House Higher Education Committee – February 14, 2011

HIGHER EDUCATION COSTS IN OREGON

Prepared by Jay Kenton
Vice Chancellor for Finance & Administration
Purpose

- Answer questions from the November hearing re. costs over time and how SB 242 can reduce costs going forward
- Review historical trends re. state funding and who pays costs for higher education
- Discuss primary cost drivers and trends over last 15 years
- Briefly discuss how efficiencies and shared services reduce costs
Higher education costs are largely driven by demand for instructional or research services; however, significant demand can also come from auxiliary activities, such as housing, athletics, parking, etc.

- Today OUS has record enrollment and research activities

Higher education has a “stepwise” cost function — prudence dictates validating enrollment and research growth and deferring new permanent faculty or facilities until sustained demand persists: the step.

Many higher education facilities built 30-40 years ago are now in need of major investments in systems maintenance, renovation for changing uses, expansion or replacement

Higher education is counter-cyclical to general economic activity — enrollments increase when the economy is depressed

- Higher education produces catalytic economic development opportunities, jobs and increased federal and private investment in Oregon

In higher education higher costs are generally associated with better quality
Cost Concepts

- Costs driven by demand/enrollment
  - Numbers and types of students
  - Research
  - Numbers and types of faculty and staff
  - Facilities – rent, debt service and utilities
  - Student aid

- Costs driven by other factors
  - Bargaining contracts
  - Employee benefits
  - Assessments
  - General inflation
  - Quality
Changing Paradigms

- Prior to Ballot Measure Five (1990)
  - The high water mark for State funding
  - Since 1991 the entire State (General Fund + Lottery Fund) appropriations budget has increased 210% whereas OUS appropriations have only grown by 39%

- Post Measure Five 1996-2011
  - Portland CPI increased by 42% during this 15-year span
  - Enrollment increased by 62%
  - Research and sponsored project expenditures grew by 128%
  - State funding declined on a per student basis

- OUS operating costs increased 135% from 1996-2011
Tuition and Costs

- The single largest driver of resident undergraduate tuition at all public universities is the level of State support.
- The second largest driver of increased tuition is cost inflation.
- Many of OUS’ costs are increasing faster than inflation, including: facilities, student aid, healthcare, state assessments and retirement costs.
- Until the passage of SB 242 the majority of costs remained largely outside of OUS’s control.
State Funding as a Percentage of Total OUS Revenues has Declined and Continues to Decline

- The numerator (State Funding) includes:
  - State Appropriations for:
    - Operations
    - Capital and Debt Service
    - Student Aid/Opportunity Grants
    - Other Grants/Contracts
  - Lottery Funds for:
    - Sports Lottery
    - Debt Service
  - Forest Products Harvest Taxes

- The denominator (Operating Expenses) includes:
  - Total operating expenses (from the OUS financial statements)
    - Plus: interest expense
    - Less: depreciation expenses

- 2011-13 will result in further decline in the % State funding as a percentage of total expenses
State Funding as a Percentage of Operating Expenses by Campus

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</thead>
<tbody>
<tr>
<td>EOU</td>
<td>50.6%</td>
<td>39.7%</td>
<td>42.8%</td>
<td>30.9%</td>
<td>20.7%</td>
</tr>
<tr>
<td>OIT</td>
<td>48.1%</td>
<td>37.9%</td>
<td>42.8%</td>
<td>30.9%</td>
<td>20.7%</td>
</tr>
<tr>
<td>OSU</td>
<td>48.1%</td>
<td>36.7%</td>
<td>36.4%</td>
<td>30.9%</td>
<td>20.7%</td>
</tr>
<tr>
<td>PSU</td>
<td>36.7%</td>
<td>23.4%</td>
<td>25.8%</td>
<td>12.1%</td>
<td>6.5%</td>
</tr>
<tr>
<td>SOU</td>
<td>36.7%</td>
<td>20.8%</td>
<td>25.8%</td>
<td>12.1%</td>
<td>6.5%</td>
</tr>
<tr>
<td>UO</td>
<td>36.4%</td>
<td>20.8%</td>
<td>30.9%</td>
<td>12.1%</td>
<td>6.5%</td>
</tr>
<tr>
<td>WOU</td>
<td>36.4%</td>
<td>20.8%</td>
<td>30.9%</td>
<td>12.1%</td>
<td>6.5%</td>
</tr>
<tr>
<td>Total</td>
<td>39.4%</td>
<td>25.6%</td>
<td>25.6%</td>
<td>12.1%</td>
<td>6.5%</td>
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Reduced percentages reflect both a real decline in State funding and the growth in other revenues/expenses relating to tuition, athletics, housing, etc.
# Total Operating Costs

**1996-2011 (up 135%)**

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<tbody>
<tr>
<td>Faculty/Staff Salaries &amp; Pay</td>
<td>$387,925,192</td>
<td>$495,923,521</td>
<td>$619,278,625</td>
<td>$814,146,084</td>
<td>109.9%</td>
</tr>
<tr>
<td>Student/Grad Pay</td>
<td>$51,086,626</td>
<td>$63,760,530</td>
<td>$85,489,857</td>
<td>$111,311,880</td>
<td>117.9%</td>
</tr>
<tr>
<td>Other Payroll Expenses (OPE)</td>
<td>$149,603,561</td>
<td>$198,956,109</td>
<td>$327,922,083</td>
<td>$426,461,950</td>
<td>185.1%</td>
</tr>
<tr>
<td>Total Compensation</td>
<td>$588,615,379</td>
<td>$758,640,160</td>
<td>$1,032,690,565</td>
<td>$1,351,919,914</td>
<td>129.7%</td>
</tr>
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<tbody>
<tr>
<td>Operating Expenses</td>
<td>$194,735,405</td>
<td>$283,224,914</td>
<td>$360,704,221</td>
<td>$485,138,871</td>
<td>149.1%</td>
</tr>
<tr>
<td>Facilities (rent, debt and utilities)</td>
<td>$65,434,555</td>
<td>$80,626,695</td>
<td>$123,716,500</td>
<td>$210,185,259</td>
<td>221.2%</td>
</tr>
<tr>
<td>IT &amp; Telecom</td>
<td>$38,500,403</td>
<td>$43,979,221</td>
<td>$49,819,698</td>
<td>$59,532,107</td>
<td>54.6%</td>
</tr>
<tr>
<td>Assessments</td>
<td>$11,580,819</td>
<td>$14,180,149</td>
<td>$21,213,139</td>
<td>$41,310,715</td>
<td>256.7%</td>
</tr>
<tr>
<td>Capital Outlay</td>
<td>$30,799,267</td>
<td>$28,284,526</td>
<td>$26,298,520</td>
<td>$41,430,585</td>
<td>34.5%</td>
</tr>
<tr>
<td>Net Transfers</td>
<td>$9,991,955</td>
<td>$3,701,089</td>
<td>$3,734,139</td>
<td>$20,858,183</td>
<td>108.7%</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td><strong>$939,657,782</strong></td>
<td><strong>$1,212,636,754</strong></td>
<td><strong>$1,618,176,783</strong></td>
<td><strong>$2,210,375,633</strong></td>
<td><strong>135.2%</strong></td>
</tr>
</tbody>
</table>
Compensation costs are significant:

- 78% of total E&G; 63% of all funds expenses
- Salaries generally lag market, especially at associate and full professor ranks (compression)
- Benefits costs have increased significantly and are among the highest in the nation
- These costs have been largely out of OUS’ control
  - Bargaining parameters have been largely dictated by the State
  - Benefits programs are designed for all State agencies and do not always match the needs of OUS employees
### Employee Numbers up 34%, Enrollment up 62% and Research up 127% from 1996-2011

OUS Headcount Employees – Classified Staff, Unclassified Faculty/Professionals and Graduate Assistants

<table>
<thead>
<tr>
<th></th>
<th>1996</th>
<th>2001</th>
<th>2006</th>
<th>2011</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>EOU</td>
<td>295</td>
<td>313</td>
<td>355</td>
<td>365</td>
<td>23.50%</td>
</tr>
<tr>
<td>OIT</td>
<td>327</td>
<td>345</td>
<td>370</td>
<td>421</td>
<td>28.60%</td>
</tr>
<tr>
<td>OSU</td>
<td>4,103</td>
<td>4,310</td>
<td>4,527</td>
<td>4,752</td>
<td>15.81%</td>
</tr>
<tr>
<td>PSU</td>
<td>1,303</td>
<td>1,568</td>
<td>2,491</td>
<td>2,817</td>
<td>116.18%</td>
</tr>
<tr>
<td>SOU</td>
<td>565</td>
<td>675</td>
<td>572</td>
<td>561</td>
<td>-0.72%</td>
</tr>
<tr>
<td>UO</td>
<td>3,229</td>
<td>3,555</td>
<td>3,882</td>
<td>4,437</td>
<td>37.41%</td>
</tr>
<tr>
<td>WOU</td>
<td>521</td>
<td>600</td>
<td>666</td>
<td>701</td>
<td>34.61%</td>
</tr>
<tr>
<td>CO</td>
<td>171</td>
<td>185</td>
<td>93</td>
<td>84</td>
<td>-50.54%</td>
</tr>
<tr>
<td></td>
<td>10,514</td>
<td>11,552</td>
<td>12,956</td>
<td>14,137</td>
<td>34.47%</td>
</tr>
</tbody>
</table>

During this same time period OUS enrollment increased 62%, from 62,847 to 100,316 and research grew by 127% from $178M to $406M.
Full-time faculty are essential in maintaining the curriculum, student advising, and performing other functions that are critical to conducting the business of the institutions and in maintaining quality.

- Part-time faculty working less than .50 FTE are not eligible for health benefits.
- Fixed term and part-time faculty have higher teaching loads than full-time tenure track faculty.
- Tenure/Tenure Track faculty are expected to contribute in instruction, research, public service and administrative functions, whereas fixed term and part-time faculty are generally more specialized.

Given the increased demand in the face of declining per student resources institutions have struggled to maintain an appropriate balance of faculty.

Trends in instructional faculty appointments:

- 1996 – 2,957 faculty: Full time = 80%; Part-time = 20%
- 2010 – 4,094 faculty: Full-time = 67.5%; Part-time = 32.5%
Benefit Costs Compared to National

According to AAUP:

- **Public Institutions Average:**
  - Retirement – 10.9% of salary (OUS = 20%)
  - Healthcare Contributions - $9,218/covered employee (OUS = $14,616)

- **Private Institutions Average**
  - Retirement – 9.1% (OUS = 20%)
  - Healthcare Contributions - $9,099/covered employee (OUS = $14,616)

- **Total Benefits as a % of Salary**
  - Public – 29.6% (OUS = 44%)
  - Private – 27.7% (OUS = 44%)

When using % salary calculations bear in mind that OUS salaries are lower than national peer groups, thus inflating our contributions when expressed as a percent of salary.
Capital Costs

- Growing enrollments, research and employees necessitates added space
- OUS had record capital budgets in 2007-09 and in 2009-11
  - Includes acquisitions, new construction, deferred maintenance and capital improvement projects
  - At 9 jobs per $1M spent on capital construction means OUS supported ~3,500 construction jobs in 2011
- In addition, rent, debt service and utilities expenses in the operating budget have also increased by 221% from $65M in 1996 to $210M in 2011
Facilities Costs 1996-2011
Up from $65M to $210M or a 221% Increase
From 1996-2011 student aid disbursements have grown from $118M to $648M (451% growth):

- Federal - $79M to $512M
  - Grants – $30M to $152M (+319%)
  - Loans - $49M to $360M (+637%)
- State – $7M to $11M (+54%)
- Institutional - $22M to $81M (+276%)
- Private/Foundation – $10M to $44M (+337%)

With State funding challenges, costs must be more tightly controlled to preserve access and affordability.
Student Aid by Source
1996-2011 (up 451%)

<table>
<thead>
<tr>
<th>Year</th>
<th>Student FTE</th>
<th>Aid/FTE</th>
<th>Res. UG Tuit.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>54,840</td>
<td>$2,147</td>
<td>$3,105</td>
</tr>
<tr>
<td>2001</td>
<td>62,510</td>
<td>$4,784</td>
<td>$3,508</td>
</tr>
<tr>
<td>2006</td>
<td>71,672</td>
<td>$6,572</td>
<td>$5,219</td>
</tr>
<tr>
<td>2011</td>
<td>84,957</td>
<td>$7,633</td>
<td>$7,102</td>
</tr>
</tbody>
</table>

Student Aid Growth:
- Federal Aid - Grants
- State Aid
- Institutional Funds
- Private/Foundation Aid
- Student Aid - Loans

Aid/FTE Growth: 54.9%, 255.5%, 128.7%
Total operating expenditures grew by 135% during this time. Administration as a percentage of total operating expenses declined from more than 10% in 1996 to less than 8.0% in 2011.
Average Costs of Education Per FTE Student
1996-2011 – up 44% (CPI +42%)

Average Cost of Instruction vs Portland Consumer Price Index

- Average COI
- CPI

Average Cost of Education per Student by Campus

Average Cost of Education Per Student

EOU  OIT  OSU  PSU  SOU  UO  WOU

Costs of Education for Resident Students and Associated Funding Sources

Average Cost of Education:

1990-91 = $6,285

2000-01 = $8,759

2010-11 = $11,670

2011-13 will result in further decline of General Fund contribution

Resident Education Costs Funding Sources
1990-91

- State General Fund, 74.20%
- Resident Tuition, 25.50%
- Non-Resident Tuition, 0.30%

Resident Education Costs Funding Sources
2000-01

- State General Fund, 60.90%
- Resident Tuition, 36.30%
- Non-Resident Tuition, 2.80%

Resident Education Costs Funding Sources
2010-11

- State General Fund, 35.70%
- Resident Tuition, 45.80%
- Non-Resident Tuition, 18.50%
Driving Down the Cost of Academic Delivery: Savings/Efficiencies

- Online degree audit and mapping systems that allows students to view online the shortest possible route to degree completion.
- Investments to open new sections of key gateway courses required for students to advance from lower division to upper division study.
- Course audits to determine which course sections might be melded.
- New interdisciplinary majors like General Social Science allowing more students to graduate on time.
- Teaching earlier and later in the day than several years ago, i.e., we use our physical plant more efficiently.
- Adding sections to lecture classes so that more students can enroll in the lecture portion of classes.
- Faculty have taken on significantly greater workloads in terms of class sizes, advising, and independent study classes and honors work.
- More transfer articulations with community colleges allowing students to take many of their lower level classes at community colleges at a lower cost.
- Increased on-line and summer session offerings resulting in less time/lower cost to degree.
Efficiencies

- Thanks to our productive employees:
  - Per student instructional costs have stayed constant when adjusted for CPI.
  - Productivity has increased as enrollment and research are currently at record levels and have grown at faster rates than employee numbers.
  - Student success rates as measured by retention and graduation rates and numbers are at record levels.
Shared Services

- The Chancellor’s Office, in partnership with campuses, provides the following shared services which have generated significant cost savings and efficiencies:
  - Payroll operations, withholdings, deductions and reports
  - Human resource functions such as ORP/TDA management, labor relations, etc.
  - Treasury operations, including investment management, bank reconciliations, central banking services and bond sale support
  - Financial statement preparation, audit and analysis
  - Operation of the 5th site administrative information systems and wide-area networking in conjunction with OSU and UO with standards management to ensure data consistency
  - Internal audit operations
  - Institutional research, data consistency and reporting
  - Capital planning and operations oversight
  - Public/legislative relations and information coordination
  - Legal services

- It would cost significantly more (2-3 times as much) if these services were provided at each campus

- The Chancellor’s Office operations comprise less than 1.0% of the total E&G expenses for OUS
Savings/Efficiencies
Resulting from SB 242

- A new attitude re. the enterprise
- More control over costs, ownership of revenues lead to better plans and the ultimate success of the enterprise
  - This may be the most important component of this change
  - Capacity planning and 40-40-20
    - Linking academic capacity, capital and financial plans
- More flexibility opens the door to new ideas and leads to innovation
- Added opportunities to share services or otherwise reduce costs or leverage resources
SB 242 Improves Risk Management

- After separation from DAS, consultants estimate more than $670K in annual savings (after all costs)
- Consultants recommend continuation with SAIF for workers compensation and an OUS self-insurance program with appropriate deductibles and re-insurance levels and contracted claims management for property and liability
  - Requires an OUS staff of three: director, EH&S loss control specialist and risk analyst
  - Risk funds will only be ~70% actuarially funded at transition
SB 242 Improves Treasury Management

- Retention of 100% of investment earnings on all OUS funds will improve the effectiveness of Treasury operations by providing:
  - added resources for need-based aid and other uses;
  - a natural hedge for variable rate debt exposure used to lower overall costs of capital; and
  - better incentives for improved cash flow management.
- Stratification of cash balances into short-term, mid-term and longer-term investment produced higher net returns (investment income of $3.8M in 2011 compared to $1.5M had we invested exclusively in the short term fund)
- Authorizing use of revenue bonds provides additional options for capital needs
- State Treasury continues to be OUS’ banker, investment officer and debt issuer
SB 242 Enhances Legal Services

- Effective January 1, 2012 OUS no longer subject to DOJ advice and services
- Board has approved a new model of legal services
  - A new model for providing legal sufficiency reviews has been adopted
  - Two new attorneys to be hired to support small schools and employment law/labor relations
  - Retainer agreements in place to efficiently utilize private counsel for specialized services
  - Accountability mechanisms – annual reports, outside counsel system-wide database and contract log by attorney
- In-house counsel provides more timely and creative legal service thereby better supporting decision-making and execution
Three major initiatives
- Classification/Compensation
- Healthcare options
- Optional Retirement Plan

Rebalancing the elements of total compensation
- Recruitment and retention advantages

Advantages
- Better alignment of salaries and benefits with the academic market
- Classification/compensation structure outdated, expensive to maintain and inhibits innovation and productivity
- Healthcare programs tailored to the needs of our employees
- Market-competitive defined contribution rates and administrative independence for the ORP
SB 242 Improves Planning and Services to Oregonians

- Fewer regulations reduces delays and uncertainties
- Eliminating fears of fund redirection makes planning more rational and gives the Board and President’s greater control over OUS affairs
  - Absence of expenditure limitations allows campuses to spend revenues to serve unexpected enrollments
  - Less overhead and administrative burden – due to a focus on performance metrics as opposed to line-item controls – focuses the conversation on value adding activities and issues
- Greater accountability for performance deliverables results in better services to the people of Oregon
Conclusions

- BM 5 impacts – tuition growth, state funding redirected to different priorities
- Enrollment growth follows economic challenges as individuals and the state generally need to be more competitive in the global economy
- In the past many costs have been out of OUS’s control with services that are not tailored to our specific needs
- SB 242 allows for greater control over costs and greater flexibility in managing costs and programs leading to increased opportunities
- OUS has improved efficiency, but with flat or declining State funding and limits in student aid funding, must redouble efforts to address cost growth
  - Need to address cost growth to moderate tuition increases in order to protect access and affordability for Oregonians
An education is too important to waste

Contact: Jay Kenton – jay_kenton@ous.edu or 541-737-3646