

# **Budget 1010: University Budget History**

**Budget Planning Council**  
October 27,2020

1

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

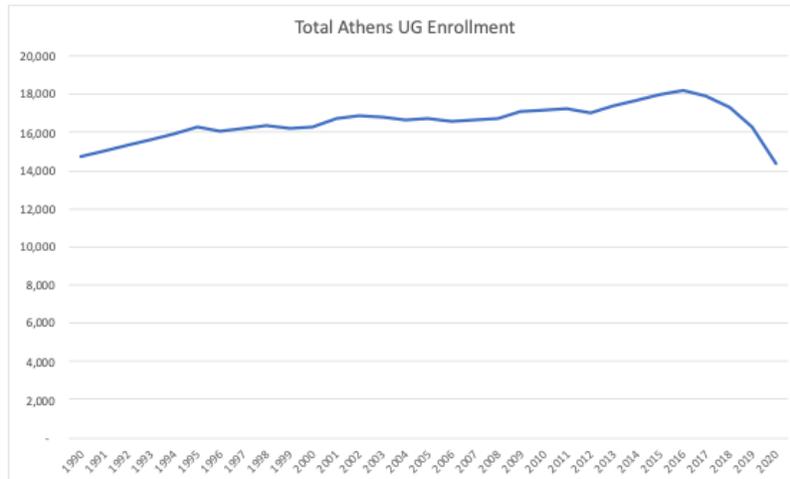
## Overview of Trends Affecting the Budget

- 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 Trends

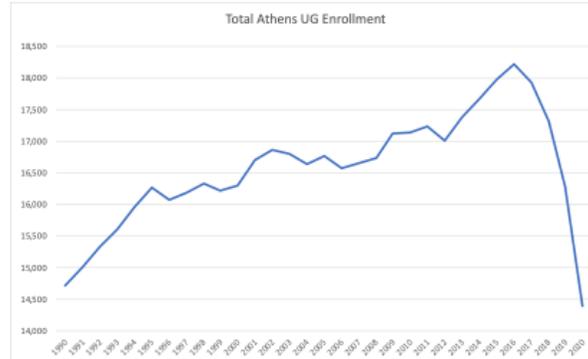
- Historically, we have been predominately an undergraduate institution, so undergraduate enrollment drives nearly everything.
- Relatively steady increase for 26 years from 14,711 in 1990 to a high point of 18,209 in 2016 for Athens undergraduate enrollment which is a 24% growth.
- This has been wiped out in the past four years.



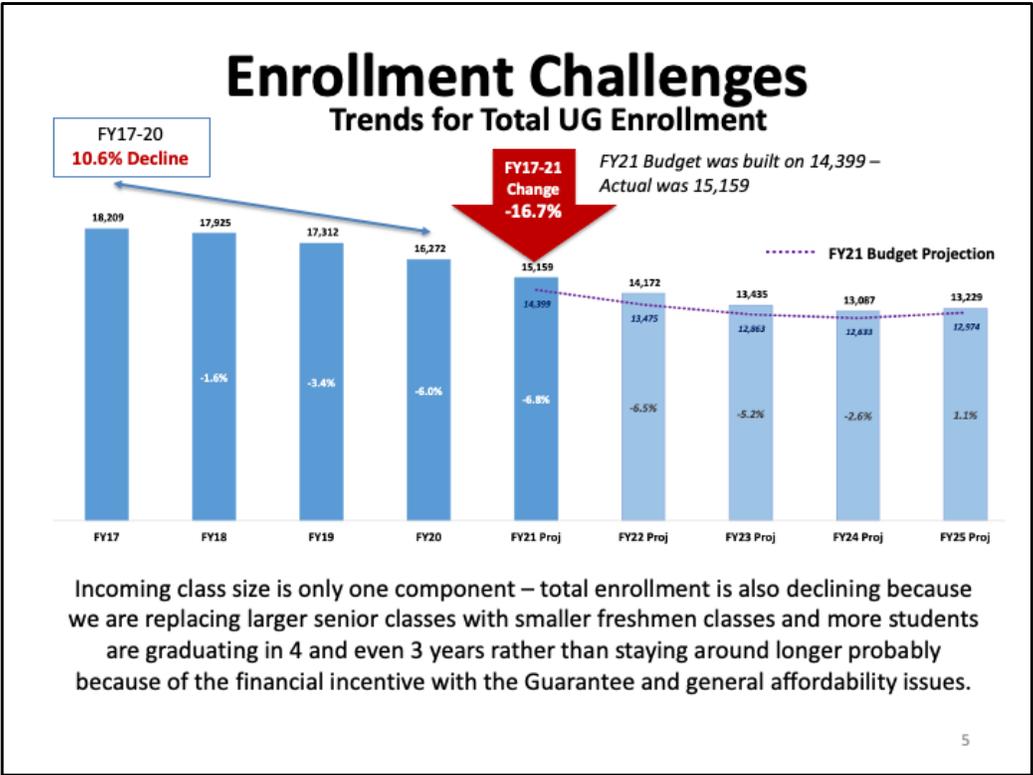
This graph shows the trend in overall Athens campus undergraduate enrollment over the past 30 years. While there have been some slight occasional dips the general trend has been an increase from just under 15,000 students in 1990 to over 18,000 in 2016 – 24% growth. This trend, however, has reversed dramatically in the last four years basically erasing all that growth.

# Enrollment Challenges

- Dramatic change after 2016 with three consecutive years of decline in total enrollments before the pandemic to 16,278 in Fall of 2019 which is an 11% drop in enrollment.
- Fall of 2019 was equal to Fall 2000, basically erasing the gain from the last 19 years.
- For Fall of 2020 we have declined another 10% from 2019 - partly related to the pandemic but also could include continued general decline
- Enrollment is now back to where we were 30 years ago.



To accentuate the change, this graph starts the Y axis at 14,000. Here we can see that the enrollment level this fall (2020) has dropped to 14,399 which is slightly below where we were 30 years ago.



In addition to declines in the size of the entering freshman class, overall enrollment is down even more for several reasons. First, we are graduating 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. The combined effect is that we are experiencing greater than a 10% decline though Fall 2019 since our peak of over 18,000 undergraduate students. Continued decline in the incoming class will create a ripple effect with a projection of close to 17% from the peak to 2021 with the pandemic.

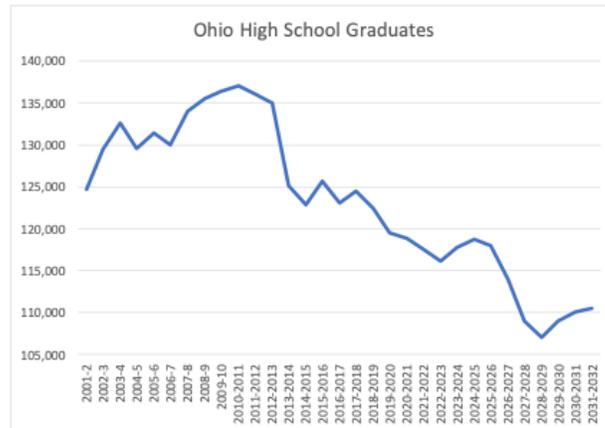
# Factors Related to Challenges

## State of Ohio Demographics

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 2009-10 and has been declining steadily to 119,508 this year a 12.8% decline.

This decline will continue through 2029 reaching a low point of about 107,000 which would be a 22% decline from its peak, and a further decline of ~10% from this most recent year.



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. 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

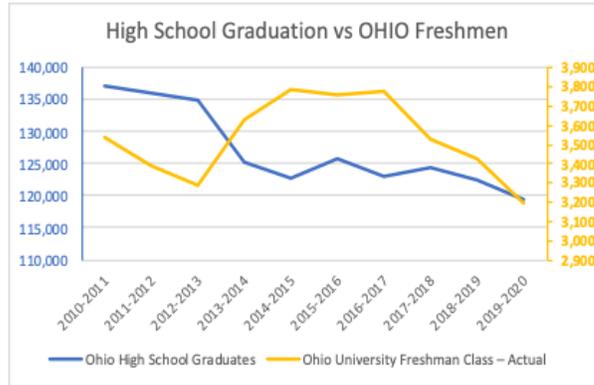
Through 2016, we have been able to avoid an impact from this trend by basically increasing our share of this smaller total pool by taking enrollments away from other universities in the state.

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. Over the past ten years, the number of high school graduates has declined 12.8%. The number of students going to a college or university has decline 4.6% and the number of graduates attending university has declined 10.7%

	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	
WICHE Ohio High School Graduates	136,449	137,087	136,066	135,042	125,152	122,825	125,662	123,075	124,473	122,452	119,508	-12.8%
Graduates Attending College or University*	52,647	52,489	51,627	46,151	48,749	48,533	47,050	50,874	51,075	49,357	50,193	-4.6%
% attending College or University	38.6%	38.3%	37.9%	34.2%	39.0%	39.5%	37.4%	41.3%	41.0%	41.3%	42.0%	
Graduates Attending University	38,432	38,832	37,688	35,075	36,074	36,400	34,817	39,173	39,328	38,817	34,299	-10.7%
% attending University	28.2%	28.3%	27.7%	26.0%	28.8%	29.6%	27.7%	31.8%	31.6%	31.7%	28.7%	
OHIO Freshman Class – Actual (Model)	3,540	3,394	3,292	3,629	3,789	3,756	3,774	3,529	3,427	3,199	2,455	
OHIO Share Graduates attending Univ (Row 9)	9.2%	8.7%	8.7%	10.3%	10.5%	10.3%	10.8%	9.0%	8.7%	8.2%	7.2%	

From 2010 to 2016, our share of Ohio high school graduates attending a university rose from 9.2% to 10.8% but has now dropped four consecutive years with the biggest drop of 1% this past year.

Our “advertised” price is also a challenge – now second highest in the state. Other universities have moved to tuition guarantees so that may alter the distribution

Our guarantee includes all fees while others excluded fees from their guarantee. This makes our price non-comparable to the other’s, but it requires additional explanation for families to understand that the price at other institutions will be higher when their fees are added.

This shows you additional detail about our share of Ohio High School graduates. While the number of Of the total number of high school graduates has declined by almost 13% over the last decade, the number going to a college or university has only declined 4.6% since a larger percentage (39% to 42%) is going on. The number of high school graduates attending a 4-year university has declined almost 11% with the percentage attending only increasing by half a percent. So the decline in the number of high school students is partially offset by increases in rates of attendance but those students are not attending a university,

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.

# Net Tuition Trends



Our net tuition to support the budget is declining both because of lower enrollments and because the "discount" in the form of an increasing scholarship budget. Since the 2017 peak, we have lost over \$52M in net tuition.

The increasing need for scholarships creates pressure on other parts of the budget.

To quantify the impact of the enrollment decline, this slide shows the effect on various tuition metrics. For FY20, there is both the budget and the forecast of where we ended up.

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 \$45M 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 3.5% increase this past year. These increases have offset the enrollment driven loss but with the pandemic, there is no increase this year which further adds to the erosion of revenue.

# Graduate Enrollments

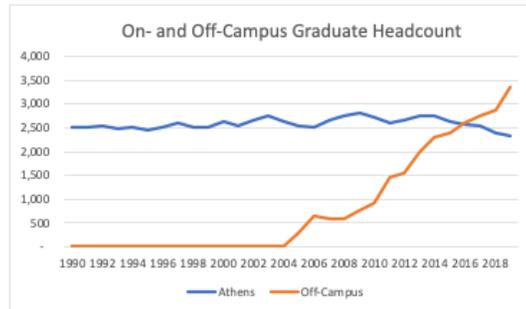
Prior to 2006, the vast majority of graduate enrollments were in traditional on-campus graduate programs with a relatively stable level since 1990.

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.

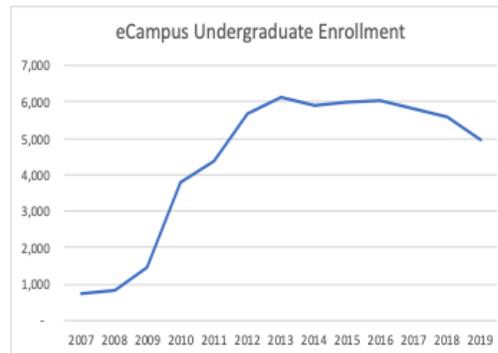
## Online Undergraduate Enrollments

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.

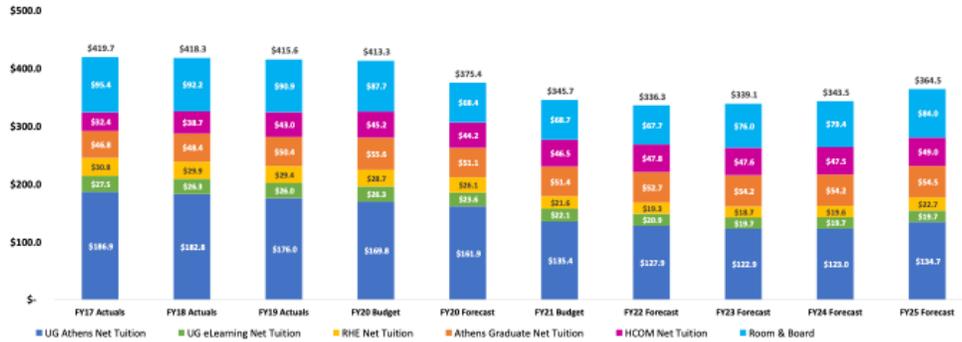
More recently the demand in Ohio has been satisfied and the program has had to go out of state and at a price that is half that of Athens tuition with minimal non-resident fee since the market is price competitive.



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.

# FY17-25 Tuition & Fees Forecast

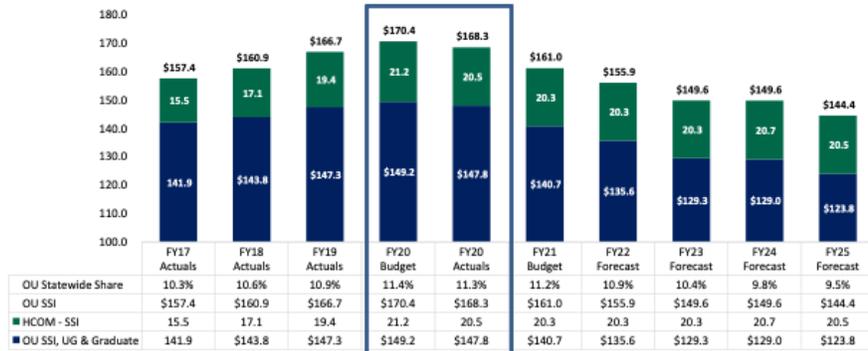


Here are the projected trends across all the various revenue streams

- Athens undergraduate is down 34M in FY21 with the pandemic – recovery is unknown so there is currently no assumption for it bouncing back
- Online undergraduate is projected to continue to shrink slightly 27.5M to 19.7M
- Regional campuses are projected to continue to decline – 30.8M to 22.7M
- Graduate programs are have grown from 46.8M to 54.5M and are leveling off
- HCOM has grown from 32.4M to 49M primarily through expansion in Dublin and Cleveland
- Room & Board has lost 19M with the pandemic closures with no clear basis for projecting recovery

This graph shows the current projection of the various revenue streams. 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. There is no projection of these areas bouncing back after the end of the pandemic since that timing is uncertain and there is no history of how such a recovery might play out. So a recovery in those two revenue streams is currently not included.

# Subsidy Trends



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. In FY20 and 21, the state reduced allocations because of the pandemic.

*Note: OU's FY21-25 SSI forecast is based on enrollment projections with no assumed change in other public university enrollment shares*

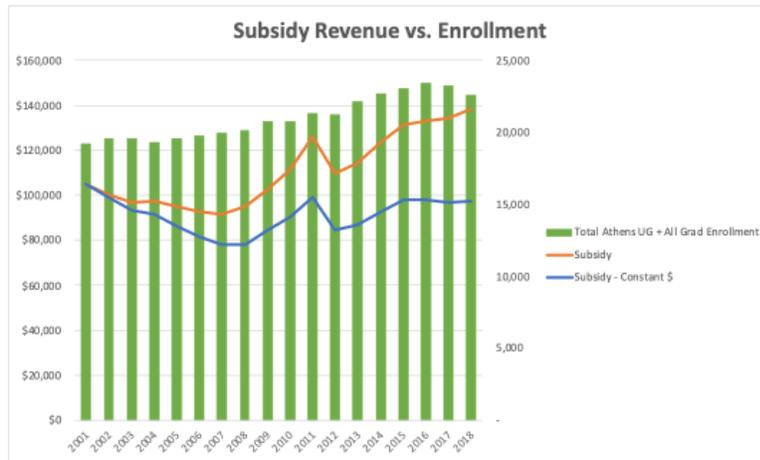
**Includes FY21 4.38% State Cut**

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 \$30M 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 year.

The variance in subsidy between this past year's budget and the forecast for how we end the year is a loss associated with the state cutting back on subsidy when the effect of the pandemic hit the state budget.

## 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 increase, the rate of decline would be even greater.

## SSI and Tuition Trends

Revenue from SSI is declining on a per student basis.

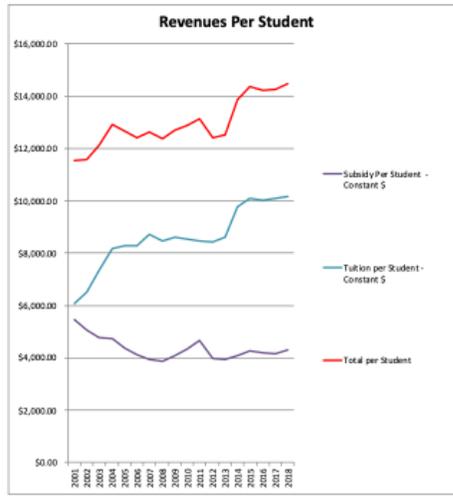
Uptick in 2010 was one-time federal stimulus funding.

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.



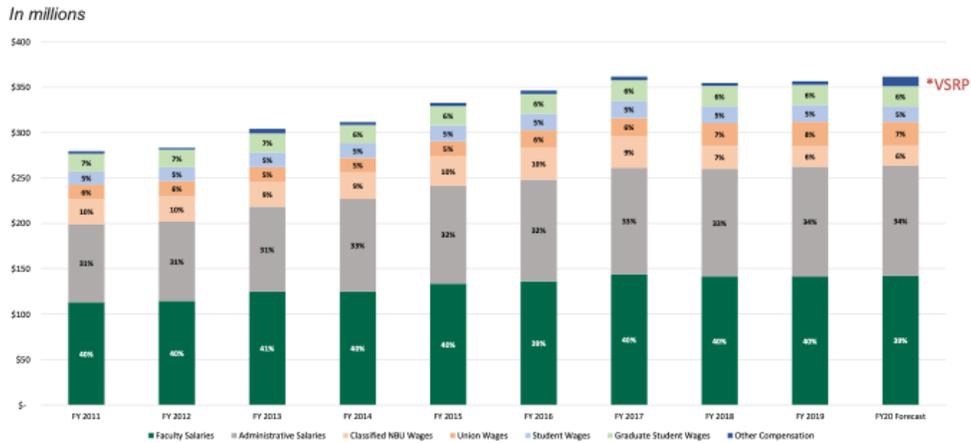
This decline in state support has historically led to increasing tuition rates to make up for that loss. This has shifted the burden of paying for college from the state to families and resulted in rising concerns about affordability. So at the same time subsidy is constrained, legislatures have responded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

This graph eliminates the enrollment effect by translating the amounts to a per student basis and also adjusts 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. The resulting total received per student went up slightly to go towards covering inflating costs.

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.

# Expense Trends – Salaries & Wages



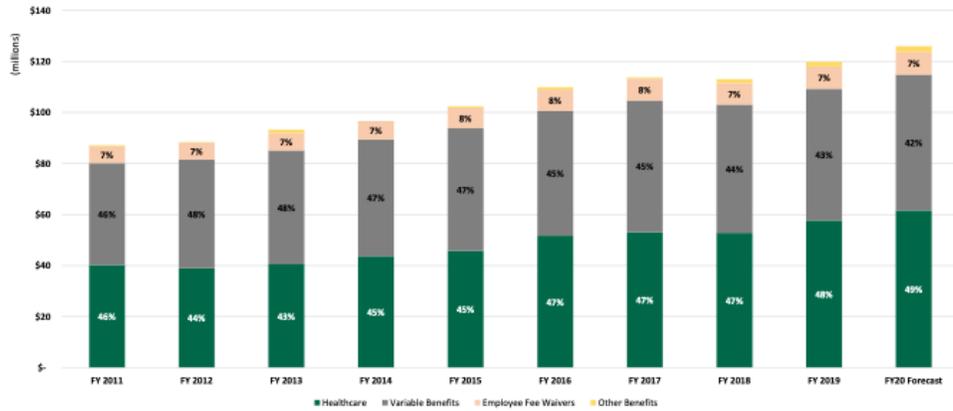
Increases in the total amount spent on salaries and wages result both from raises and from increases in staffing up to 2017 as enrollment increases required more faculty and staff.

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 drop with the implementation of the VSRP. The percentage for administrative staff has gone from 31% to 34% but this is offset by classified wages going from 10% to 6% which indicates a shift from hourly to salaried staff over time as opposed to an actual increase

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

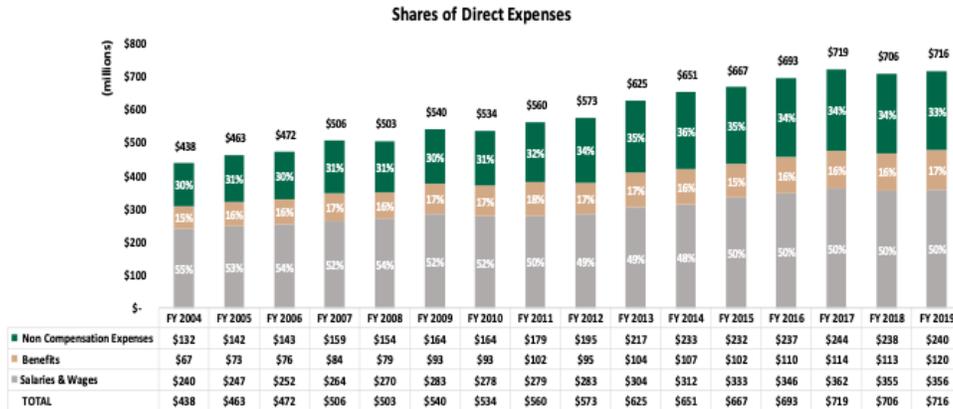


Variable Benefits (retirement, worker’s compensation, etc.) go up automatically with compensation. Other Benefits include things like unemployment. Healthcare is becoming a larger percentage of the budget.

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 close to 50% of our total spending on benefits.

# Expense Trends – Overall

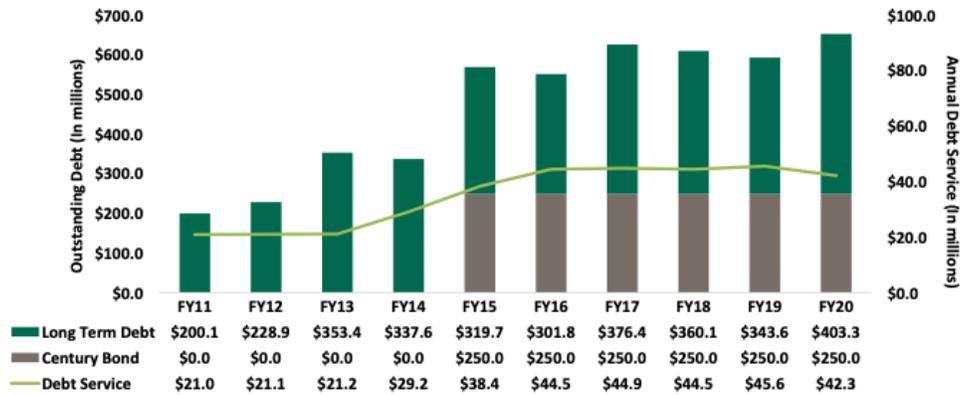
While the institution’s revenues have been constrained by enrollment declines, tuition caps, and stagnant state support, our expenses continue to be impacted by inflationary pressures.



Share of expenditures as a percentage of the total going to staff salaries has been steadily declining from 55% to 50% as other expenses have increased; most notably expenditures for benefits and non-personnel costs.

When you look at all the major expense categories you can see that salaries are going up but are declining as a percentage of the total. This is because pressures on other expenses are putting greater pressure on the budget. Inflationary pressure from increases in benefits, particularly health care, are increasing. There are also increases in non-compensation expenses – we will look at that category next.

## Expense Trends: External Debt Service

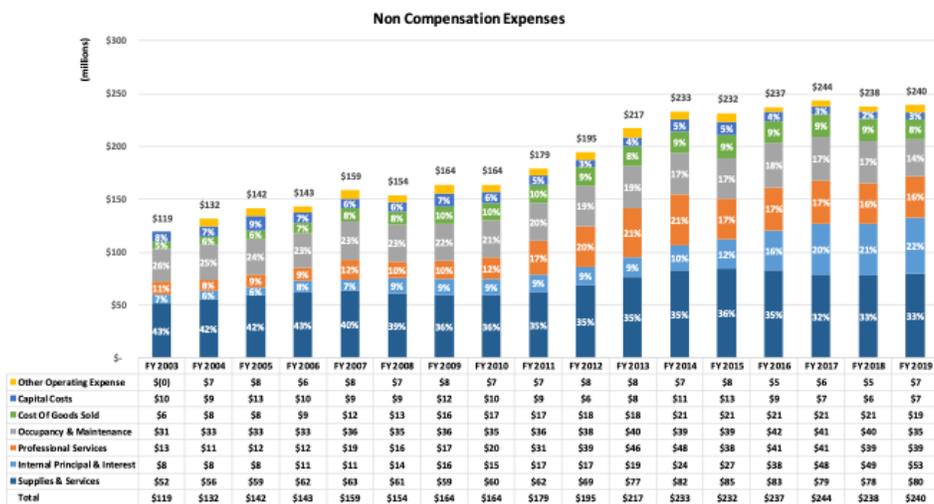


As noted earlier, the university has had to take on more debt to deal with deferred maintenance needs that the state capital funding is insufficient to handle. This means that we need more room in the budget for these costs which will consequently put pressure on other things in the budget.

One of the major non-compensation expenses that are increasing has been discussed before – dept 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 seventh year of that schedule.

# Non-Personnel Expenses

Two fastest growing categories: Professional Services & Principal and Interest



Professional services are expenses associated with online vendor payments for revenue sharing in off-campus graduate programs. The principal/interest item is base funding for the century bond (\$1.3M per year building to a total of 13M) which is intended to address deferred maintenance needs.

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.

# An Unsustainable System

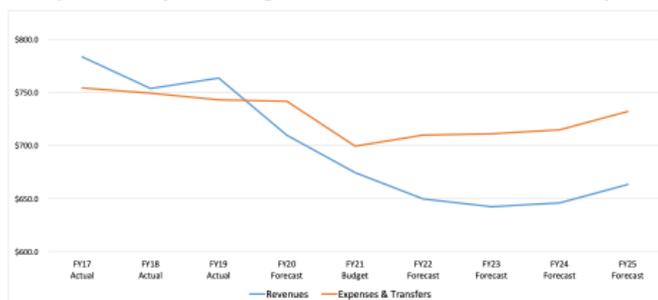
Residential Programs are high cost and the public (legislatures and families) are questioning the value

Revenues are increasingly constrained – enrollment declines, tuition caps and guarantee, declining net tuition, SSI decline, limited alternative revenues (off-campus graduate and online undergraduate)

Expense growth greater than CPI

- People intensive operation = high salary pressure
- Benefits cost inflation
- Large space infrastructure = must invest in deferred maintenance

Quite Simply Expense Inflation > Revenue Growth  
Requires Major Change to Create Greater Efficiency



Prior to 2017 we have been able to handle inflationary cost pressures through steady increases in enrollments over decades as well as added revenue from off-campus programs. Now that enrollment growth has stalled and turned into a decline, there is insufficient revenue to cover cost inflation that is driven by areas that cannot be cut such as financial aid, healthcare and facilities costs. This creates an unsustainable system where annual expense growth exceeds revenue growth and the budget cannot be balanced. Recent cuts have been required to right-size the budget and they have been implemented in a phased approach using reserves to buffer changes to provide time to turn enrollment around, but those reserves are becoming exhausted and time is running out. We must find a way to change our base expenses by becoming more efficient.