

House Higher Education Committee – February 14, 2011



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## Purpose

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- 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

## Background

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- 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

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- 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

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- 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

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- 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



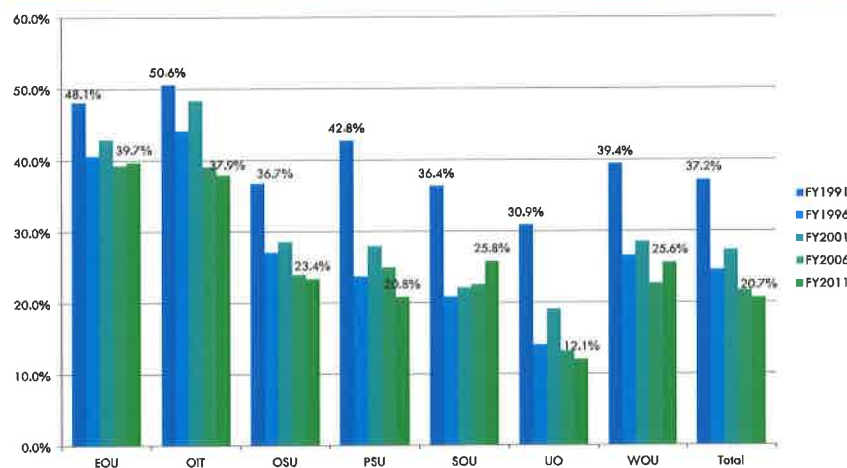
## State Funding as a Percentage of Total OUS Revenues has Declined and Continues to Decline

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- 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 revenues

## State Funding as a Percentage of Operating Expenses by Campus

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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%)

	FY 1996	FY 2001	FY 2006	FY 2011	1996-2011
Faculty/Staff Salaries & Pay	\$387,925,192	\$495,923,521	\$619,278,625	\$814,146,084	109.9%
Student/Grad Pay	\$51,086,626	\$63,760,530	\$85,489,857	\$111,311,880	117.9%
Other Payroll Expenses (OPE)	\$149,603,561	\$198,956,109	\$327,922,083	\$426,461,950	185.1%
<b>Total Compensation</b>	<b>\$588,615,379</b>	<b>\$758,640,160</b>	<b>\$1,032,690,565</b>	<b>\$1,351,919,914</b>	<b>129.7%</b>
Operating Expenses	\$194,735,405	\$283,224,914	\$360,704,221	\$485,138,871	149.1%
Facilities (rent, debt and utilities)	\$65,434,555	\$80,626,695	\$123,716,500	\$210,185,259	221.2%
IT & Telecom	\$38,500,403	\$43,979,221	\$49,819,698	\$59,532,107	54.6%
Assessments	\$11,580,819	\$14,180,149	\$21,213,139	\$41,310,715	256.7%
Capital Outlay	\$30,799,267	\$28,284,526	\$26,298,520	\$41,430,585	34.5%
Net Transfers	\$9,991,955	\$3,701,089	\$3,734,139	\$20,858,183	108.7%
<b>Total Expenses</b>	<b>\$939,657,782</b>	<b>\$1,212,636,754</b>	<b>\$1,618,176,783</b>	<b>\$2,210,375,633</b>	<b>135.2%</b>

## Operating Costs

- 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

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

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

During this same time period OUS enrollment increased 62%, from 62,847 to 100,316 and research grew by 127% from \$178M to \$406M.

## Types of Faculty: A Driver of Costs and Quality

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- 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

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- 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

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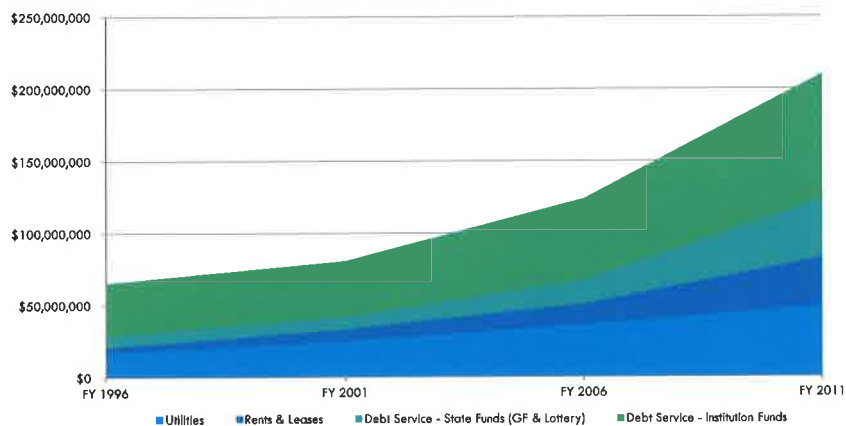
- Growing enrollments, research and employees necessitates added space
- OUS had record capital budgets in 2007-09 and in 2009-11
  - Includes acquisitions, new construction, deferred maintenance and capital improvement projects
  - At 9 jobs per \$1M spent on capital construction means OUS supported ~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

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Cost of Facilities Utilities, Rent and Debt Service



## Financial Aid for Students

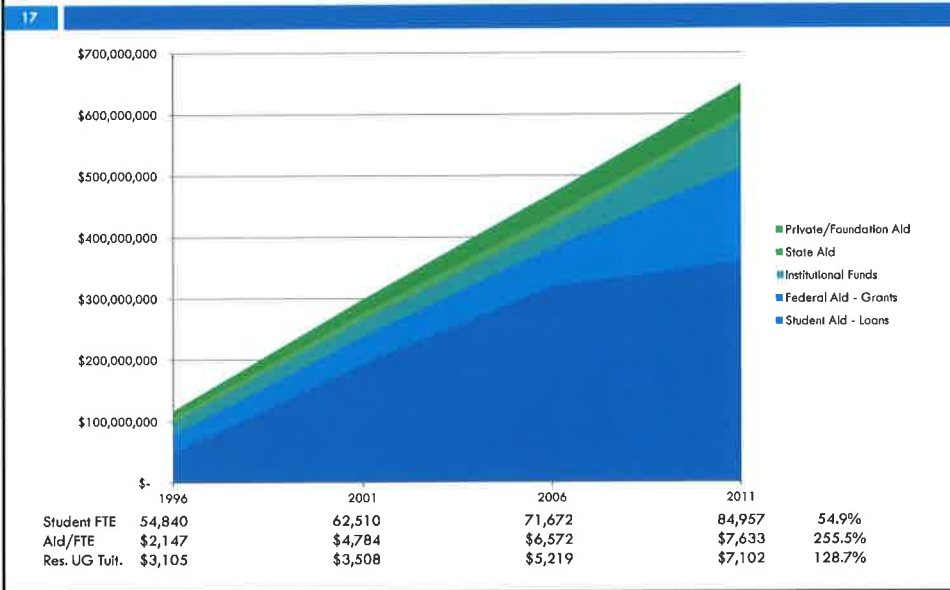
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- From 1996-2011 student aid disbursements have grown from \$118M to \$648M (451% growth):
  - Federal - \$79M to \$512M
    - Grants - \$30M to \$152M (+319%)
    - Loans - \$49M to \$360M (+637%)
  - State - \$7M to \$11M (+54%)
  - Institutional - \$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%)



## Administrative Costs

(Amounts in Thousands)

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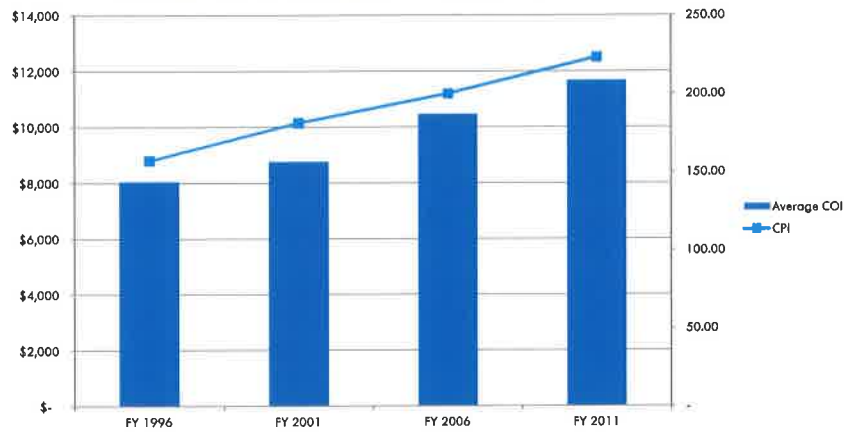
Institution	1996	2001	2006	2011	% Change
EOU	\$2,846	\$2,915	\$4,440	\$5,492	92.97%
OIT	\$4,871	\$4,332	\$3,888	\$4,773	-2.01%
OSU	\$28,231	\$23,073	\$37,277	\$50,115	77.52%
PSU	\$11,615	\$13,636	\$17,235	\$23,894	105.72%
SOU	\$6,681	\$6,036	\$4,477	\$4,819	-27.87%
UO	\$23,238	\$21,627	\$33,324	\$59,169	154.62%
WOU	\$3,947	\$4,433	\$4,739	\$4,694	18.93%
CO	\$12,853	\$19,113	\$11,891	\$12,089	-5.94%
<b>Total OUS</b>	<b>\$94,282</b>	<b>\$95,165</b>	<b>\$117,271</b>	<b>\$165,045</b>	<b>75.05%</b>

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%)

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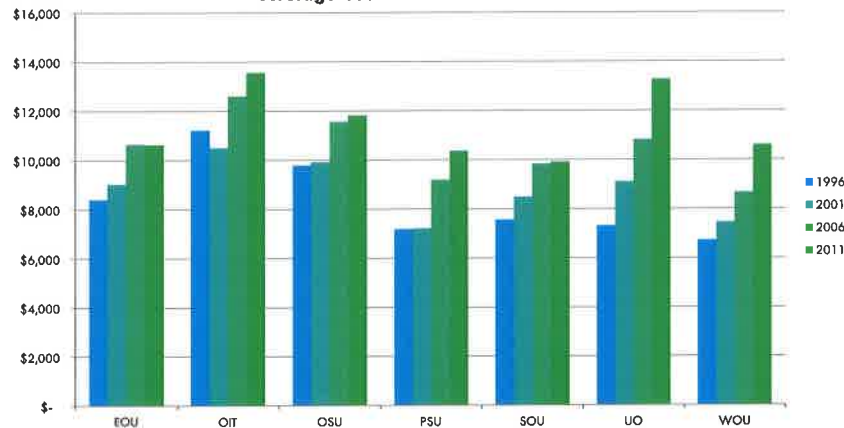
Average Cost of Instruction vs Portland Consumer Price Index



## Average Cost of Education per Student by Campus

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Average Cost of Education Per Student



## Costs of Education for Resident Students and Associated Funding Sources

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### Average Cost of Education:

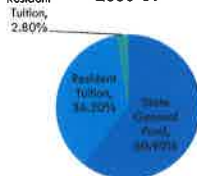
1990-91 = \$6,285

2000-01 = \$8,759

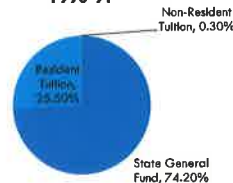
2010-11 = \$11,670

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

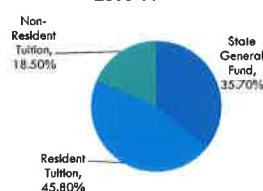
Resident Education Costs Funding Sources 2000-01



Resident Education Costs Funding Sources 1990-91



Resident Education Costs Funding Sources 2010-11



## Driving Down the Cost of Academic Delivery: Savings/Efficiencies

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- **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

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- 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

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- The Chancellor's Office, in partnership with campuses, provides the following shared services which has 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 5<sup>th</sup> 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

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- 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



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- 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



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- 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

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- 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

## Labor Management Committee(s)

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- 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

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- 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



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- 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

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An education is too important to waste

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