Emergency Board Request for Added E&G Expenditure Limitation

BACKGROUND
This biennium, due to strong enrollment growth and increased research activities OUS is projecting approximately $135 million in added revenues above the amount budgeted for 2009-2011. Further, to serve this growth while maintaining program quality, institutions need to hire added faculty and staff, pay increased healthcare premiums, and increase expenditures in services and supplies, capital outlay, and capital improvements. Thus, we are requesting that the Legislative Emergency Board (E-Board) grant OUS an additional $76 million in Education and General (E&G) Other Funds Limited (OFL) expenditure limitation. See Appendix A for a copy of the request letter that was submitted to Legislative E-Board Co-Chairs Courtney and Hunt below.

In April 2010, institutions were asked to project revenues based on projected enrollments, research, and other activities and projected tuition rates to be approved by the Board in June 2010. They were also asked to project expenses for the second year of the biennium. The results of these projections indicate that enrollments will continue to be strong and well above rates initially projected when the 2009-2011 budget was authorized. These projections also indicate that campuses plan to seek resident undergraduate tuition increases for 2010-11 in alignment with the budget note as follows: EOU, OIT, OSU-Cascades, SOU, and WOU (increase to incoming Promise cohort of 8.8 percent) aggregate to an average increase of 4.4 percent; and the larger campuses: OSU, PSU, and UO aggregate to an average of 7.8 percent.

Projections also indicate that, while campuses have done a good job of holding costs down in the first year of the biennium, in order to maintain quality while serving the growth in enrollment and research in 2010-11 they will need to add 367 more faculty and staff FTE (full-time equivalent), 60 new graduate assistant positions, and increase spending on services and supplies, capital outlay, and capital improvements. This is very much in line with the step-wise cost function in higher education where you can serve limited amounts of growth with a pre-existing cohort of faculty and staff, but when growth is sustained and increasing rapidly, eventually institutions must hire added employees to serve that growth in order to maintain acceptable ratios of full-time faculty to students, full-time to part-time faculty, and students/research to support staff ratios.

Failure to obtain this needed expenditure limitation will mean that OUS institutions will need to reduce projected expenditures by $76 million in 2010-11. This will be exceedingly difficult as many new students have already been admitted for 2010-11 and many new faculty and staff have already been hired, or are in the process of being hired, in anticipation of that growth. Without added limitation OUS will be in a situation where students may be admitted but cannot enroll in classes because they are full and this 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 research-related fiduciary obligations.
Anytime OUS plans to ask the legislature or its E-Board for budgetary related items, OUS policy is to have the Board authorize the Chancellor or designee to request such. Given the timing of OUS Board meetings, legislative E-Board meetings, and the decision to proceed with this request, it was necessary to submit the request prior to obtaining Board authorization. Given the timing difference, the request submitted contingent on Board authorization. Thus, we will withdraw this request if it is not authorized by the Board at this time.

*Staff Recommendation to the Board:*
Staff recommends that the Board authorize the Chancellor, or designee to seek legislative E-Board approval for a $76 million increase in 2009-2011 E&G OFL expenditure limitation.

*(Board action required.)*

**APPENDIX A**

May 3, 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:

**Background:**
The Oregon University System (OUS) is facing large and rapid enrollment growth which we believe is a byproduct 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 of our faculty. These remarkable achievements have resulted in increased revenues which can only be expended if the Legislature increases the OUS Education and General Other Funds Limited Expenditure Limitation for the 2009-11 biennium.

Concurrently with OUS’ enrollment growth and research funding success, our health care obligations are rising. Approximately $20 million of this requested increase is attributable to increases in PEBB healthcare costs as well as cost increases in the health care programs available to graduate assistants. This amount represents both the General Fund and OFL
elements of these increases. Because we are aware that there are no added General Funds to distribute, we are requesting an increase only to our OFL expenditure limitation to cover these costs during the remainder of this biennium.

Institutions 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 6 percent 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. Failure to obtain added limitation will result in situations where students may be admitted but cannot enroll in classes because they are full. 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 research related fiduciary obligations.

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 percent above 2008-09 for 2009-10 and are projected to grow by almost 6 percent more in 2010-11 as shown below.

<table>
<thead>
<tr>
<th>Year</th>
<th>Budgeted</th>
<th>Actual</th>
<th>Difference</th>
<th>% Change from Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09 – Actual</td>
<td>75,962</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009-10</td>
<td>78,013</td>
<td>80,948</td>
<td>2,935</td>
<td>3.76%</td>
</tr>
<tr>
<td>2010-11</td>
<td>79,972</td>
<td>85,750</td>
<td>5,778</td>
<td>7.23%</td>
</tr>
<tr>
<td>2009-2011 Biennial Total</td>
<td>157,985</td>
<td>166,698</td>
<td>8,713</td>
<td>5.52%</td>
</tr>
</tbody>
</table>

As noted above, this equates to an additional 8,713 FTE students projected to be served over the biennium. To serve this record number of students and to keep up with the 7 percent growth in research, we are requesting an additional $56.0 million in E&G OFL Expenditure Limitation for 2009-11. In addition, to assist with the increased healthcare costs for PEBB employees and graduate assistants, we request an added $20.0 million in expenditure
limitation. This $76 million increase in expenditures will be funded from incremental tuition, fee and indirect cost recovery income. No General Fund resources are affected.

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009-2011 Approved E&amp;G OFL Limitation:</td>
<td>$1,408,322,734</td>
</tr>
<tr>
<td>Limitation Requested via this Action</td>
<td>$76,000,000</td>
</tr>
<tr>
<td>Revised 2009-2011 E&amp;G OFL Limitation Requested</td>
<td>$1,484,322,734</td>
</tr>
</tbody>
</table>

**Action Requested:**
The Oregon State Board of Higher Education respectfully requests that its 2009-11 Other Funds Limited expenditure limitation for its education and general services program be increased from $1,408,322,734 to $1,484,322,734.

**Legislation Affected:**
The Other Funds Limited expenditure limitation for the E&G program is established in HB 5017-A and Oregon Laws 2009.

The State Board of Higher Education plans to review this request at its May 14, 2010 meeting. The request will be withdrawn if it is not approved at that time.

Sincerely,

Jay Kenton, Vice Chancellor
Finance and Administration

C: Chancellor Pernsteiner
   Board President Kelly
   Board Finance Committee Chairman Schueler
   University Presidents