

Senate Members:

Sen. Peter Courtney, Co-Chair
Sen. Alan Bates
Sen. Fred Girod
Sen. Betsy Johnson
Sen. Rod Monroe
Sen. David Nelson
Sen. Chip Shields
Sen. Joanne Verger
Sen. Doug Whitsett
Sen. Jackie Winters

Staff:

Ken Rocco, Legislative Fiscal Officer
Gina Rumbaugh, Committee Manager



House Members:

Rep. Dave Hunt, Co-Chair
Rep. Vicki Berger
Rep. Peter Buckley
Rep. David Edwards
Rep. Bill Garrard
Rep. Bob Jenson
Rep. Betty Komp
Rep. Tina Kotek
Rep. Nancy Nathanson
Rep. Greg Smith

EMERGENCY BOARD

Oregon State Capitol
900 Court Street NE, Room H-178, Salem, Oregon 97301
Phone: 503-986-1828

AGENDA

TUESDAY

Date: June 15, 2010
Time: 1:00 P.M.
Room: HR F

Work Session

Oregon University System

Requests an increase of \$64,762,227 Other Funds expenditure limitation for the Education and General Services program area to accommodate increased student enrollment, higher levels of externally funded research, and potential General Fund reductions.

1. Oregon University System

Request: Increase the Other Funds expenditure limitation by \$64,762,227 for the Education and General Services program area to accommodate increased student enrollment, higher levels of externally funded research, and potential General Fund reductions.

Recommendation: Increase the Other Funds expenditure limitation by \$64,762,227 for the Education and General Services program area, of which \$20,000,000 is transferred from the Capital Improvement program area, and require the Chancellor's Office to report its Fiscal Year 2011 3rd quarter management report to the appropriate subcommittee of the Joint Committee on Ways and Means.

Analysis: The Oregon University System (OUS) is requesting a \$64,762,227 increase in Other Funds expenditure limitation to meet rapid enrollment growth, increasing externally funded research grants, and to replace most of the Governor's announced General Fund allotment reductions due to the forecasted revenue shortfall for the 2009-11 biennium. OUS is requesting a \$29,896,541 increase in Other Funds expenditure limitation to meet rapid enrollment growth, an \$11,776,596 increase in Other Funds expenditure limitation to invest in research infrastructure due to an 11% growth in research grants, and a \$23,089,090 increase in Other Funds expenditure limitation to replace most of the Governor's announced General Fund allotment reductions for the remainder of 2009-11.

In April 2010, institutions provided updated estimates on tuition revenues based on projected enrollment growth and planned tuition increases for the 2010-11 academic year. OUS now estimates that tuition and fee revenues will be up almost \$100 million (or 8%) over legislatively approved budget levels. The vast majority of this increase is due to higher than forecasted full-time equivalent student enrollment growth. Student full-time equivalent (FTE) enrollments for the 2009-10 school year were 2,935 students (3.76%) above the budgeted amount, from 78,013 to 80,948. OUS is now projecting 2010-11 school year enrollments will be 4,716 students (5.9%) above the budgeted amount, from 79,972 to 84,688. This means OUS is projected to serve 7,651 more student FTE over the course of the biennium than was assumed to be served when its 2009-11 budget was adopted. For comparison, OUS served 75,962 full-time equivalent students during the 2008-09 academic year.

OUS is requesting a \$29,896,541 increase in Other Funds expenditure limitation to serve the increases in student enrollments. OUS is now projecting full-time equivalent enrollment growth of 4.84% over the course of the 2009-11 biennium. The 2009-11 adopted budget assumed enrollment increases of only 2% - 3% per year. OUS reports that while some growth has been accommodated during the 2009-10 academic year through larger class sizes and increased use of part-time faculty, these measures are unsupported in the long term if quality instruction, research, and student support are to be maintained and measures such as acceptable student to faculty ratios, full-time to part-time faculty ratios, and student to administrative support staff ratios are to be achieved. Because of these factors, institutions are planning to add some teaching faculty, student support staff, and graduate assistants for the next academic year, in addition to increasing services and supplies expenditures. OUS reports many of these positions are currently in the process of being filled or are already filled. OUS states that, if its Other Funds expenditure limitation for the Education and General Services program is not increased it may result in students taking longer to graduate due to classes being full and that student retention and future enrollments could be compromised. OUS also reports that if the request is denied, campuses will be asked to reduce 2010-11 budgets and resident undergraduate enrollment may be capped.

OUS is also requesting an \$11,776,596 increase in Other Funds expenditure limitation to invest in research infrastructure due to an 11% growth in research grant activity. Institutions are allowed to charge an indirect rate on research grants and contracts that are administered through the university. The funds are collected to help cover the institution's general facilities and administrative costs associated with these grants and make necessary investments in building and equipment upgrades to meet grant requirements. OUS reports campuses have projected these revenues will increase 11% over budget, due in part to increases in federal stimulus spending.

In addition, OUS is requesting a \$23,089,090 increase in Other Funds expenditure limitation to replace most of the Governor's announced General Fund allotment reductions. The requested amount represents the net amount of Other Funds increase necessary to replace the \$26.7 million General Fund allotment reduction to the Education and General Services program. OUS is proposing to use \$3.6 million General Fund they had reserved for student retention incentives and settle up of enrollment based funding in 2010-11 to meet the allotment reductions. OUS is requesting the difference, \$23,089,090, be backfilled with Other Funds from reserves. OUS reports failure to replace planned General Fund expenditures for 2010-11 will negatively impact student graduation time, retention rates, and future enrollment levels.

In April 2010, institutions proposed resident undergraduate tuition increases for the 2010-11 academic year. The state's three largest institutions had proposed increases of 8% (Oregon State University and Portland State University) and 7.5% (University of Oregon). While these increase are within the agreed upon limits on resident undergraduate tuition increases contained in the budget note on tuition increases in the legislatively adopted budget for 2009-11, there was concern that these institutions were increasing their resident undergraduate tuition up to the established limits at a time when they had projected system-wide ending balances of \$140 million, about 12% of annual expenditures. In response to these concerns, the Board of Higher Education worked with the campuses and the Oregon Student Association to lower the increases to 6%. The resident undergraduate tuition increases approved by the Board of Higher Education on June 4, 2010 are: Oregon State University (Corvallis) 6%; Portland State University 6%; University of Oregon 6%; Oregon State University (Cascades) 6.5%; Oregon Institute of Technology 6.2%; Southern Oregon University 5.2%; Western Oregon University 8.8%; Eastern Oregon University 2.6%.

OUS is also reporting university presidents and the Board have agreed to increase fee remissions (tuition discounts) or find other institutional financial aid to offset the system's share of a \$5 million funding request by the Oregon Student Assistance Commission (OSAC) that was deferred at the May 2010 meeting of the Emergency Board. Based on data provided by OSAC to OUS, the system's estimated share of the \$5 million request would be \$2,350,000 (47%). In addition, OUS has committed to covering its students' share of the announced General Fund allotment reductions to OSAC. The system's share of the OSAC allotment reductions affecting OUS students is estimated to be \$1,984,000. The actual amount of Opportunity Grant funding shortfall OUS will be required to pay will depend on the percentage of students awarded a grant that had indicated they were attending an OUS institution when they applied for the financial aid that actually do enroll in that institution and claim their tuition credit.

The Legislative Fiscal Office (LFO) recommends the Emergency Board approve the request as follows:

- 1) Increase the Other Funds expenditure limitation for the Education and General Services program area by \$44,762,227 to accommodate increased student enrollment, higher levels of externally funded research activities, and potential General Fund reductions.

- 2) Transfer \$20,000,000 Other Funds expenditure limitation from the Capital Improvement program area to the Education and General Services program area. The Capital Improvement program area was created this biennium for capitalized expenditures less than \$3 million for improvement to land or existing buildings that increase the value, extend the useful life of the asset, or make it adaptable to a different use. OUS is projecting it will not need all the Other Funds expenditure limitation established for Capital Improvement, therefore, LFO recommends \$20 million in Other Funds expenditure limitation be transferred to the Education and General Services area to meet expenditure needs. The total increase in Other Funds expenditure limitation for the Education and General Services area is recommended at \$64,762,227.

- 3) LFO is recommending the \$64,762,227 increase to Other Funds expenditure limitation in the Education and General Services program area at this special meeting of the Emergency Board so that campuses may finalize their budgets for the 2010-11 academic year. However, LFO is very concerned that the current revenue picture could deteriorate even further this biennium given that the state is only half way through the 2009-11 biennium and already revenue shortfalls have caused significant General Fund reductions through the Executive Branch allotment process. Further, projected revenue for 2011-13 shows the state will be well short of being able to fund the same level of General Fund supported government services next biennium that are being provided in 2009-11. Therefore, LFO is hopeful that all OUS institutions, as well as the Chancellor's Office, will do all in their power to contain costs in the coming academic year and not spend all of the \$64.8 million requested increase in funding. Being diligent in containing costs and continuing efforts to find efficiencies, such as those currently being undertaken at Oregon State University, will ensure the system and its institutions are on more solid financial footing for the 2011-13 biennium.

LFO is recommending that OUS present its Fiscal Year 3rd Quarter management report to the appropriate subcommittee of the Joint Committee on Ways and Means in April 2011. If at that time OUS actual expenditures and projections for the remainder of the biennium indicate it will not need all of the requested Other Funds expenditure limitation increase outline above, LFO would recommend that the Other Funds expenditure limitation be reduced to the appropriate level through legislative action by the full Assembly.



Oregon
University
System

Office of the Chancellor

P.O. Box 751
Portland, OR 97207-0751
PHONE (503) 725-5700
FAX (503) 725-5709
<http://www.ous.edu>

June 8, 2010

The Honorable Peter Courtney, Co-Chair
The Honorable Dave Hunt, Co-Chair
Legislative Emergency Board
State Capitol
Salem, Oregon 97310

RE: Request for Education and General (E&G) Other Funds Limited (OFL) Expenditure Limitation 2009-11
for the Oregon University System

Dear Co-Chairpersons:

As discussed and requested, this is a revised request letter seeking additional Other Funds Limited Expenditure Limitation for the Oregon University System (OUS). This letter is submitted for consideration at a special Emergency Board meeting to be scheduled on June 15, 2010.

Background:

The Oregon University System is facing large and rapid enrollment growth which we believe is a result, in part, of the present condition of the State's economy. We believe that three additional factors are also responsible for this growth: a record number of high school graduates, increased financial aid, and the increasing realization that higher education is essential to success in today's global economy. In addition, OUS institutions have achieved great success in competing for, and securing, federal research grants, both as a result of increased federal economic stimulus spending and the competitiveness and excellence of our faculty. While these remarkable achievements have resulted in increased revenues, neither the achievements nor the increased revenues can be sustained unless the Legislature increases the OUS Education and General Other Funds Limited Expenditure Limitation for the 2009-2011 biennium.

The OUS universities have strived to stay within existing limitation in the first year of the biennium through increased class sizes, increased use of part-time faculty, furloughs and other cost-savings

measures. However, universities face another projected 5% enrollment growth and strong research activity in the second year of the biennium. This growth will require hiring additional faculty and student service support to meet the increased demand.

Our universities cannot continue to serve a growing number of students and manage more vibrant research activity without adding faculty and staff to meet qualitative measures such as acceptable full-time to part-time faculty ratios; student to faculty ratios; and student to support staff ratios. Should the OUS not obtain added limitation it will result in situations where students may be admitted but cannot enroll in classes because they are at capacity. Failure to meet increased enrollments with an increase in the level of service will ultimately affect student retention, enrollment, graduation, time to degree and the ability of students to compete in a global market, if and when they attain their degrees. In addition, failure to hire more support staff could jeopardize grant/contract compliance and other fiduciary obligations.

Along with serving these growing student enrollments and externally funded research activities, we are very much aware of the need to sustain OUS operations in the coming biennia when state revenues are projected to be less than current service level budgets. We have had numerous discussions with the Board of Higher Education, University presidents, Legislators and student leaders and have generally agreed to the following principles of a plan for the future:

1. OUS will maintain access and affordability through the following actions:
 - a. Keeping tuition increases for resident undergraduate students to less than 10% each year;
 - b. Increasing fee remissions or other institutional aid by amounts necessary to offset the current shortfalls in the Oregon Opportunity Grant for all qualified OUS students.
 - c. Educating all qualified Oregonians seeking to enroll at an OUS institution.
2. OUS will be able to retain all of its fund balances or reserves to allow the OUS system to transition to lower levels of state support in 2011-2013, to offset current Opportunity grant shortfalls and to restrict tuition increases as noted above.
3. OUS is committed to sustaining the finances of all OUS institutions during the coming biennia in order to educate record numbers of students successfully and well, regardless of where in the state they may reside.

As a demonstration of our commitment to these principles, the State Board of Higher Education has already reduced tuition increases for resident undergraduate students in the 2010-11 academic year from the allowable 8% to 6%. In addition, the Board and all presidents have agreed to increase fee remissions or find other institutional financial aid in amounts needed to offset the OUS share of the \$5.0 million Oregon Student Assistance Commission (OSAC) increased funding request that was deferred in May and to make up for our share of OSAC's allotment reduction affecting OUS students.

There will be other elements to be added to these principles that we are currently discussing with the newly appointed Higher Education working group.

Nature of the Request:

During the 2009 Legislative session, OUS institutions projected a 2-3 percent per year increase in enrollments. Enrollments are currently running approximately 7% above 2008-09 for 2009-10 and are projected to grow by almost 5% more in 2010-11 as shown below. (Note: these enrollment projections have been updated since our May 3 request letter).

**Oregon University System
FTE Enrollment Analysis
2008-09 to 2010-11**

<u>Year</u>	<u>Budgeted</u>	<u>Projected Actual</u>	<u>Difference</u>	<u>% Change from Budget</u>
2008-09 – Actual	75,962			
2009-10	78,013	80,948	2,935	3.76%
2010-11	<u>79,972</u>	<u>84,688</u>	<u>4,716</u>	5.90%
2009-2011 Biennial Total	157,985	165,636	7,651	4.84%

As noted above, this equates to an additional 7,651 FTE students projected to be served over the 2009-11 biennium. To serve this record number of students and to keep up with the 11% growth in research, we are requesting an additional \$41.7 million in the Education and General (E&G) Other Funds Limited Expenditure Limitation for 2009-11. Of this request, \$29.9 million is needed to hire additional faculty and staff and procure added supplies to serve these growing enrollments. The \$11.8 million balance is needed to invest in the research infrastructure necessary to keep pace with the tremendous growth in federally funded research activities.

In addition, due to the allotment reduction announced last week (which totaled \$26.7 million for the Education and General Services category), we are requesting additional other funds limitation to shift expenditures that would have been paid with State General Funds to Other Funds Limited to absorb the bulk of these reductions. As noted above, we do not believe that we can reduce expenditures any further and continue to serve our growing student enrollment and research activities. Thus, we are requesting a total increase in our E&G Other Funds Limited Expenditure Limitation of \$64,762,227, which would encompass the \$29,896,541 needed to serve students, \$11,776,596 needed to maintain and enhance the research infrastructure and \$23,089,090 needed to accommodate the fund shift due to the General Fund allotment reduction.

This \$64.7 million increase in expenditures will be funded from incremental tuition, fees and indirect cost recovery income. No General Fund resources are required.

Emergency Board Co-Chairs

June 8, 2010

Page 4

2009-2011 Approved E&G OFL Limitation:	\$1,408,322,734
Limitation Requested via this Action	<u>\$64,762,227</u>
Revised 2009-2011 E&G OFL Limitation Requested	\$1, 473,084,961

No changes in the Other Funds Limited expenditure limitations are being sought for any of Oregon State University's Statewide Public Services (these programs include the Agricultural Experiment Station, Extension Service and the Forest Research Laboratory). These programs face General Fund allotment reductions of about \$5 million and are in the process of reducing their expenditures accordingly. These entities do not educate students or receive tuition funding and are not experiencing growth.

Action Requested:

The Oregon State Board of Higher Education respectfully requests that its 2009-2011 Other Funds Limited expenditure limitation for the Education and General Services program be increased from \$1,408,322,734 to \$1,473,084,961.

Legislation Affected:

The Other Funds Limited expenditure limitation for the E&G program is established in HB 5017-A and Oregon laws 2009.

Sincerely,



Jay Kenton, Vice Chancellor
Finance and Administration

- C: Chancellor Pernsteiner
- Board President Kelly
- Board Finance Committee Chairman Schueler
- University Presidents
- William McGee, DAS
- Mike Marsh, Interim Executive Director OSAC
- Tamara Henderson, OSA Executive Director