Analysis

Item 14: Higher Education Coordinating Commission

Revenue Mix Funding Gap

Analyst: Doug Wilson

Request: Allocate $4,500,000 from the Emergency Fund to provide funding to offset the gap between projected Federal and Other Funds revenues and actual revenues for the agency's staffing and other operational costs.

Analysis: The Higher Education Coordinating Commission (HECC) is facing an estimated net shortage of Federal and Other Funds resources of $6.8 million for its staffing and other operational costs. Overall, these shortages mean that HECC will run out of available resources early this calendar year. The central agency functions such as the Executive Director's Office, Office of Operations (e.g., financial functions, IT, procurement) and the Office of Research and Data are the units that are most affected by this issue. The primary reason for this revenue gap is the difference between the projected revenues that could be allocated from various federally and other funded programs to support the central operational functions of the agency assumed in the development of the 2019-21 budget and the amount likely available for this biennium. When the 2019-21 budget was developed, overly optimistic assumptions were made of these contributions including those available from the workforce programs funded through the U.S. Department of Labor (USDOL). HECC did not have a USDOL approved indirect rate dating back to fiscal year 2017. The indirect rate, which was approved by USDOL after the beginning of this biennium was significantly less than what was assumed in the development of the 2019-21 budget. The budget assumed $5.8 million in federal revenue from the indirect rate, the rate actually approved by USDOL will generate only an estimated $2.4 million for 2019-21.

The assumptions regarding the amount of resources available from Other Funds programs such as GED, private scholarships, and private career schools were also too high. The assumed contributions from some of these programs would have meant significant increases to fees that students pay (e.g., GED) or in fees that have recently been increased (e.g., private career schools). This structural imbalance of Other and Federal Funds had been known at some level for 2017-19, but the agency was able to work through the issue. This biennium, HECC is unable to balance them without further financial resources or other actions. The development of the 2021-23 budget assumed the approved federal indirect rate and included more realistic assumptions on the amount of resources that the Other Fund revenues could contribute.

Other factors that have led to this shortfall include:

- The Legislature directed preparation of a strategic capital development plan for public universities during the 2017-19 biennium. The total cost of this strategic plan prepared by a consulting firm was $821,420 General Fund, but HECC never received resources for the plan. Much of this amount was paid out of the 2019-21 budget ($767,577).
- Reductions to these central agency functions were taken during the 2nd special session of 2020 in August. Some of this $1.3 million in reductions were tied to specific position eliminations and other identifiable actions, but almost $600,000 were unspecified reductions in selected categories of Services and Supplies.

- The agency paid for costs incurred during the 2017-19 biennium with 2019-21 budgeted resources due in part to accounting procedures. This amount is estimated at $1.5 million.

HECC is requesting $4.5 million which will provide approximately three months of estimated spending in these units of the agency. Monthly costs are $875,000 for payroll/personal services, $515,000 for Services and Supplies, and $175,044 for GED related special payments. These figures assumed the distribution of the special purpose appropriation for state salaries and compensation in the Emergency Fund. The agency is not requesting the full amount since it hopes that the following actions will offset the need for some or all the remaining resources to fill the gap.

1. HECC has implemented an agency-wide hiring freeze for all General Fund positions as well as halting or limiting discretionary Services and Supplies spending. This represents savings going forward since any past actions producing these types of savings are assumed in the existing projections for the gap.

2. In the past, HECC has not used all the funds appropriated for its programs and the unspent funding has reverted to the General Fund. This is especially true for the student assistance programs where it is difficult to estimate the demand for the program over two years prior to the final school quarter of the biennium for which assistance is provided for. Factors leading to the uncertainty include whether students continue from one quarter to another and the overall economy. The agency also must be conservative in its assumptions during the biennium to make sure that it does not overspend its appropriated amounts for the programs. In the previous biennium (2017-19), HECC reverted $10.2 million for three student assistance programs (Oregon Promise, Oregon Opportunity Grant, and the National Guard Tuition Assistance program) representing 5.4% of the total General Fund and Lottery Funds appropriated/allocated to the programs. The pandemic and the changing school enrollments only add to this uncertainty.

HECC is a relatively new agency and has faced numerous challenges bringing together various financial systems. As noted above, there is still uncertainty in what the final gap over the entire agency will be. For that reason, a measured approach is the proper way to proceed and the agency recognizes this by only asking for a portion of the estimated gap and wanting to further address the issue during the 2021 session. Also given this uncertainty, the Legislative Fiscal Office (LFO) suggests that the Department of Administration unschedule the funding allocated for this request and have it released on a monthly basis as needed. HECC should report to LFO and the Chief Financial Office on the savings generated by the hiring and spending freezes as well as the ongoing effort to identify savings in other HECC programs as outlined above.

Legislative Fiscal Office Recommendation: The Legislative Fiscal Office recommends that the Emergency Board allocates $4,500,000 General Fund from Emergency Fund to the Higher Education Coordination Commission to address the resource gap in the budget for the operations of the agency. The Department of Administrative Services is instructed to unschedule these funds and release as needed.

Request: Allocate $4,500,000 General Fund from the State Emergency Fund for continuing operations of the Higher Education Coordinating Commission in the 2019-21 biennium.

Recommendation: Approve the request.

Discussion: The Higher Education Coordinating Commission's (HECC) projects an $8.24 million shortfall in General Fund for the remainder of the 2019-21 biennium. While the projected shortfall is $8.24 million, the Agency has taken actions to reduce the shortfall. HECC currently anticipates a $6.8 million shortfall, of which it is currently requesting $4.5 million with the possibility of needing to return to the Legislature for the remaining $2.3 million if cost-cutting measures are not fully successful.

Beginning with HECC's formation in the 2013-15 biennium through the 2019-21 biennium, the Agency made certain assumptions regarding the amount of Other Funds and Federal Funds that would be available to cover costs associated with the administration of the agency. However, throughout this timeframe, up until the current biennium, HECC was working without an approved Indirect Rate Cost Allocation from the U.S. Department of Labor (USDOL). During the current biennium, the Agency developed and received approval from the U.S. Department of Labor for the Indirect Rate Cost Allocation models for Fiscal Years(s) 2017, 2018, 2019, 2020, and 2021. The Agency is currently working on receiving approval for a rate for Fiscal Year(s) 2022 and a provisional rate for Fiscal Year 2023.

The current shortfall stems from not having an approved indirect rate from the U.S. Department of Labor when the 2019-21 budget was built, partly from General Fund reductions taken during the August 2020 2nd Special Session, as well as the reliance on fees for its Other Funds. With respect to Federal Funds, the Agency made assumptions in building its budget for 2019-21 that were not realized due to a lower indirect rate being approved by the USDOL, of which the Agency learned while already part way through the current biennium. As a result of the lower indirect rate approved by the USDOL and to some extent the reductions to General Fund taken in the August 2020 2nd Special Session, the Agency is not able to spend as much Federal Funds as it had anticipated for its administrative expenses in this biennium. Thus, a shortfall has developed with respect to the ability to spend those Federal Funds and General Fund is needed to offset that shortfall. The supplemental General Fund amount requested will provide approximately three months of administrative operating expenses getting the Agency at least through April, without any additional cost cutting measures. The Agency continues to explore the possibility of additional cost cutting measures in order to reduce the amount of General Fund needed for the remainder of the biennium. In building the 2021-23 budget, the Agency worked with the Chief Financial Office to account for anticipated USDOL indirect rate approvals and shifted funding on to the General Fund, where appropriate.

Legal Reference: Allocation of $4,500,000 from the State Emergency Fund to supplement the appropriation made by chapter 666, section 1(1), Oregon Laws 2019, to the Higher Education Coordinating Commission for its operational budget for the 2019-21 biennium.

Oregon
Kate Brown, Governor

Higher Education Coordinating Commission
Office of the Executive Director
255 Capitol Street NE, Third Floor
Salem, OR 97310
www.oregon.gov/HigherEd

January 8, 2021

The Honorable Senator Peter Courtney, Co-Chair
The Honorable Representative Tina Kotek, Co-Chair
State Emergency Board
900 Court Street NE
H-178 State Capitol
Salem, Oregon 97301

Dear Co-Chairpersons:

Nature of Request

The Higher Education Coordinating Commission (HECC) requests $4,500,000 General Fund disbursement from the Emergency Fund dollars for continued operations of the agency due to Federal Fund and Other Fund revenue shortfalls.

Agency Action

As HECC was created between 2013 and 2015, it combined what was then the Department of Community Colleges and Workforce Development, the Oregon Student Access Commission, and Office of University Coordination (which inherited several functions from the Chancellor's office for the Oregon University System). HECC was assigned several new policy, budgetary, and research responsibilities. At the time, no combined budget history existed and the staff were required to make numerous assumptions about the levels of Other Fund and Federal Fund revenues that they would be able to collect. The budget authors assumed that all sources of Other Funds and Federal Funds would provide support for central administrative services including the Executive Director's Office, the Office of Operations, and the Office of Research and Data. These assumptions proved unrealistic given the HECC's revenue sources and limitations.

HECC's 2019-21 administrative budget was based on the following expectations:

- At the beginning of the biennium, there was no federally approved cost allocation or indirect rate established; however, the budget projected $5.78 million in Federal Fund revenue. Once approved, the US Department of Labor approved $2.4 million in administrative support for their programs.
- HECC's Other Funds revenues for central administration were projected to total $4.86 million, and "eligible" allocations could support most of this; however, much of the Other Fund revenue HECC receives is based on fees for licensing/authorizing non-exempt colleges and private career schools which are struggling to maintain enrollment and remain

open during the pandemic, student-paid GED fees, and OSAC private scholarships and agency transfers (direct student financial aid support). While we are exploring every option for assessing a reasonable indirect rate, which was calculated earlier in the biennium, in most cases increasing these fees would either take money directly out of the pockets of GED or post-secondary students or fail to support HECC's responsibility to protect students.

In addition, HECC experienced unanticipated and unbudgeted expenses this biennium, including:

- A $1.3 million GF cut in the August 2020 Special Session (over half of which consisted of an unspecified Services and Supplies reduction); and,
- A $821,420 unfunded directive to prepare a strategic capital development plan that was assigned to HECC last biennium, but completed and paid in this biennium.

So while the HECC has not overspent its 2019-21 Legislatively Adopted Budget (LAB), and is in fact underspending the LAB, it does not have the Other Fund and Federal Fund revenues necessary to support the budget. In total, the HECC budget plans for $8.24 million in revenue that did not materialize. As we work to mitigate the impact of this shortfall, we project that we will be approximately $6.8 million short in total.

The issues outlined in this letter are structural in nature and have existed for multiple biennia; however, they were masked by the process of starting up a new agency (resulting in higher-than-normal vacancy rates) and prior biennia's procurement inefficiencies that created slow contracting and grant making processes.

Over the last 1-2 years, the agency has taken the following steps to correct the budget:

1. Developed and received approval from the Department of Labor for the Indirect Rate Cost Allocation models for Fiscal Year(s) 2017, 2018, 2019, 2020 & 2021. We are in the process of obtaining an approved rate for Fiscal Year(s) 2022 & provisional rate for Fiscal Year 2023.
2. Streamlined the fiscal structures enabling transparency of expenditures, accounts receivable/payable management, SPOTS management, TEDS management and successfully navigating Secretary of State and Department of Labor audits.
3. Streamlined and fixed procurement processes ensuring HECC complies with all procurement rules and policies.
4. Utilized the allotment process to plan appropriate spend rates and develop expenditure schedules.
5. Collaborated with Department of Administrative Services' Chief Financial Office to develop the 2021-2023 Agency Request Budget, shifting revenue sources from Other Fund & Federal Fund to General Fund dollars.

To address the current revenue shortfall, we have:

- Implemented an agency-wide hiring freeze for all General Fund positions;
- Halted discretionary General Fund Service & Supplies spending; and,

- Scoured the agency budget for any appropriations that we believe may not be fully spent in this biennium and could be redirected through an internal rebalance by the Legislature to deal with this projected shortfall at a later date. HECC has a history of reverting General Funds from other appropriations, but cannot predict for at least a few more weeks what effect enrollment trends and grant pick-up rates will have on the amount available.

This issue has come to light because HECC is fully functional and is therefore spending close to its budgeted levels. To successfully complete this biennium, HECC requests assistance from the Emergency Board in the amount of $4,500,000. This equates to three months of administrative operating expenses. While this amount will not fully resolve the issue, it will allow us time to implement continued cost cutting measures and to assess what effects enrollment trends have had on other General Fund accounts that might be redirected through an internal rebalance.

Action Requested

HECC requests a $4,500,000 General Fund for continued operations of the agency due to revenue shortfalls in Other Funds and Federal Funds.

Legislation Affected

If approved, this request would increase the General Fund disbursement from the Emergency Fund in the amount of the expenses allocated to the agency through Chapter 666, (2019 Laws) Section 1(1).

Sincerely,

Ben Cannon

Ben Cannon
Executive Director
Higher Education Coordinating Commission