

# **Budget 1010: Budget Trends**

**Budget Planning Council**

September 8, 2022

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This presentation is intended to provide a high-level overview of the major trends in the Athens budget for members of Budget Planning Council and the Budget Study Group and other stakeholders with an interest in learning more about the budget.

# Budget Trends and History

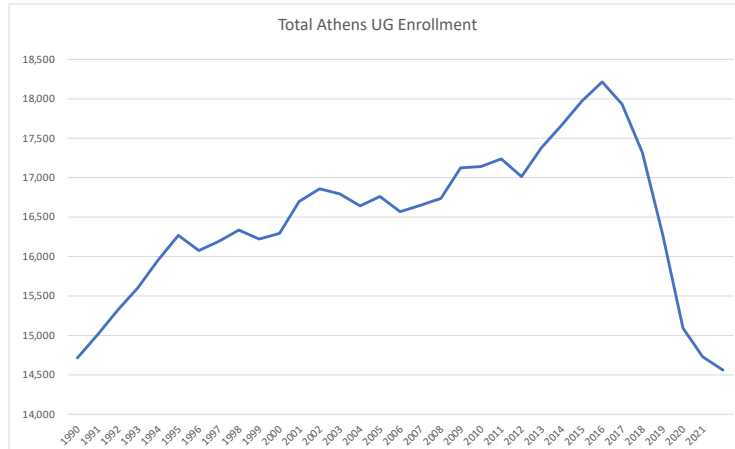
## Overview of Most Influential Trends Affecting the Budget

- Enrollment
  - Incoming Freshmen
  - Total Enrollment
  - Graduate Enrollment
  - Online Undergraduate Enrollment
- Tuition Trends – Net of Scholarships
- Subsidy Trends
- Expense Trends
  - Salaries
  - Benefits
  - Debt

Now that there is a basic understanding of the major components of the budget, this second session will focus on the trends impacting those components primarily on the Athens budget. This is an overview of the areas where trends will be discussed.

# Enrollment Challenges

- Undergraduate enrollment drives nearly everything.
- Relatively steady increase for 26 years from 14,711 in 1990 to a high point of 18,209 in 2016 for Athens undergraduate enrollment which is 24% growth.
- Dramatic change after 2016 with several consecutive years of decline in total enrollments back to where we were 30 years ago.
- Recent improvement in the last two years has started to slow the decline

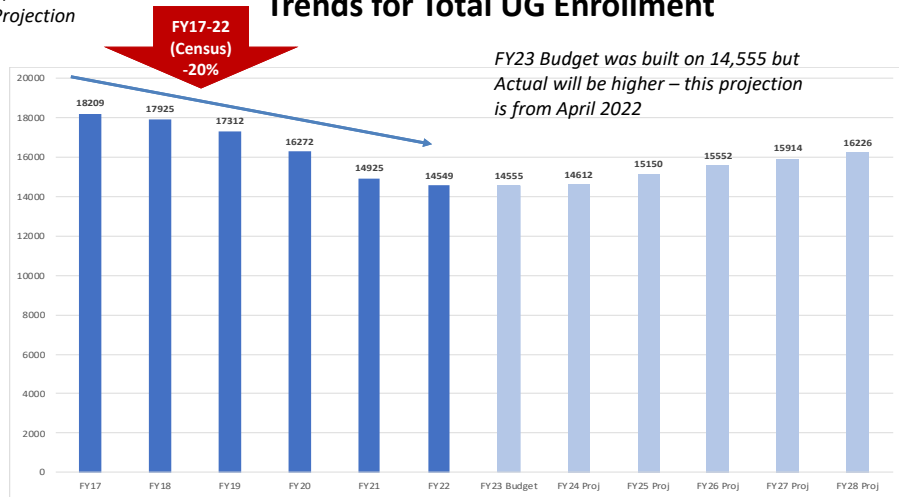


To accentuate the change, this graph starts the Y axis at 14,000. Here we can see that the enrollment level has dropped to below where we were 30 years ago. Recent improvements in the freshmen class have slowed the decline.

# Enrollment Challenges

## Trends for Total UG Enrollment

April 2022  
Projection



Incoming class size is only one component – total enrollment has also been declining because we are replacing larger senior classes with smaller freshmen classes and more students are graduating in 4 and even 3 years rather than staying around longer probably because of the financial incentive with the Guarantee and general affordability issues. The recent increase in freshmen will take several years to impact the budget assuming that level is sustained

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In addition to declines in the size of the entering freshman class, overall enrollment is down even more for several reasons. First, we have graduated the large incoming class from 2017 so we are replacing large senior classes with smaller freshmen classes. In addition, the Ohio Tuition Guarantee was designed to create an incentive for students to graduate in four years. Overall pressure on affordability is also driving students to graduate in four and even three years rather than staying on for a fifth or sixth year. Continued declines in the incoming class will create a ripple effect and similarly recent gains in the incoming class will take several years to fully impact overall enrollment assuming they can be sustained.

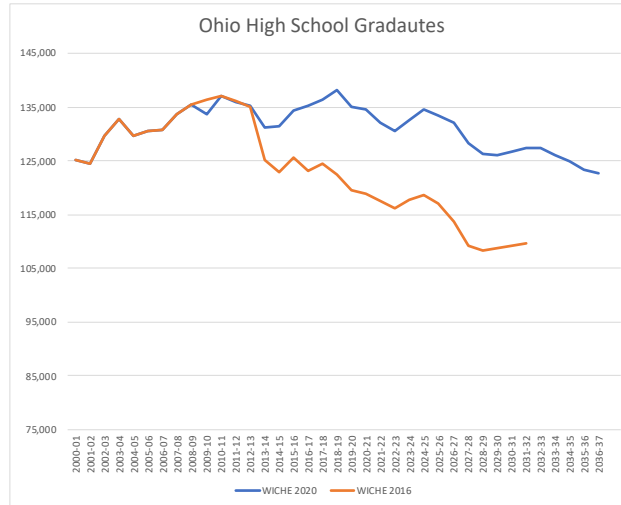
# Factors Related to Challenges

State of Ohio Demographics: WICHE Projections - [www.knocking.wiche.edu](http://www.knocking.wiche.edu)

Since the vast majority of our incoming freshmen come from Ohio high schools, changes in the number of high school graduates could present challenges to our recruiting.

The number of high school graduates peaked in 2018-19 and will decline around 10% in the coming years.

This means that an increasing future pool will not be a simple solution to our enrollment challenges



One pressure on the size of the incoming freshman class is that the overall pool of high school graduates in the state has been declining. The WICHE data set is updated every four years and you can see the difference between the 2016 and 2020 projections. Since most of our students come from within the state this has a potentially large effect on our future enrollments. Note that the demographic decline in the state started around 2013 but our enrollments did not start dropping until 2017.

# Factors Related to Challenges

## State of Ohio Demographics

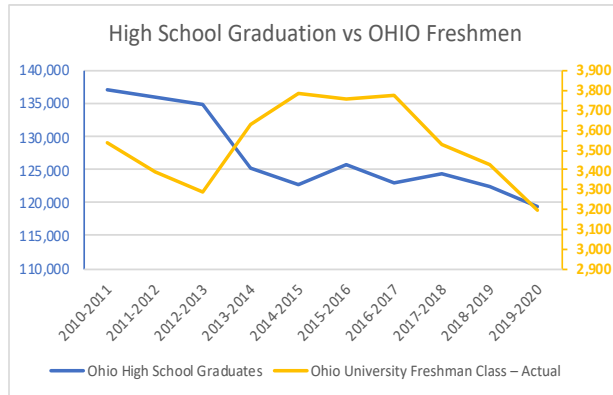
Through 2016, we have been able to avoid an impact from this trend by basically increasing our share of this smaller total pool by taking enrollments away from other universities in the state.

For the last three years, however, we have been unable to maintain that share (-16%).

Competitors have ramped up their recruiting efforts and scholarship offers causing students to shift to other Ohio schools as our reputation has declined.

This trend is a leading indicator. Changes to the budget are based on actual enrollment trends.

Recent budget reductions did not start to occur until after 2017 when actual enrollment started to decline and create revenue shortfalls. Even then, reductions are lagged and buffered with reserves to allow for actions and investments to potentially make up for shortfalls



As just noted, while the number of high school graduates started dropping around 2013, our enrollments continued to go up through 2016. This means that we were successfully countering this trend by increasing our share of students from this shrinking pool – basically attracting more students away from other universities in the state. After 2016, we have lost this advantage and dropped our share back down to and below prior levels. Note that this trend is monitored to give an early warning of potential future revenue issues. Budgets are projected on actual enrollment changes which may or may not follow this trend.

# Factors Related to Challenges

## Market Share

Perhaps more important than the simple trend in high school graduates, the percentage of students going to college could increase to offset the difference.

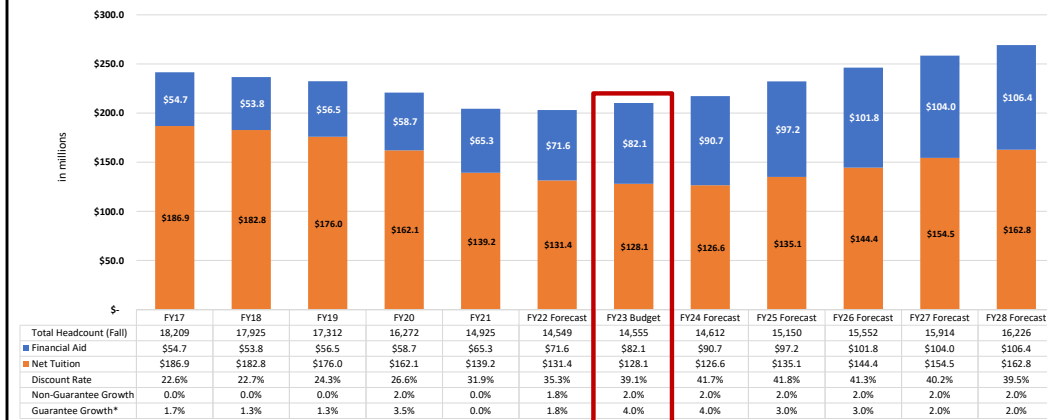
HS Class of	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Entering Class Fiscal Year	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
OHIO Academic Year	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
WICHE Ohio High School Graduates	131,560	134,302	135,197	136,502	138,136	135,160	134,700	132,230	130,560	132,520	134,530
% of WICHE projection attending College or University	36.9%	35.0%	37.6%	37.4%	36.1%	33.5%	33.5%	33.5%	33.5%	33.5%	33.5%
% attending University or Regional Campus	75.0%	74.0%	77.0%	77.0%	75.6%	75.0%	75.7%	75.7%	75.7%	75.7%	75.7%
Graduates Attending University	36,400	34,817	39,173	39,328	37,733	33,952	33,836	33,216	32,796	33,289	33,793
% Attending OSU + UC	25.6%	28.4%	27.4%	26.3%	28.2%	33.4%	31.3%	32.1%	32.7%	32.3%	32.0%
Non-OSU/UC Graduates Attending University	27,089	24,921	28,459	28,997	27,091	22,597	23,236	22,562	22,088	22,525	22,974
OHIO Freshman Class – Actual (Model)	3,756	3,774	3,529	3,427	3,199	2,682	2,942	2,921	2,917	2,994	3,073
OHIO Share of WICHE HS Graduates	2.9%	2.8%	2.6%	2.5%	2.3%	2.0%	2.2%	2.2%	2.2%	2.3%	2.3%
OHIO Share Graduates attending Univ	10.3%	10.8%	9.0%	8.7%	8.5%	7.9%	8.7%	8.8%	8.9%	9.0%	9.1%
OHIO Share non-OSU/UC grads in Univ	13.9%	15.1%	12.4%	11.8%	11.8%	11.9%	12.7%	12.9%	13.2%	13.3%	13.4%

From 2010 to 2016, our share of Ohio high school graduates attending a university rose from 9.2% to 10.8% but then dropped four consecutive years with the biggest drop during the pandemic.

This is the planning assumption from last April which assumed our investments in scholarships and marketing would help grow our market share at a rate of 0.1% per year for future years to get back to our historical average. This approach will be updated for this next budget cycle and our strong enrollment this fall will be a jump in our share and what that means for the future will need to be debated.

This shows you additional detail about our share of Ohio High School graduates. In terms of our actual freshman enrollment, we had previously attracted about 9.2% of the students attending a university. Through 2016 we increased that share up to nearly 11% over a five-year period. More recently this gain has been lost and we have declined to below our previous share. There are a number of potential reasons that may be related to this including increased competition in terms of marketing and scholarship offers. Some of our recent marketing studies have shown that our reputation is declining. In addition, when you compare prices, our guarantee rate is now second highest in the state. As other universities have implemented guarantees they have not rolled course fees up into their tuition which makes their price look lower and requires us to make complex arguments that families are not seeing comparable prices and need to add fees to the other university prices to get a comparable number. The recent uptick in the size of the freshman class will result in an increase in our market share so the previous assumption of steady growth in our share will have to be reevaluated.

## Athens UG Net Tuition (All Sources)



Our net tuition is declining as our enrollment has been declining but in addition, we are having to spend more in scholarships to attract students which further decreases the net tuition available for the budget as our discount rate increases.

To quantify the impact of the enrollment decline, this slide shows the effect on various tuition metrics.

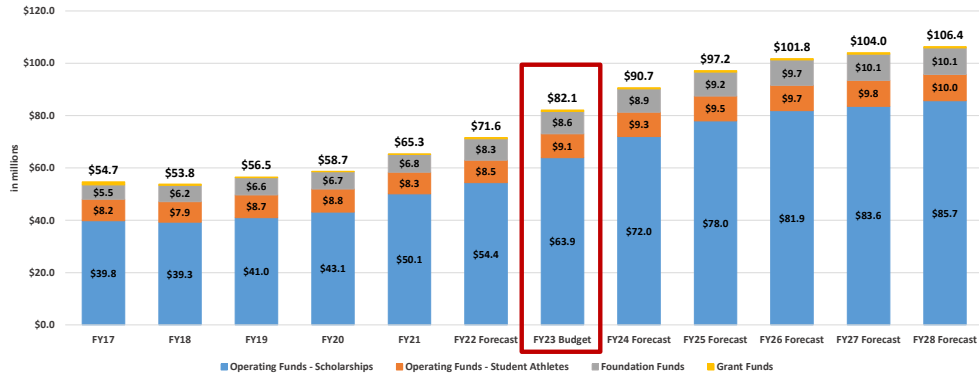
In addition to the assumed enrollment in the first line, the amount spent in financial aid is shown (represented by the blue bar) since the tuition we charge is reduced by this amount to produce the net tuition that is available to fund the budget. Note that the assumption is that even with lower enrollments, we are going to have to offer more financial aid just to yield those students.

The third row is the net tuition available in the budget – orange bar. By next year, the projection is that we will have lost \$54.5M in net tuition in five years.

Note that the last row shows tuition increases and we had increases in the guaranteed tuition rate every year with a 4% increase this past year.



# Athens UG Financial Aid



Here is the trend in financial aid over the past decade this is indicative of the new reality that competition for students is only increasing and financial aid is critical for maintaining enrollments.

. Other Financial Aid includes Athletics Scholarships and Planning-Unit Aid - primarily funded by gifts/endowment distributions which actually help support scholarships without taking funds away from the operating budget.

# Graduate Enrollments

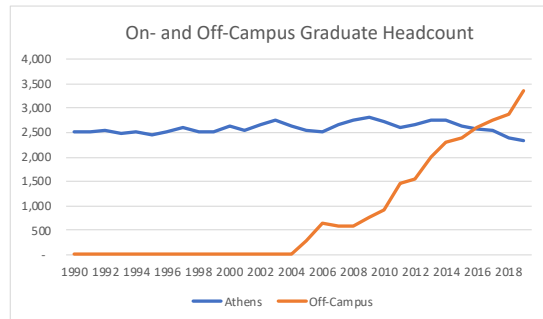
Prior to 2006, the vast majority of graduate enrollments were in traditional on-campus graduate programs with a relatively stable level since 1990.

Starting in 2005, some colleges created off-campus professional graduate programs.

The positive revenue impact of this growth helps the budget but is not comparable to the revenue decline of Athens undergraduate enrollments.

Predominately part-time

Involve Online Program Management partners for quick launch and marketing – with up to 50% revenue share



While we have been experiencing declines in undergraduate enrollments, many colleges have been working to diversify their revenues by adding off-campus graduate programs. As can be seen in this chart, traditional on-campus graduate programs have been relatively flat with some recent declines. Around 2005, some colleges launched off-campus programs and those have steadily grown. The additional revenue from these programs, however, is not large enough to offset the loss in undergraduate revenues because these programs are typically part-time so the revenue per term is not as similar, these programs typically involve external partners like Pearson that provide marketing and student support in exchange for a large percentage of the revenue.

Revenues added in this area have added expenses to colleges to handle these programs and these revenues have added some revenue to the overall budget but are not of the same magnitude as the loss of revenue that is resulting from the decline in our core undergraduate enrollments.

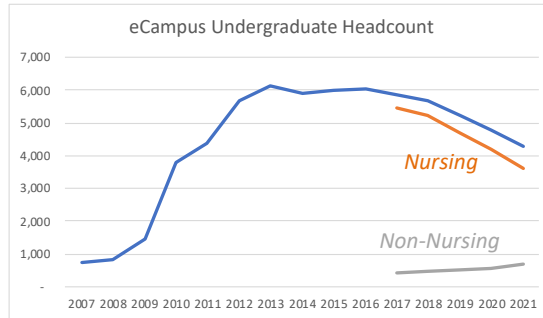
# Online Undergraduate Enrollments

Since 2007, some colleges have created online undergraduate offerings through eCampus. These are mostly bachelor completion programs with the largest by far being the RN-to-BSN program with over 5000 students at its peak

As with off-campus graduate programs, these are predominately part-time.

The RN-to-BSN started in the Ohio market and brought in both tuition and SSI.

More recently the demand in Ohio has been satisfied and the program has had to go out of state and at a price that is half that of Athens tuition with minimal non-resident fee since the market is price competitive.



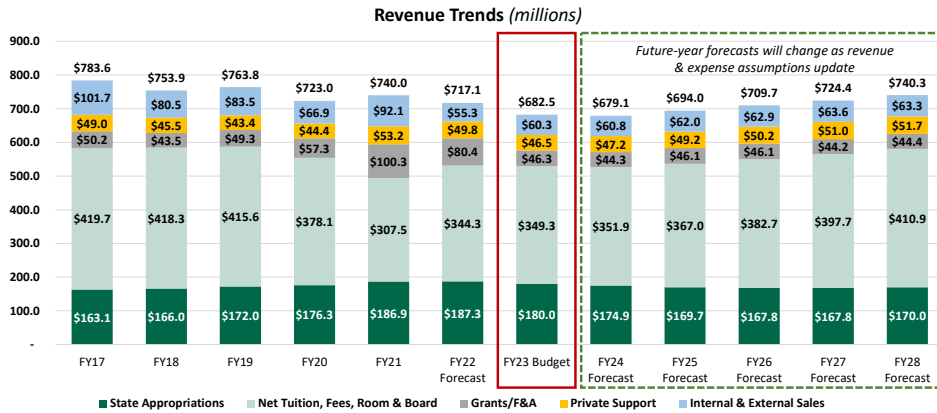
The overall recent decline is primarily in this one program with all the non-nursing programs actually growing but much more modestly

Similar to expanding off-campus graduate programs, colleges have also been expanding online undergraduate programs through eCampus. These are predominantly bachelor completion programs designed for students that already have an associate degree. The vast majority of these enrollments have been in the RN-to-BSN program that was created when the nursing profession increased its entry requirements to a bachelor's degree. This created a large backlog of need in Ohio and our program was an early offering, so our enrollments surged to over 5000 students in a short time. This program has peaked and declined now that the backlog has been addressed. To compensate for this decline, the program has moved to other states but this will at best slow the decline as these markets are more competitive and many other programs have started.

While we were serving Ohio students, this program was generating both tuition and subsidy. As it moves to other states, the subsidy will be lost. In addition, to compete with other programs, the tuition for this program is half that of a normal undergraduate student. So as with off-campus graduate programs, the revenue added by these programs is offset by some added expenses and is not of the same magnitude as the revenue lost in the core undergraduate program.

# FY23 Budget & Multi-Year Planning

## Multi-Year Revenue Trends



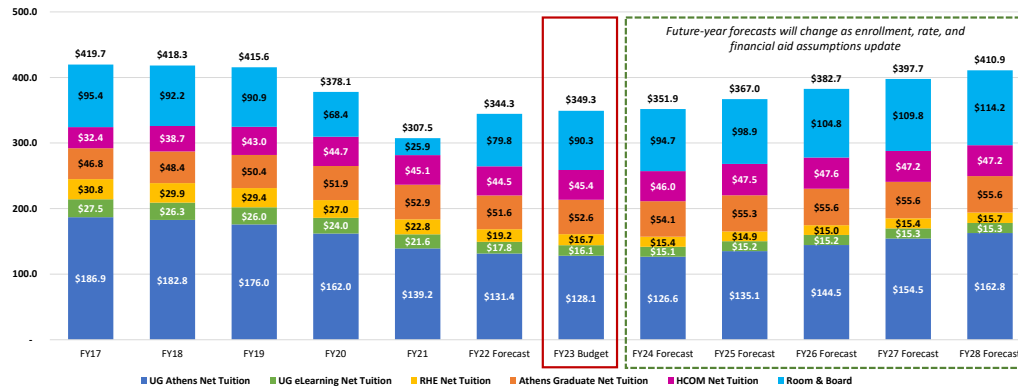
Note: FY20-22 Grants/F&A subtotal contains COVID-associated support funding

Most of our revenue sources are constrained or declining. Subsidy is still increasing but this is related to the lag in funding as will be illustrated in a subsequent slide.

All of our major revenue sources have declined since 2017 and are not projected to significantly recover in the future. Subsidy is increasing but this funding is related to the enrollment peak in 2016 given the lag in the subsidy formula as will be described in a subsequent slide.

# FY23 Budget & Multi-Year Planning

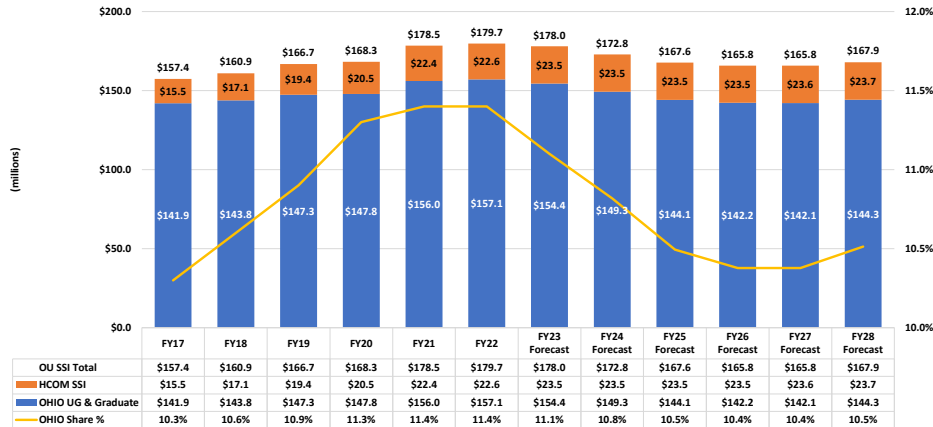
Net Tuition, Fees, Room & Board (millions)



Revenues from tuition, room and board have declined through this year. Projected enrollment recovery could result in some recovery but not back to the peak levels in 2017

This graph shows the current projection of the various types of tuition revenues. Apart from the increasing revenue for the medical college from their additional locations in Dublin and Cleveland, and some modest increase in graduate program revenue, all other revenue streams are projected to decline. The pandemic resulted in sharp declines in undergraduate tuition and revenue from room and board. These areas are projected to bounce back in the future as well as recovery in undergraduate tuition based on recent improvements in freshman enrollments.

## Subsidy Trends



*Note: OU's FY24-28 SSI forecast is based on enrollment projections with no assumed change in other public university enrollment shares*

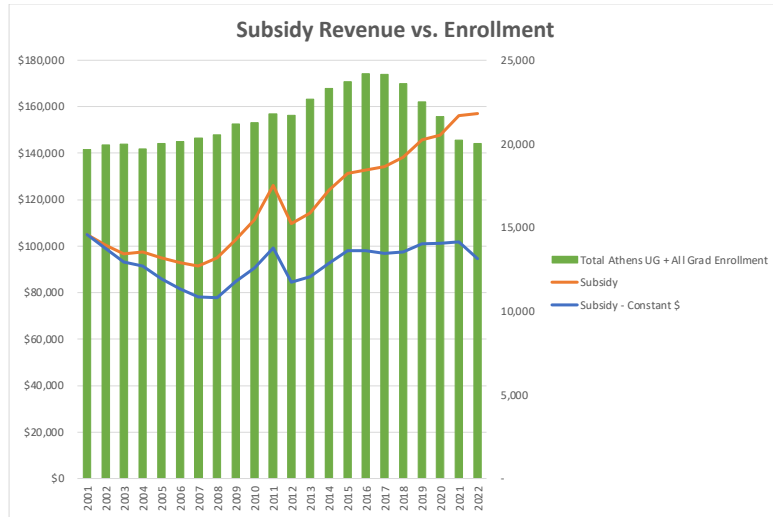
Since SSI is based on three-year averages and degree subsidy is awarded at the time of degree, we are still seeing an increase related to the peak enrollment in 2016 – recent enrollment declines will have negative effects on subsidy going forward.

The line mirrors our share of students from Ohio increasing and peaking in 2016 and you can see our SSI share peaking 7 years later in 2021

The other major revenue stream associated with enrollment is subsidy. As noted in the previous session, more than half our subsidy is awarded at the time of the degree. This means that changes in subsidy tend to lag changes in enrollment. This lag can be seen here where our subsidy has been going up through this past year as we have received degree funding for the large senior classes in the build up of enrollment through 2016. As these larger senior classes are being replaced with smaller freshmen classes, you can see a \$10M decline playing out into the future. So, this delay has helped buffer the recent decline, but it also means that if enrollment would increase again in the future that we won't see the increase in subsidy for four years.

# SSI and Tuition Trends

Universities are heavily reliant on human capital which produces inflationary pressures that exceed the consumer price index (CPI). Historically, universities maintained financial stability through tuition rate increases and support from the state (SSI). Both options have been severely curtailed in recent years.



To further illustrate the pressures on the budget, consider that our annual cost inflation is higher than the national inflation rates represented in the consumer price index (CPI). Higher education cost inflation follows the Higher Education Price Index (HEPI) which runs higher than CPI. This means that in order to handle increasing costs, universities need more revenue every year. We have been able to achieve this primarily through enrollment growth and partly through tuition rate increases – but now with enrollment declines, the ability to grow revenues is challenged.

Historically, universities received a large portion of their support from the state but for decades state support has been declining nationally. Our subsidy revenue is tracked here against enrollments. The orange line shows the total dollars received. The spike in 2010 is where federal stimulus funds were used by the governor to temporarily add to subsidy when 0% tuition caps were applied but those were one-time funds that then went away. In general, the increases in subsidy over time are related to our increases in enrollment.

While the dollars received have been going up, so has inflation so in terms of the actual power to those dollars to cover rising costs, the blue line adjusts the amount for inflation. With this line, you can see that our support from subsidy has actually declined. Without the enrollment increases, the rate of decline would be even greater.

# SSI and Tuition Trends

SSI uptick in 2010 was one-time federal stimulus funding.

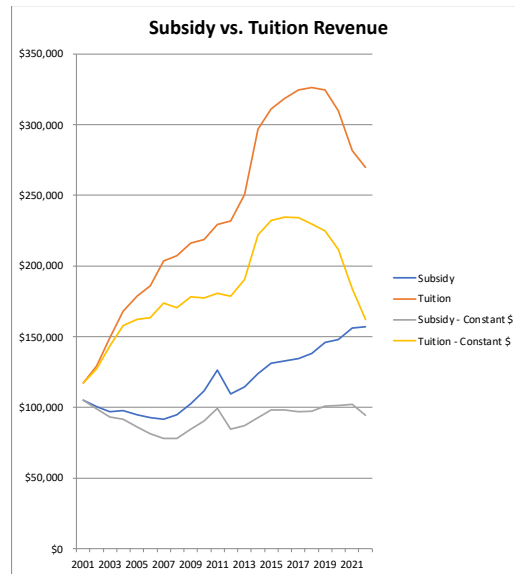
No option to increase tuition with 0% tuition caps for four years FY07- FY10 and FY16 - FY19.

2001 to 2004 tuition grew in a mirror image to the decline in SSI.

2006 to 2014 tuition was flat while SSI declined -no additional revenue available to address inflation.

2014 increase is the OHIO Guarantee which combined previously separate fee revenue (course, tech, etc.) into tuition.

Recent enrollment decline has had a major impact on tuition while SSI still lags and will eventually start to decline.



This decline in state support has historically led to increasing tuition rates to make up for that loss. This has shifted the burden of paying for college from the state to families and resulted in rising concerns about affordability. So at the same time subsidy is constrained, legislatures have responded to the affordability issue by capping tuition. Ohio has capped tuition to 0% for eight of the last 20 years.

The second lines in the graph adjust for CPI inflation (which is less than the HEPI inflation we actually experience). If you look at the two bottom lines you can see for the first 8-9 years, tuition increased in a nearly direct mirror proportion to the decline in subsidy.

When you hit the recession in 2008, tuition revenue becomes flat when the state instituted a 0% tuition cap for four years. So, in the middle of this period, we have had to basically absorb any expense increases by becoming more efficient.

In 2014, tuition increases with the implementation of the guarantee but remember that when a student enters the guarantee, their tuition rate will not go up, so this initial increase is followed by flat revenue. In addition, our implementation of the guarantee rolled course and technology fees into tuition so much of the increase in 2014 is from this addition which was previously separate in the budget.

Recent enrollment declines have had a major impact on tuition revenues while the decline in SSI will lag given the way the formula works.



# Revenues per Student

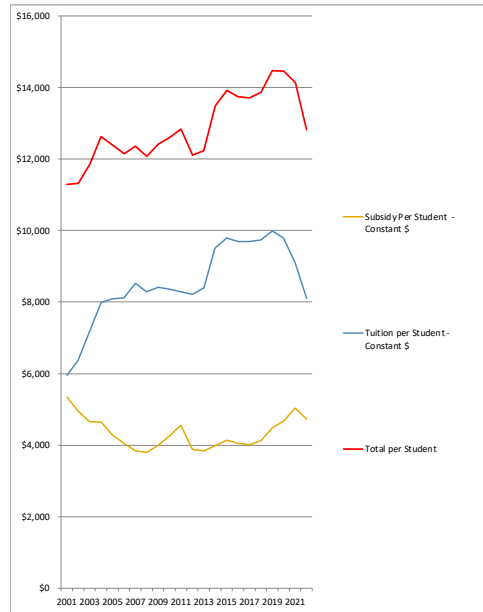
Here is a per student view of the same data that eliminates the fluctuations in enrollment and takes inflation into account.

The total revenue line at the top shows relatively flat revenue up until the guarantee is started and course fee revenue is added into tuition.

The tuition line shows how tuition had to grow in the beginning to adjust to dropping SSI but then tuition caps eliminated that growth.

SSI was getting slightly better recently but both tuition and SSI are being challenged by higher inflation.

Basically this shows that revenue are constrained while as we will see next, expenses continue to grow.



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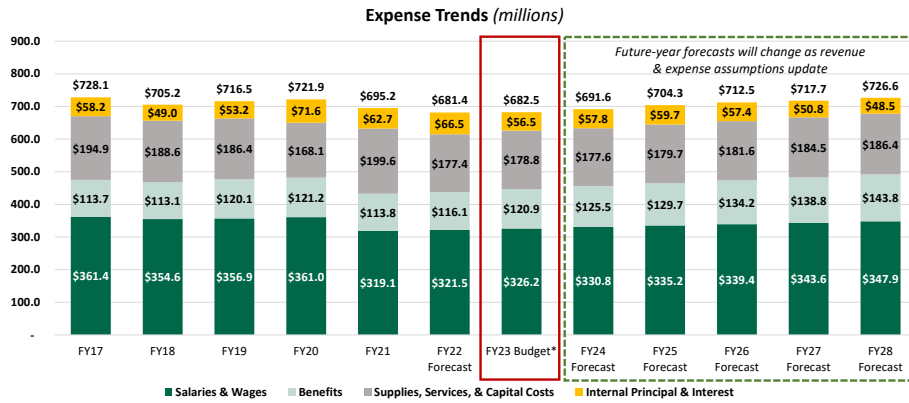
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# FY23 Budget & Multi-Year Planning

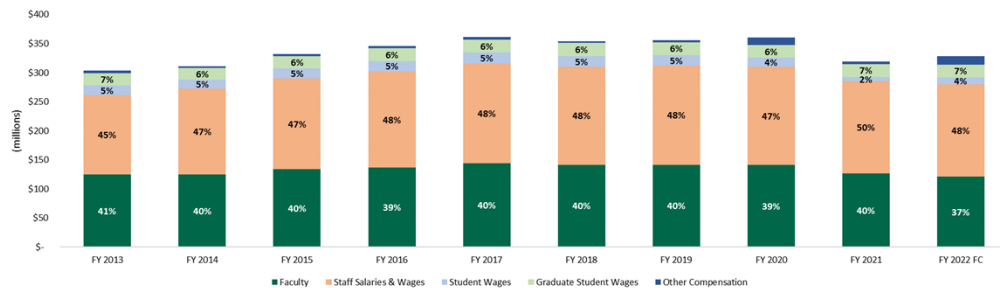
Multi-Year Expense Trends – includes HCOM, RHE and Auxiliaries



While revenues are constrained, expenses will continue to increase. Budget reductions since 2017 have decreased expenses but future expense inflation is projected to bring costs back up.

## Expense Trends – Salaries & Wages

*Includes HCOM, RHE and Auxiliaries*



*Other Compensation* includes OTO VSRP & ERIP expenses including:  
FY19 \$0.5M; FY20 \$10.4M; FY21 \$2.6M; FY22 \$5.4M.

Additionally, FY22 contains \$6.8M of OTO bonus payouts.

Since our operation relies on heavily on personnel, inflation in salaries and wages is a constant pressure on the budget. Voluntary separation plans and COVID effects have created some recent reductions but these will be offset in the future as the need for raise pools increases.

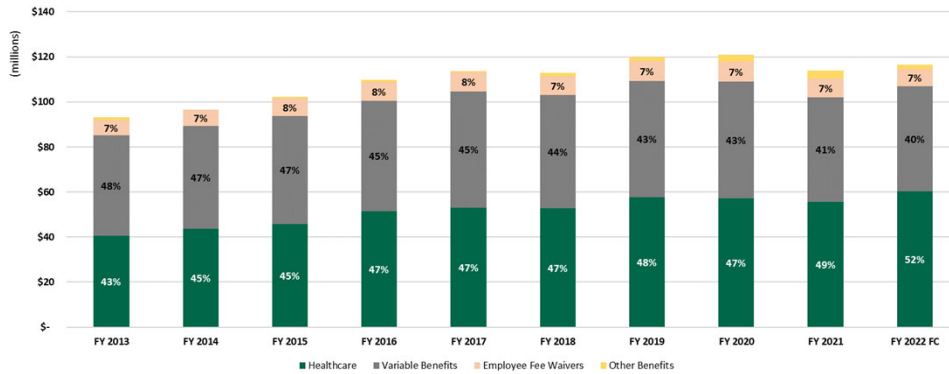
While stagnant revenues create a challenge for balancing the budget, cost inflation continues to add to the imbalance in areas that are not easily controlled. This means that to balance the budget, we now need to cut the budget in order to make room for inflating areas.

The largest area of expense in the budget is compensation since our residential campus requires large numbers of people. Over time the proportion of compensation for faculty has been about 40% but is projected to have dropped with the implementation of the VSRP. The percentage for administrative staff has gone from 45% to 48%.

In this chart, the budget for compensation has been going up with enrollment through 2017. As enrollment has declined in recent years the amount spent on compensation started to level off and has gone down slightly but not yet in proportion to the amount of revenue loss.

# Expense Trends – Benefits

*Includes HCOM, RHE and Auxiliaries*

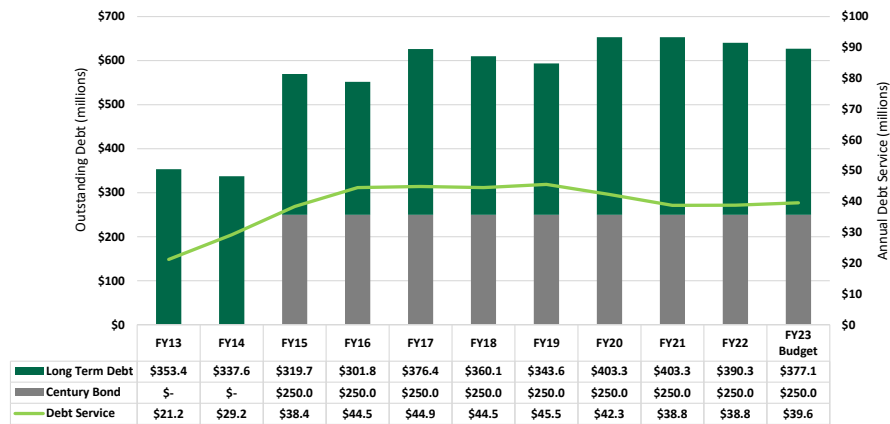


Variable Benefits (retirement, worker’s compensation, etc.) go up automatically with compensation. Other Benefits include things like unemployment. Healthcare is becoming a larger percentage of the budget.

Along with salaries, the trend with benefits is also inflationary. Healthcare cost inflation is a national trend and the amount spent on benefits as not only increased but it is also becoming a larger component of our budget now over 50% of our total spending on benefits.

## Expense Trends: External Debt Service

*Includes HCOM, RHE and Auxiliaries*



As noted earlier, the university has had to take on more debt to deal with deferred maintenance needs that the state capital funding is insufficient to handle. This means that we need more room in the budget for these costs which will consequently put pressure on other things in the budget.

One of the major non-compensation expenses that are increasing has been discussed before – debt service to pay for our need to address our deferred maintenance issues. Both our long-term debt associated with building projects as well as the implementation of the Century Bond to address deferred maintenance, which requires \$1.3M to be added to the budget every year for 10 years and we are currently in the eighth year of that schedule.

# Non-Personnel Expenses

*Includes HCOM, RHE and Auxiliaries*



Professional services and principal/interest are the two fastest growing categories of non-personnel expenses

In addition to the increase in debt service (here shown as Internal Principal & Interest) the other category with the largest increase is professional services, which is where revenue sharing payments to vendors for off-campus graduate program marketing and student support show up.

Based on the accounting treatment used to spend down COVID-relief funds, the Other Operating Expense line includes \$4.2M in FY20 and \$45.5M in FY21 of paired Internal Charge (IC) expenses associated with COVID funds. The offsetting paired IC revenue appears as Internal Sales.

# Assumption for Projections

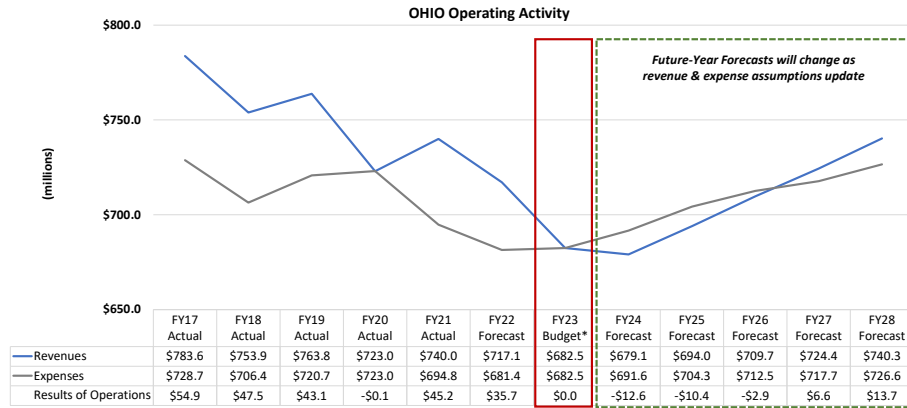
<b>FY23-28 Budget Planning Assumptions As of April 2022</b>	<b>FY23 Planning Assumption</b>	<b>FY24 Planning Assumption</b>	<b>FY25 Planning Assumption</b>	<b>FY26 Planning Assumption</b>	<b>FY27 Planning Assumption</b>	<b>FY28 Planning Assumption</b>
<b>Revenue Assumptions</b>						
<b>State Share of Instruction (SSI)</b>						
State Appropriation Growth (Overall Distribution)	0.9%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Undergraduate (UG) Gross Tuition</b>						
UG Guarantee Rate Increases	4.0%	4.0%	3.0%	3.0%	2.0%	2.0%
UG Athens Freshmen: SEEC Enrollments	3,711	3,739	3,848	3,960	3,994	4,018
UG Athens Transfers: SEEC Enrollments	325	350	375	400	425	450
Total UG Athens Headcount	14,555	14,612	15,150	15,552	15,914	16,226
Regional Higher Education (RHE) Credit Hour Production	104,451	100,272	98,267	98,267	98,267	98,267
<b>Central Student Financial Aid</b>						
Athens UG Student Financial Aid - \$ Growth vs Prior Year	\$10.4M	\$8.1M	\$6.0M	\$3.9M	\$1.7M	\$1.5M
<b>Other Revenues</b>						
Rate Increase: Housing & Residence Life	Variable (4.0% Standard Double)	3.5%	3.5%	3.5%	3.5%	3.5%
Rate Increase: Culinary	4.0%	2.0%	2.0%	2.0%	2.0%	2.0%
<b>Expense Assumptions</b>						
<b>Compensation &amp; Benefits</b>						
Raise Pool	2.0%	1.5%	1.5%	1.5%	1.5%	1.5%
Healthcare: Standard Benefit Rate*	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%

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Projections of future revenues and expenses requires a series of assumptions. During the budget development process, sets of assumptions are used to create scenarios to determine the potential challenge with balancing the budget. Here is the planning assumptions used last spring to project the FY23 budget and five years into the future. As information evolves through the year, assumptions will change and new projections will be created.

# FY23 Budget & Multi-Year Planning

Multi-Year Revenues & Expenses (in millions)



\* Excludes continuing COVID operations FY23 budget of \$3.1M

This is the projection created in April based on the assumptions on the previous slide. These underlying assumptions have already changed (e.g. freshmen enrollment this fall is higher than was projected in April) and will continue to change as decisions are made and things change. This sort of projection of the balance between revenues and expenses will continue to be refined and any gap between revenues and expenses will require decisions to reduce the gap to bring the budget into balance.