

To: Michael Schill, President
From: Jamie Moffitt, Vice President for Finance & Administration and CFO, TFAB Co-Chair, and Kevin Marbury, Vice President for Student Life, TFAB Co-Chair
Date: May 10th, 2019
Re: Follow Up Memo regarding recommendations of the FY2019 Tuition and Fee Advisory Board (TFAB) regarding Resident Tuition Rates
Cc: Jayanth Banavar, Senior Vice President and Provost

On February 6th, we sent you a memo regarding the Tuition and Fee Advisory Board (TFAB) composition, process and recommendations for all FY2020 tuition and fee rates with the exception of resident, undergraduate tuition rates. The Board of Trustees (Board) approved those rates (with a minor change in the Health Center Fee) at its March meeting. At that time, we did not provide recommendations to you regarding resident, undergraduate rates as the Board indicated that it wanted to wait to set those rates until its May meeting when the institution would have more information available to it regarding projected enrollment for next year and likely state appropriation. This memo provides you with that recommendation, plus background information on the TFAB's process and considerations as we made our recommendation. For detailed information about the entire TFAB process, please see Appendix 1 (Feb. 6th TFAB memo).

Budget Gap

At the March Board meeting, the Board discussed the significant E&G (Education and General Expenses) fund budget gap facing the institution. Specifically, the following factors create a gap between expected revenue and expected costs for FY2020:

- Existing FY2019 budget gap (as of Q2): \$7.9 million
- FY2020 Cost Drivers \$23.6 million
- Governor's Recommended Budget -\$2.7 million
- Total Gap in Funding: \$34.2 million

Actions Taken to Reduce Budget Gap

At the March Board meeting, and continuing into the spring, several actions have been taken that reduced the expected FY2020 budget gap. They include the following:

- 2.97% non-resident undergraduate rate increase approved \$7.4 million
- President announced general fund budget cuts \$11.6 million
- Co-Chairs of Ways & Means Committee Budget \$2.9 million
- Value of Total Actions \$21.9 million

After considering the impact of these actions, the institution was still left with a projected E&G fund gap of approximately \$12.3 million.

Sensitivity Analysis

The \$12.3 million projected funding gap assumes stable enrollment. While the institution has been investing in initiatives to increase enrollment, we are currently facing a significant decline in our international student population, which has dramatically impacted the budget. Over the last three years, the university's international student population has dropped by almost 1,000 students, which represents a loss of over \$30 million of recurring tuition revenue. Given the size of existing international student cohorts, the Office of Institutional Research is projecting that the number of international students on campus will continue to decline as larger cohorts of international students graduate and are replaced with smaller entering cohorts. The \$12.3 million estimated funding gap assumed that current recruitment initiatives will be capable of fully offsetting the impact of declining international student enrollment.

In April, TFAB members reviewed a sensitivity analysis that looked at various potential outcomes related to (1) legislative funding in the PUSF (Public University Support Fund), and (2) potential projected enrollment, to answer two questions:

- (1) What would the budget gap be after the institution implements the announced \$11.6 million of recurring budget cuts, *and* if resident tuition increases were held to under 5%?
- (2) What resident tuition rate increase would be necessary to balance the FY2020 budget *after* the \$11.6 million of budget cuts were taken into account?

Appendix 2 provides an overview of this sensitivity analysis.

At the time the analysis was conducted, there were several outstanding unknown factors that could affect the size of the projected funding gaps. These included:

- Q3 update to FY2019 budget gap
- Enrollment projections based on May student deposits
- Legislative process – expected PUSF funding

Q3 Update to FY2019 Budget Gap

As of Q2 (first six months of the fiscal year), the E&G fund was projected to be running a structural deficit of around \$7.9 million. While the finance team is still analyzing data from Q3, our preliminary review indicates that the projected structural deficit is likely to grow by an additional \$2-\$3 million, resulting in a total deficit of approximately \$9.9-\$10.9 million. As this recurring deficit will need to be addressed in future years, it adds to the size of the funding gap in the E&G fund.

Projected Enrollment

The enrollment management team has reported a successful recruiting season. The investments that have been made in additional recruiters, marketing, and scholarships appear to have been effective. Student deposits are higher than last year and although there is always the risk that summer “melt”

(i.e., students who make a tuition deposit but do not end up attending the institution) will be greater than expected, the enrollment management team is conservatively projecting that not only will we fully meet our enrollment targets but we will exceed those targets by approximately 150 resident students and 20 non-resident students. These additional students *should* generate approximately \$1.7 million in additional, unanticipated net tuition revenue.

Legislative PUSF Funding

In the Governor’s initial recommended budget released in November, the PUSF was flat-funded, which would have resulted in a \$2.7 million cut to the University of Oregon’s FY2020 state appropriation allocation. The more recent budget released by the co-chairs of the Ways and Means Committee increased PUSF funding to \$40.5 million, which would result in a \$200K year-over-year increase to the University of Oregon state allocation, beginning in FY2020. The final figure for the PUSF funding is not yet known. Although we would like to see at least \$120 million invested in the PUSF, the committee felt that such an increase was unlikely based on discussions with Libby Batlan and Hans Bernard, the UO’s government relations staff. Rather, a more likely scenario is that final PUSF funding will fall somewhere between \$60 million and \$80 million. Below are the figures (calculated using the Higher Education Coordinating Commission’s allocation model) for how much funding the UO would receive in FY2020 under various PUSF scenarios:

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|--------------------------|--|
| • PUSF at \$40.5 million | UO receives \$200K additional in FY2020 |
| • PUSF at \$60 million | UO receives \$2.0 million additional in FY2020 |
| • PUSF at \$80 million | UO receives \$3.9 million additional in FY2020 |
| • PUSF at \$100 million | UO receives \$6.0 million additional in FY2020 |
| • PUSF at \$120 million | UO receives \$8.0 million additional in FY2020 |

Scenario Analysis

Throughout the course of the year, the TFAB used a projections calculator to discuss a broad range of tuition and budget cut scenarios (see Appendix 3 –tuition calculator). The full list of scenarios reviewed on May 7 is included in this document as Appendix 4; previously considered scenarios are listed in Appendix 5 (meeting summaries) and Appendix 1 (February memo). In each case, we considered various scenarios, based on different assumptions, using seven variables: (1) the FY19 budget deficit, (2) PUSF funding, (3) cost drivers, (4) budget cuts, (5) enrollment growth, (6) resident tuition rate increases, and (7) non-resident tuition rate increases. While a number of variables are still unknown, the assumptions in the various scenarios changed throughout the year as more information became available (e.g., enrollment growth) and decisions were made (e.g., non-resident tuition) about each variable. It should be noted that at our final meeting, the PUSF was still unknown so we felt compelled to consider various scenarios rather than relying on actual numbers.

Recommended Resident, Undergraduate Tuition Rate

After much discussion, the TFAB is recommending that you consider a graduated tuition schedule that *assumes* \$70 million of additional funding in the PUSF. However, should the PUSF increase above this estimate (e.g., \$80 million), we are recommending that those additional PUSF funds should be used for

the purpose of reducing the resident tuition increase, according to the proposed tuition schedule below. Please note that several members representing ASUO leadership have indicated that they are not supportive of this proposed schedule and will instead be submitting an alternative proposal regarding tuition.

The advisory group also recommends that the university set aside additional support funds, beyond what is normally budgeted, to support low-income resident students not covered by the PathwayOregon program. The figures in the chart below assume that in addition to the normal 10% of tuition revenue that is set aside for fee remissions, that an additional 10% of net tuition revenue from the resident tuition increase will be set aside to help students according to needs-based criteria. These funds could be used in a number of different ways to support students who are not eligible for PathwayOregon but who have significant income needs (e.g., fully offset the proposed tuition increase, partially offset the proposed tuition increase, focus on keeping the impact of the tuition increase below 5%, creation of a new emergency fund, etc.). The group discussed the fact that creating additional support funds (whether scholarship or emergency funds) would impact the budget and could result in a slightly higher tuition increase. It was noted that many other schools provide much greater levels of scholarship support than the UO and that these fee remissions are often funded with a higher tuition rate (i.e., high tuition/high aid model). It also should be noted that while there was general support for considering additional support for existing students affected by tuition increases, a concern was expressed about instituting a new precedent regarding additional set aside dollars for student support without additional study. It is important to note that all students in the PathwayOregon program (2,360 low income resident students in FY2019) who remain eligible for the program will continue to have all tuition and fees fully covered by the university and will not be directly impacted by this tuition increase.

Proposed Tuition Increase Schedule:

PUSF Level	Resident Tuition Rate Increase	New Support Funds for Low Income Residents Not Covered by PathwayOregon	Announced Cuts	Remaining Gap
\$70 million	11.06%	\$830K	\$11.6 million	\$2.3 million
\$80 million	9.68%	\$727K	\$11.6 million	\$2.4 million
\$90 million	7.83%	\$589K	\$11.6 million	\$2.5 million
\$100 million	6.45%	\$486K	\$11.6 million	\$2.4 million
\$110 million	5.53%	\$417K	\$11.6 million	\$2.0 million
\$120 million	4.61%	\$348K	\$11.6 million	\$1.7 million

Finally, many members of the TFAB felt strongly that the university should consider strategies over the long term for increasing its fee remission budget for needs-based aid to resident Oregonians who are not eligible for the PathwayOregon program.