System overview

After years of state disinvestment, OUS is near the bottom of the nation in public funding for higher education

- Since 1991, Oregon has had the largest decline in state appropriations funding per student FTE in the nation
- Oregon ranks 46th for 2004-05 in per student funding for postsecondary education

<table>
<thead>
<tr>
<th>State</th>
<th>Per Student Funding</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wyoming</td>
<td>$12,187</td>
<td>1</td>
</tr>
<tr>
<td>Washington</td>
<td>$5,862</td>
<td>21</td>
</tr>
<tr>
<td>U.S. average</td>
<td>$5,833</td>
<td>--</td>
</tr>
<tr>
<td>Oregon</td>
<td>$4,060</td>
<td>46</td>
</tr>
<tr>
<td>Vermont</td>
<td>$2,330</td>
<td>50</td>
</tr>
</tbody>
</table>

Source: State Higher Education Finance report, SHEEO; indexed to U.S. average
System overview, cont.

Our cost structure is low compared to our peers, but for the wrong reasons

- **Faculty salaries** are 15% below our public peers and far, far below private institutions and the for-profit sector
- Our **physical facilities** are deteriorating (deferred maintenance = $600 million) and are increasingly becoming obsolete
- OUS needs to invest $40 million per year in maintenance just to maintain the current backlog of deferred maintenance

<table>
<thead>
<tr>
<th>Institution</th>
<th>Student : Faculty Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portland State University</td>
<td>31 : 3</td>
</tr>
<tr>
<td>Oregon State University</td>
<td>29 : 2</td>
</tr>
<tr>
<td>Western Oregon University</td>
<td>28 : 5</td>
</tr>
<tr>
<td>University of Colorado-Boulder</td>
<td>25 : 5</td>
</tr>
<tr>
<td>Southern Utah University</td>
<td>24 : 0</td>
</tr>
<tr>
<td>SUNY at Buffalo</td>
<td>23 : 3</td>
</tr>
<tr>
<td>University of Michigan-Flint</td>
<td>22 : 9</td>
</tr>
<tr>
<td>Univ. of Washington-Seattle</td>
<td>19 : 7</td>
</tr>
<tr>
<td>Southeast Missouri State Univ.</td>
<td>19 : 1</td>
</tr>
<tr>
<td>Univ. of California-Davis</td>
<td>17 : 8</td>
</tr>
</tbody>
</table>
System overview, cont.

Benefits costs well above our peers
- OUS other payroll expenses divided by total salaries = 48% compared to average peer rates of 25-31% with significant differences in employer contributions for retirement and healthcare
- OUS and Michigan State Univ. are only entities in OUS peer group that currently pay 100% of healthcare costs ($10,644/person/year)

Tuition rates* are, more or less, in line with our peers
- UO, OSU and PSU at $5,670; $5,319; and $4,761 compared to Peer average of $5,675
- EOU, SOU and WOU at $5,508; $4,697; and $4,332 compared to Peer average of $4,429
- OIT is $4,974 compared to Peer average of $3,545

System overview, cont.

Oregon does relatively well in competing for federal R&D funds, ranking 19th among 50 states in public university R&D from federal sources
- OUS R&D support from gifts and contracts FY 2000 to FY 2004 increased 29.8%: $263.6 million in FY 2004
- Private dollars supporting OUS — $152 million in 2003-04
- Total OUS foundations' net assets totaled $960.6 million in 2004-05

*2004-05 tuition and fees; OUS Fact Book
Modeling financial scenarios

Developing a financial model for each of the Universities that builds on the current cost and revenue structures

- Allows OUS to assess the impact of different assumptions regarding funding and cost variables, and policy decisions the Board might make
- Not ready to bring specific numbers before the Board, but some preliminary conclusions are as follows:

Modeling financial scenarios, cont.

Starting point: Institutions are now implementing approximately $18-19 million of cuts for 2006 - 2007

Base case model based on extrapolation of existing trends indicates system will continue in a deficit position, e.g. expenditures greater than revenues due to:

- Salary increases (statewide settlement with SEIU and recent faculty increases) not adequately funded in 2005-2007 budget
- Bringing faculty salaries to median of peers over 10 years
- PERS, PEBB, state assessments as currently projected, e.g. w/o change
- Enrollment grows as projected by OUS Institutional Research (no cap): 2004-05: 81,097 headcount/71,234 FTE conservatively projected to grow to 109,834 headcount/95,541 FTE in 2024-25
- Tuition increases aligned with median family income growth
- Governor's funding plan - 10% increase per biennium

Given these assumptions, $91 million in OUS fund balances projected at 6-30-06 will be fully depleted in 2-3 years
Regional campuses most at risk

- Downward spiral accelerating
  - impact of limited tuition increases, cost growth and budget reductions putting pressure on enrollment;
  - fewer offsets available (e.g. grants, donations, etc.)
- Over last few biennia, resources diverted to regionals by not rebalancing the RAM
- Cannot continue to starve other institutions, but rebalancing the RAM would further impact regionals’ financial stability

Modeling other options

- Modeling other options - some improve economics, others do not:
  - Tuition policy - higher tuition at some universities, partially offset by higher fee remissions and reinvestment in programs
  - Faculty : student ratios - reductions or investments in technology and teaching methods to improve quality
  - Enrollment caps - not clear whether this is an economic plus or minus
  - Various changes in structure involving consolidation of some institutions, including with community colleges
  - Changes in employee benefits and other legislative concepts will help
Legislative Concept Update

PERS Reforms:
- New defined contribution plan – work stopped to allow effects of 2003 PERS reforms to become better known
  - Board may wish to consider having new employees pay 6% employee pickup as a cost savings measure – this does not require statutory change
- Decoupling ORP rates from PERS rate
  - Work continuing on this concept
  - Defined contribution plans are fundamentally different than defined benefit plans

Legislative Concept Update, cont.

Changes in employee health insurance plans:
- Contract with Aon (PEBB’s consultant) to study:
  - Cost to State if OUS were to withdraw its unclassified employees from the PEBB risk pool
  - Estimate of savings from having a separate OUS plan that would offer a cafeteria plan including choices ranging from:
    - Similar benefits to PEBB
    - Health Savings Accounts (HSA’s) with deductibles
    - Opt out with greater cash-back than current
  - May want to consider other plan design possibilities as well
**Legislative Concept Update, cont.**

**Risk management study moving forward with DAS and Marsh. Study includes:**
- Survey of other college and university plans to benchmark current costs of property, tort and workers' compensation plans with other public institutions' plans/costs;
- Cost/savings to State if OUS withdraws from self-insurance pool; and
- Possibly, cost estimates if OUS procures insurance from private carriers.

**State Assessments - after further review, staff recommend that:**
- OUS stay with Secretary of State audits and State Treasury services;
- Otherwise to continue to pursue exemptions from all other assessments
  - Based on 2005-07 Legislatively Approved Budget, OUS will pay out 4.08% ($32.2 million) of its LAB for DAS assessments, compared to K-12 and Community Colleges paying out 0.08% ($4.3 million) and 0.09% ($400k) respectively
  - OUS assessments are projected to increase by 59% from $20.2 million in 2005-07 to $32.2M in 2007-09
Legislative Concept Update, cont.

- Recommend continuing with all other concepts:
  - Investment income
  - Legal services
  - Faculty step increases
  - Taxation authority
  - Debt financing changes
  - Tax credits for commercialization of research, and
  - Community College Relationship/Merger

Preliminary conclusions, thoughts