The balance comes from the 2% increase in resident tuition, enrollment increases in non-resident undergraduates at Corvallis, and enrollment increases at Cascades. The increased enrollment of non-resident undergraduates is an important success, as there was a significant decline in freshmen non-resident enrollment in fall 2015. Other income is from sales and service charges, finance and administrative recovery on grants, and other government contributions and is not projected to grow significantly overall.

Expenditures and Net Transfers

Total E&G expenditures are projected to increase 6.2% or $35.5M ($2.6M at Cascades, $3.7M in the SWPS, and the balance at Corvallis). The projected incremental expenses are greater than the projected incremental revenues, but E&G fund balances have grown significantly the last two years because there were recurring unallocated revenues. The projected budget slows that fund balance growth but retains a balanced operating budget.

Personnel and other expenditures in the SWPS are projected to grow because of continued expenditure of the $15M increase in state funding made at the beginning of the biennium. Some of the increase was to support new positions, equipment, and programs that will not be in place until FY2017.

Personnel services and services and supplies expenditures at Cascades are growing in excess of 20%, but this growth is because of commitments to hire faculty to build out degree programs and the costs of operating the new campus when it opens in fall 2016.

The largest portion of expenditures is on the Corvallis campus. Personnel services expenditures are projected to grow 6.1% ($22.3M), and costs for services and supplies and capital outlay by 5.3% ($5.3M). The growth in the latter includes new costs for operation and maintenance of Johnson Hall, inflationary increases in general supplies, and contractual increases in custodial services, software licensing, insurance, utilities, and similar obligations. A large part of the 6.1% increase in personnel services costs is due to salary and benefit increases for current unclassified and classified staff and faculty[1]. $2.2M supports various commitments to student success, compliance, and diversity positions, and about $8.6M is for growth in faculty and graduate assistants to support enrollment growth in engineering, Ecampus programs, and various graduate programs.

E&G funds show net Transfers Out of –$6.6M. The largest of these are for Athletics, plant fund projects, and charges for service center support.

Uncertainties, Issues, and Opportunities

The proposed operating budget is an estimate of the resources and investments for the next fiscal year and there are some uncertainties in the projections and some challenges facing OSU in the next year.

[1] These include negotiated salary increases for represented staff, an estimated 5% increase in health insurance costs, the full year costs of the 3% mid-year unclassified staff raise in January 2016 and a 3% merit increase for unclassified staff planned for mid-year FY2017.

The State of Oregon made a significantly larger investment in the seven public universities in FY2016 that continues in FY2017 with a small inflationary increase. Maintaining and building on those increases in the 2017-19 legislative session will be an important goal. The court case voiding some of the major reforms to the Public Employee Retirement System (PERS) will create significant new costs for the state in the 2017-19 biennium. In combination with increased costs for health care services, projections are for a state funding gap of about $1B, despite expectations for continued revenue growth and barring any changes in the state's tax structure.

Nationally, enrollment is flattening as the traditional college-age population growth slows. Freshmen enrollments in Corvallis were down in fall 2015 for both residents and non-residents, but the loss of those students was offset in part by continued growth in Ecampus revenues. Ecampus tuition is closer to resident tuition rates, so the revenue margin is very different for a new Ecampus student as compared to a new, non-resident undergraduate coming to Corvallis. Current enrollment estimates suggest that enrollments of non-resident freshmen will increase this fall and the decline in freshmen enrollment of resident undergraduates will slow or stop. This may be in part due to the small undergraduate tuition increase this fall.

The commitment to the new four-year campus in Bend and OSU's goals for improved student success and the closing of the achievement gap on the Corvallis campus require major strategic investments. It is important that the university is strategic in committing resources to support these and equally important that the state commit to supporting an appropriate share of the costs.

The federal funding environment remains volatile and impacts research funding, financial aid funding, and the costs of compliance with expanding federal mandates. Academic faculty hired over the last few years are starting to see success with external funding, and OSU expects to see continued increases in research funding this coming year.

SELF-SUPPORT FUNDS

Self-Support Funds include the operations of the Auxiliaries (Athletics, Housing and Dining, Student Centers, Student Health Services, Parking Services and other smaller units), Service Centers (Telecommunications, Network Services, Motor Pool, Printing and Mailing, and others), Designated Operations, and expenditures from Royalty funds.

Self-Support Funds, in aggregate, are projecting a loss of –$3.4M in operations. The operating loss comes principally from projections for an operating deficit for the new dining and resident center in Bend, spending down about $1M of a large fund balance in Student Health Services, and a projected operating deficit in Athletics. Net transfers total a positive $1.9M, and other changes in net assets (these include principal payments to debt and capital outlay) are projected at –$8.2M, for a total decline in fund balance of ($9.8M). Ending unrestricted net assets are projected to be $28.1M or 12.7% of revenue.

Strategic Intent

Self-support operations provide a variety of essential services to students, university faculty and staff, and stakeholders and alumni in the community. While in the long-term self-support operations need to have revenue sufficient to maintain balanced operating budgets, there are circumstances and strategic reasons for a self-support operation to operate at a loss for a period of time.

The expected deficit operation of the new residence and dining hall at Cascades is an example. The facility is an essential investment for the long-term success of the Bend campus, and a new facility like that will necessarily take some time to reach break-even status.

While self-support units overall are operating near balance, Athletics is again projecting an operating deficit for FY2017. Membership in the PAC-12 is an important part of OSU's reputation, provides opportunities for several hundred of our students, creates significant economic impact on Corvallis, and is part of the attraction of the university for some undergraduates. Fielding an appropriate number of competitive teams in men's and women's sports is in OSU's strategic interest. The transition to new leadership in Athletics and coaching changes in some of the major sports warrant some level of deficit operations, but implementing changes to produce a balanced operating budget in Athletics is a critical priority.

Revenues

Fees and Sales and Service income are up, largely due to changes in rates, as enrollment is expected to be relatively flat. Other revenues are expected to decline slightly.

Expenditures

Expenditures show an increase in Personnel Services. This includes planning for a 3% salary increase and increases in medical benefits of about 5%. Growth above those costs includes staffing in Housing and Dining (related to services at both campuses), and increased staffing and services in Printing and Mailing and Parking. Supplies and Services and Capital Outlay expenditures will be up about 5%. Some of the principal components of this change include costs for the new residence and dining hall in Bend, increased expenditures in Student Centers, and increased operating costs in Athletics (in part because of a change in reporting equipment contributions from Nike) and Student Health Services.

Transfers Out are down significantly because there are fewer transfers to plant funds for capital repair and renewal as a large number of projects were funded in the FY16.

Uncertainties, Issues, and Opportunities

Many of the revenue streams for the self-support operations depend on enrollment so are somewhat uncertain until later in the summer when enrollment for fall 2016 is better known. Enrollment is particularly important for University Housing and Dining Services (UHDS), which is directly impacted by any declines in the freshmen class enrollment. UHDS will also be operating the new residence and dining facilities opening at Cascades in January 2017, and both locations are expected to operate at a deficit this coming year.

Student Health Services (SHS) will spend down part of a substantial fund balance to support operations in the coming year. An 8% fee increase approved by ASOSU for FY2017 and a similar increase planned for FY2018 will provide a long-term revenue level to support operations in SHS.

The projected operating deficit in Athletics was noted above. The lack of winning seasons in football, major changes in coaching staffs, and a long-term decline in donor numbers have contributed to the recurring operating deficits. Current leadership in Athletics has revised the ticket sale operations which, with the success of many of the teams, has contributed to a significant improvement in projected ticket sales and associated gifts. Athletics is working with the OSU Foundation and the University to identify a broader and restructured fundraising program that focuses on unrestricted operating gifts as well as gifts for capital projects. Those

strategies may include additions to the fundraising opportunities and programs and a discussion about the role and level of institutional support for Athletics.

RESTRICTED FUNDS

Restricted Funds include grants and contracts for research awarded by the federal government, states, and other agencies; federal financial aid dollars; gifts from the OSU Foundation (including scholarships); and support from other entities such as Oregon counties. Restricted funds are awarded for very specific purposes and are spent directly for those purposes. Revenue and expense generally match closely in any given year.

Strategic Intent

Restricted funds do not provide discretionary revenues to the University, but they are an essential part of supporting OSU's missions of scholarship and student success and do require some investments on the E&G side to ensure continued success.

Successful competition for federal research awards requires suitable facilities and instrumentation. E&G investments in the operation and maintenance of Johnson Hall and support for increased maintenance staffing in Facilities Services this year are in direct support of long-term success in research funding.

Likewise, successful development of scholarship and gift funds requires an investment in OSU's fundraising and alumni network infrastructure. While there are not new investments in those areas this year, as the University plans for the next capital campaign, additional E&G investments will be needed in these areas.

Revenues

Modest growth (2.6%) is projected in restricted funds, largely from increased federal grant and contract awards made in the current and previous year, which will be spent during FY2017, and growth in expenditures from the OSU Foundation, Agriculture Research Foundation and gift funds. State funds are relatively flat.

Expenditures

Expenditure increases reflect the increased grant revenue, with those revenues spent on personnel services and services and supplies. There is a net transfer out of $0.12M for a grant to support the Jefferson Street office building where many Information Services staff are currently housed.

Uncertainties, Issues, and Opportunities

Federal funding for all programs remains uncertain, as many of the decisions are political ones more than financial ones. Academic faculty hired in the last two rounds of Provost's Initiative Hires are proving to be very successful with research funding, and OSU continues to have very high federal grant funding per faculty member.

The Research Office's work to grow OSU's revenues from partnerships with industry, patents, and licensing continues to grow and help build a more diverse research portfolio. The OSU Foundation is building a robust post-Campaign strategy to continue the momentum built in private giving through the Campaign for OSU.

RECOMMENDATION

Staff propose that the Finance & Administration Committee recommend to the full Board that it approve the operating budget for FY2017 as presented in Tables 1 through 4.

Figure 1: Key metrics related to revenues and expenditures at Oregon State University. Past three years' actuals, current year, and next year projected.

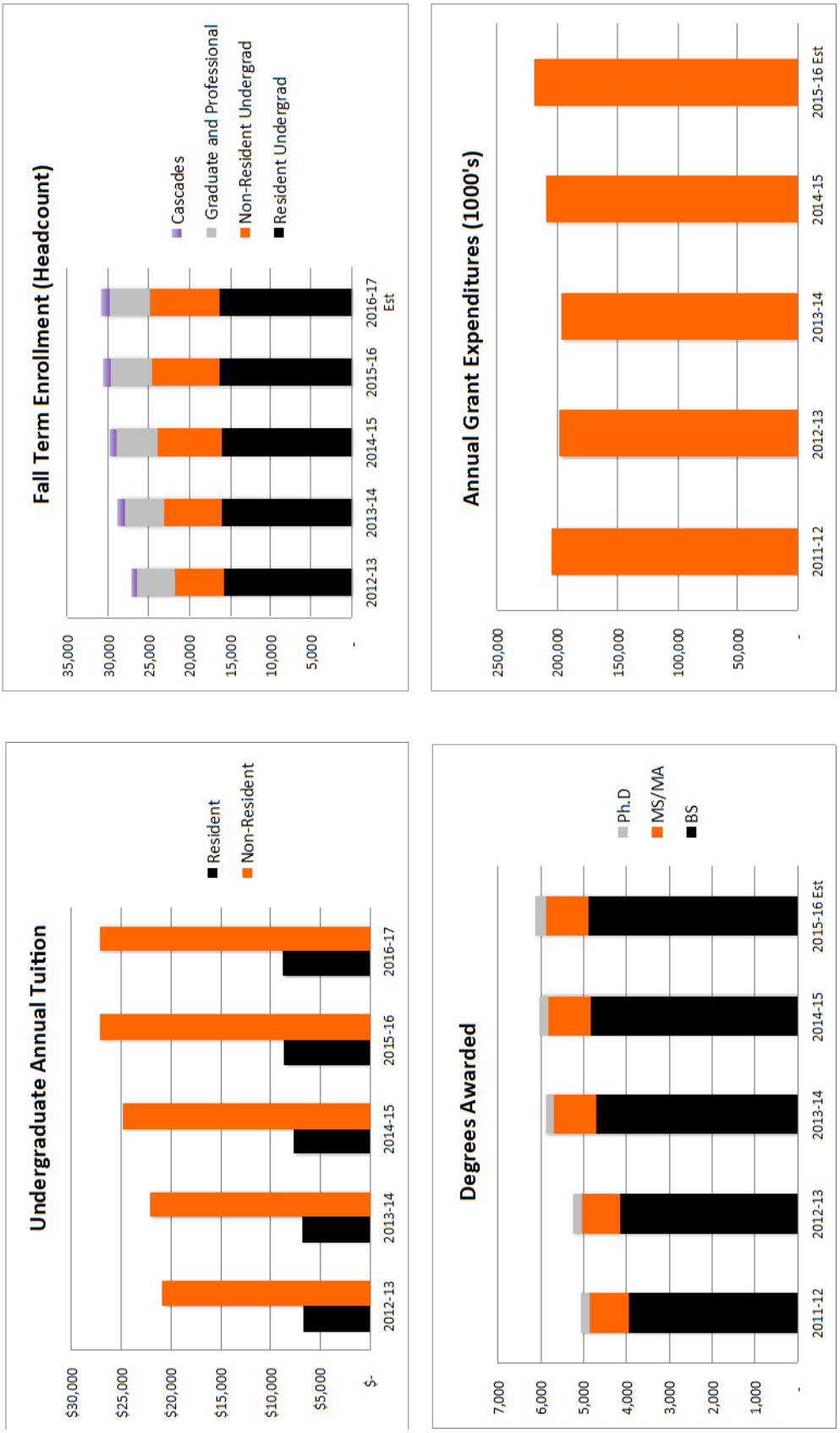

Figure 2: Summary of proposed 2016-17 all funds operating budget for Oregon State University.

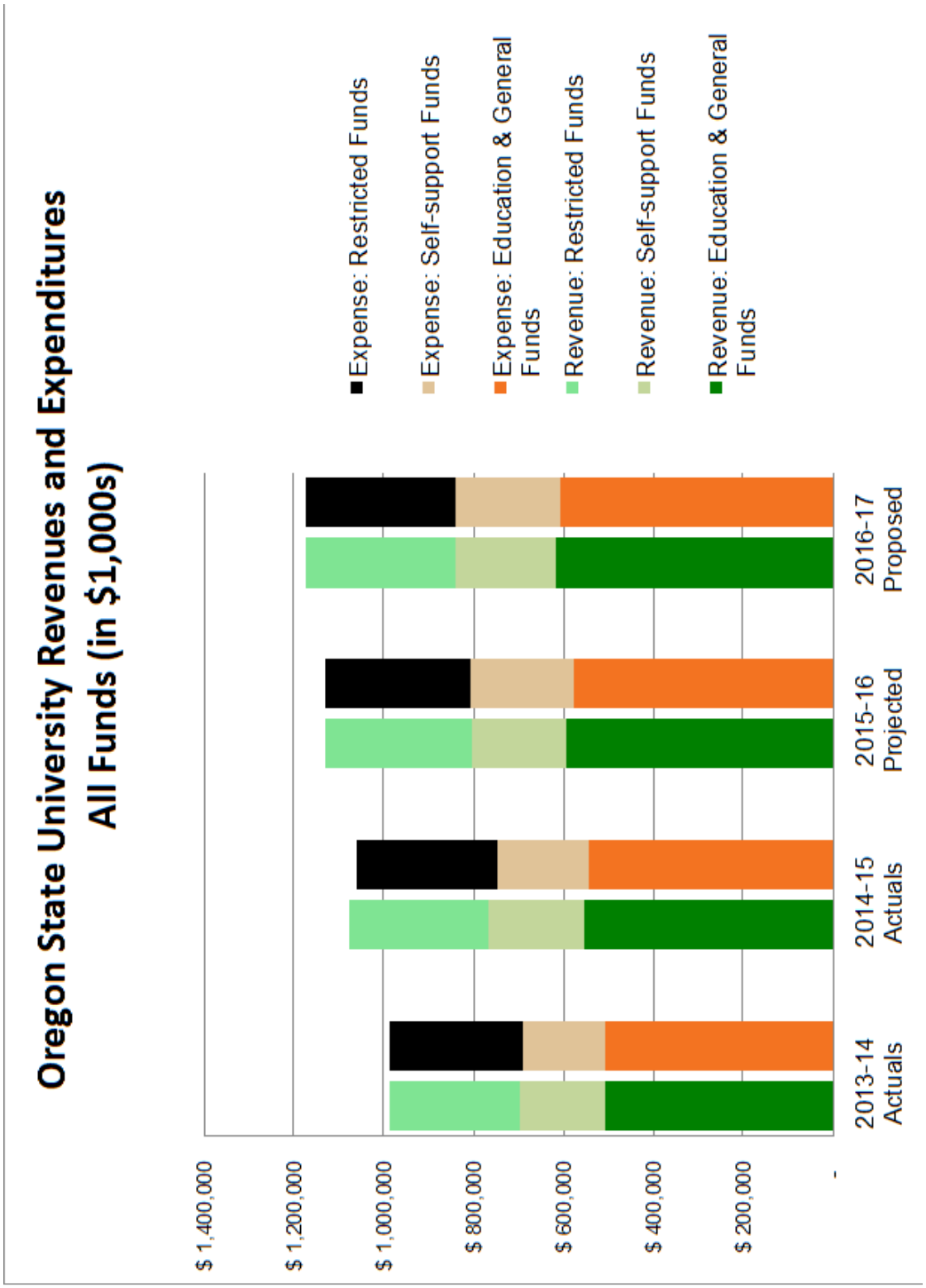

Table 1: Education and General Funds Revenues and Expenditures

EDUCATION & GENERAL (Corvallis, Cascades, Statewide Public Services)

(in thousands)	2014 Actual	2015 Actual	2016 Projection	2017 Budget	2014-15 % Chg.	2015-16 % Chg.	2016-17 % Chg.
State General Fund	140,272	152,501	169,908	178,187	9%	11%	5%
Tuition & Resource Fees, net of Remissions	290,455	315,851	336,906	352,635	9%	7%	5%
Other	77,388	84,695	88,703	87,504	9%	5%	-1%
Total Revenues	508,115	553,047	595,517	618,326	9%	8%	4%
Personnel Services	-394,819	-422,252	-445,096	-474,633	7%	5%	7%
Supplies & Services & Capital Outlay	-102,632	-108,838	-123,259	-129,220	6%	13%	5%
Total Expenditures	-497,451	-531,090	-568,355	-603,853	7%	7%	6%
Net from Operations	10,664	21,957	27,162	14,473			
Transfers In	3,069	1,145	3,640	1,160	-63%	218%	-68%
Transfers Out	-10,777	-11,671	-9,349	-7,718	8%	-20%	-17%
Fund Additions/(Deductions)	0	-170	0	0			
Change in Fund Balance	2,956	11,261	21,453	7,915			
Beginning Fund Balance	39,737	42,693	53,954	75,407			
Ending Fund Balance	42,693	53,954	75,407	83,322	26%	40%	10%
Fund Balance as % of Revenue	8.4%	9.8%	12.7%	13.5%			

Table 2: Self-support Funds Revenues and Expenditures

SELF-SUPPORT - Auxiliaries, Designated Operations and Service Departments

(in thousands)	2014 Actual	2015 Actual	2016 Projection	2017 Budget	2014-15 % Chg.	2015-16 % Chg.	2016-17 % Chg.
Enrollment Fees	32,287	33,374	35,527	37,763	3%	6%	6%
Sales & Services	117,149	136,370	138,150	149,437	16%	1%	8%
Other	32,962	37,048	35,486	32,970	12%	-4%	-7%
Total Revenues	182,398	206,792	209,163	220,170	13%	1%	5%
Personnel Services	-89,209	-96,803	-102,872	-111,696	9%	6%	9%
Supplies & Services & Capital Outlay	-97,858	-109,776	-106,420	-111,904	12%	-3%	5%
Total Expenditures	-187,067	-206,579	-209,292	-223,600	10%	1%	7%
Net from Operations	-4,669	213	-129	-3,430			
Transfers In	9,634	24,102	7,685	6,418	150%	-68%	-16%
Transfers Out	-2,983	-9,486	-21,118	-4,545	218%	123%	-78%
Additions/(Deductions) to Unrestricted Net Assets	-2,579	-9,507	-9,596	-8,198			
Change in Unrestricted Net Assets	-597	5,322	-23,158	-9,755			
Beginning Unrestricted Net Assets	56,245	55,648	60,970	37,812			
Ending Unrestricted Net Assets	55,648	60,970	37,812	28,057	10%	-38%	-26%
	30.5%	29.5%	18.1%	12.7%			

Table 3: Restricted Funds Revenues and Expenditures

RESTRICTED FUNDS

(in thousands)	2014 Actual	2015 Actual	2016 Projection	2017 Budget	2014-15 % Chg.	2015-16 % Chg.	2016-17 % Chg.
Federal	198,517	208,866	216,094	220,416	5%	3%	2%
State	14,519	16,442	14,961	15,000	13%	-9%	0%
Other	78,792	86,588	94,890	98,890	10%	10%	4%
Total Revenues	291,828	311,896	325,945	334,306	7%	5%	3%
Personnel Services	-115,419	-121,262	-122,608	-129,376	5%	1%	6%
Supplies & Services & Capital Outlay	-179,075	-190,512	-199,479	-204,595	6%	5%	3%
Capital Outlay							
Total Expenditures	-294,494	-311,774	-322,087	-333,971	6%	3%	4%
Net from Operations	-2,666	122	3,858	335			
Transfers In	406	365	0	0	-10%		
Transfers Out	-1,750	-735	-3,476	-115	-58%	373%	-97%
Additions/(Deductions) to Restricted Net Assets	1	0	0	0			
Change in Restricted Net Assets	-4,009	-248	382	220			
Beginning Restricted Net Assets	16,555	12,546	12,298	12,680			
Ending Restricted Net Assets	12,546	12,298	12,680	12,900	-2%	3%	2%
	4.3%	3.9%	3.9%	3.9%			

Table 4: Summary of budgeted inter-fund transfers for 2016-17

OREGON STATE UNIVERSITY - Budgeted Transfers
Fiscal Year 2017

Education & General

Transfers In		Transfers Out	
From Self Support		To Self Support	
Royalties (Trademark fund)	596,398	Athletics	4,000,000
Parking (Transportation Options support)	49,000	Service Centers support	1,182,557
Service Centers (Insurance Claims)	200,000	Designated Operations support	205,061
From Grants (Jefferson Bldg)	115,000	Various Auxiliaries	30,000
Termination of Plant Funds	200,000	To Plant	2,300,000
Total Transfers In	1,160,398	Total Transfers Out	7,717,618

Self Support

Transfers In		Transfers Out	
From Education & General - Athletics	4,000,000	To Plant-remodels, repairs, Child Care Ctr, parking lot pavement	
From Education & General - Service Centers	1,182,557	To Education & General from Royalties (Trademark)	596,398
From Education & General - Designated Operations	205,061	To Education & General from Parking	49,000
From Education & General - various Auxiliaries	30,000	To Education & General from Service Centers	200,000
From Plant to UHDS	1,000,000	To Plant	3,700,000
Total Transfers In	6,417,618	Total Transfers Out	4,545,398

Restricted Funds

		Transfers Out	
Transfers In	0	To Education & General - grant for Jefferson Building	115000

Appendix A: Budget Explanatory Notes

Oregon State University, like most colleges and universities, uses fund accounting. Fund accounting recognizes the diversity of sources and purposes of revenues and emphasizes accountability for the proper use of those revenues. Each fund type is self-balancing and has its own revenues, expenditures, assets, liabilities, and fund balance.

Fund Types

Education and General (E&G) Funds: These are unrestricted current funds expendable for any purpose in performing the primary objectives of the institution (instruction, research, and public service).

E&G Funds come principally from state appropriations and tuition and fees paid by students. They also include indirect costs paid by external grants and contracts (termed Facilities and Administrative or F&A costs) to defray the added costs of providing support for funded research projects and miscellaneous sources of income such as interest and sales and services fees within academic units. The E&G funds provide the primary support for the instructional, academic support, institutional management, outreach and engagement, and some research activities of the University

Self-Support Funds: Self-Support Funds are for units that are expected to generate revenues sufficient to cover most of their expenses. OSU defines three kinds of self-support operations.

- **Auxiliary Enterprises:** Self-sustaining units, which provide goods or services primarily to students, faculty, and staff as individuals. They charge a fee directly related to, although not necessarily equal to, the cost of the goods or services. The general public may be served incidentally by Auxiliary Enterprises. Examples of Auxiliary Enterprises at OSU include University Housing & Dining Services, Athletics, Student Health Services and Parking Services.
- **Service Centers**: Self-sustained activities, which provide goods or services to the academic university community. No more than 20% of revenue may be from external sales. Examples of Service Centers at OSU include Telecom, Printing & Mailing, Motor Pool and Surplus Property.
- **Designated Operations**: Self-sustaining activities related to instruction and public service where 80% or greater of the revenue is derived from external sources. Examples include non-credit instruction portion of field trips and international education, community education (non-credit conferences, workshops, seminars), the OSU Press, and public services (testing services) like the Seed Certification Lab.

Restricted Funds: Restricted Funds are provided to the University for specific purposes and projects. The most common types are grants or contracts from federal, state, and private foundations for research and scholarships, federal financial aid awards, and gift funds distributed from the OSU Foundation and other endowments for scholarships, endowed professorships, research projects, and other specifically designated activities.

Revenue and Expense Categories

The summary budget reports in Tables 1 through 3 include the following components:

Revenue:

- State General Fund: Appropriations authorized by the State of Oregon. These include funds for general operations of the University as well as funds designated for specific university functions such as the Statewide Public Services and the Oregon Climate Change Research Institute.
- Tuition and Resource Fees, net of Remissions: These are tuition and fee charges to students, less waivers of tuition made as financial aid. Tuition waivers are the principal form of institutional financial aid provided to undergraduates.
- Other: These include the F&A costs paid by grants, sales and service income generated within departments and colleges outside designated operations, and interest income from various University accounts.
- Enrollment Fees: Some student fees are directed to self-support operations such as the Memorial Union and Student Health Services.
- Sales & Service: Many of the self-support operations sell goods and services to the university community and the general public. Examples include ticket sales in Athletics, dining hall revenues, and housing contract charges.
- Other: The self-support operations have other sources of revenues including charges to other university units, interest revenue, and lottery proceeds.
- Federal Restricted Funds: Awards from federal agencies for research and scholarship projects
- State Restricted Funds: Awards from state agencies for research and scholarship projects
- Other Restricted Funds: Research grants or contracts from other government entities, private foundations, and other universities

Expenditures:

- Personnel Services: These include salaries for classified (represented) staff, unclassified staff, students, and graduate assistants and benefits including retirement, health insurance, taxes, graduate remissions.
- Supplies & Services & Capital Outlay: Office expenses, utilities, telecommunications, assessments, debt payments, non-capital equipment, capitalized equipment

Other Adjustments:

- Transfers in: Transfer from other funds in support of operations
- Transfers out: Transfers to plant funds or other funds in support of operations
- Other Additions/Deductions: Transfers for building and equipment reserves and some debt-related fund reductions