Budget 1010: University Budget History

Budget Planning Council

November 9,2021

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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 other stakeholders with an interest in learning more about the budget.

Budget Trends and History

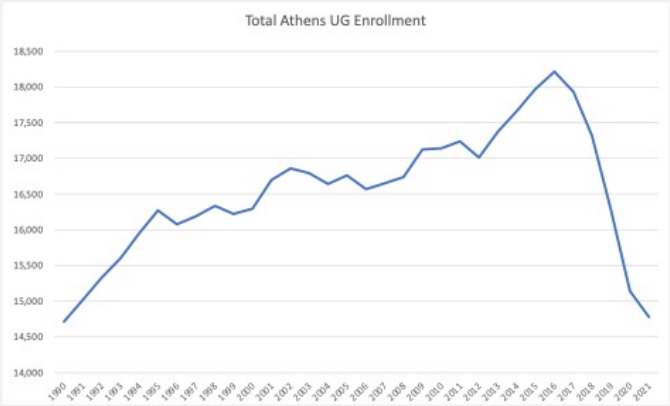
Overview of Trends Affecting the Budget

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

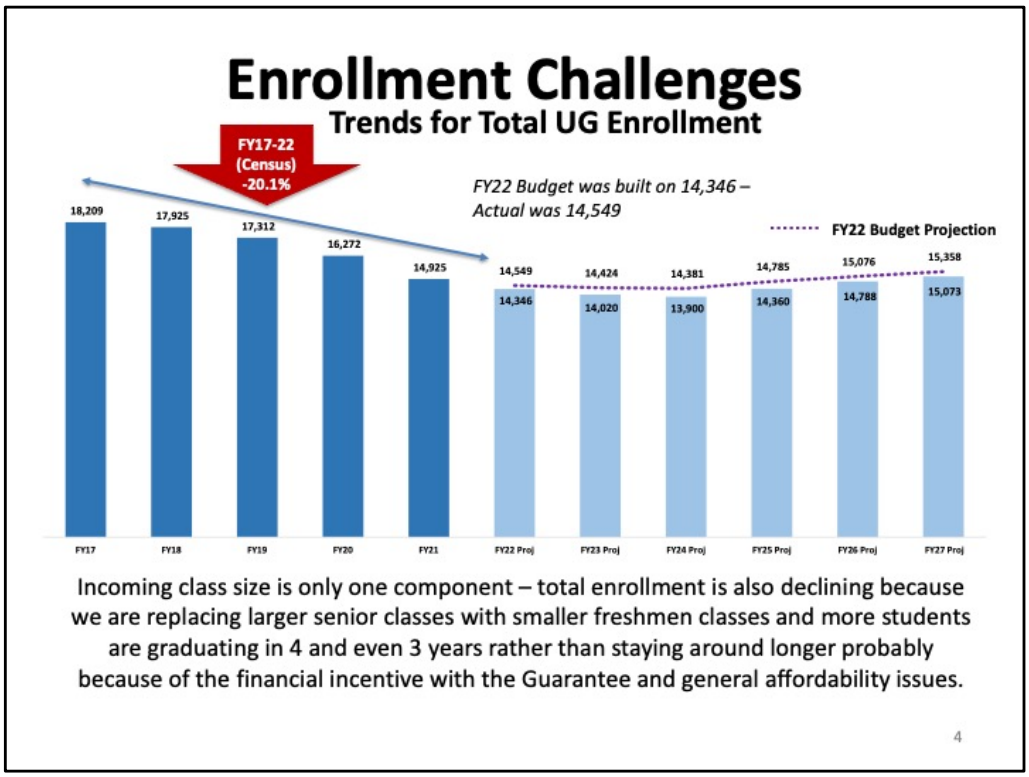
Now that there is a basic understanding of the major components of the budget, this second session will focus on the trends impacting those components primarily on the Athens budget. This is an overview of the areas where trends will be discussed

Enrollment Challenges

- 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.
- Dramatic change after 2016 with five consecutive years of decline in total enrollments back to where we were 30 years ago.



- To accentuate the change, this graph starts the Y axis at 14,000.
- Dramatic change after 2016 with five 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 declined another 10% from 2019 - partly related to the pandemic but also could include continued general decline
- Overall, the enrollment level this fall has dropped to 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 2019 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 20% decline though Fall 2019 since our peak of over 18,000 undergraduate students.

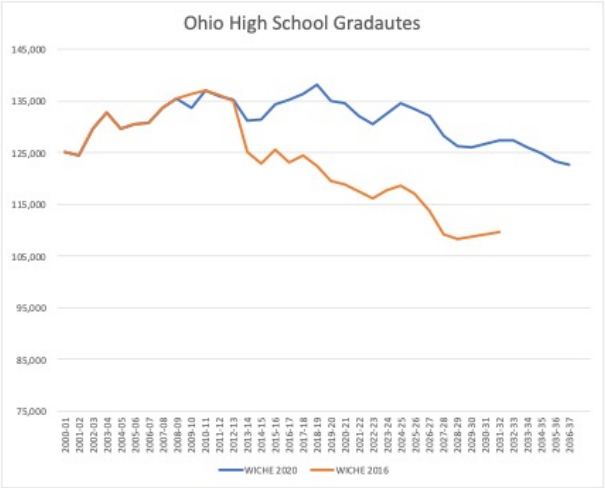
Factors Related to Challenges

State of Ohio Demographics: WICHE Projections
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

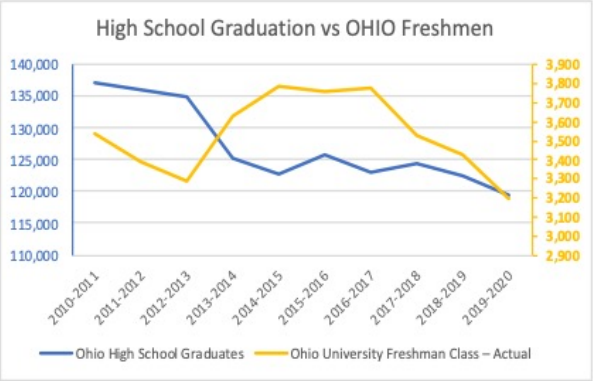
State of Ohio Demographics

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.

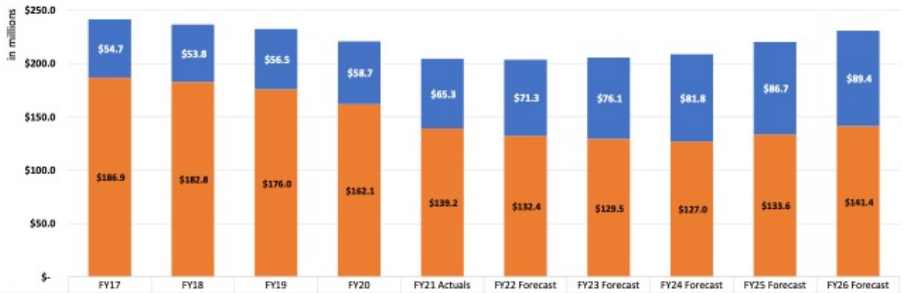
Redacted – confidential information

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.

The current planning assumption is for our investments in scholarships and marketing to help grow our market share at a rate of 0.1% per year for future years to get back to our historical average.

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.

Net Athens UG Tuition Trends



	FY17	FY18	FY19	FY20	FY21 Actuals	FY22 Forecast	FY23 Forecast	FY24 Forecast	FY25 Forecast	FY26 Forecast
Total Headcount (Fall)	18,209	17,925	17,312	16,272	15,141	14,779	14,125	14,004	14,467	14,899
Financial Aid	$54.7	$53.8	$56.5	$58.7	$65.3	$71.3	$76.1	$81.8	$86.7	$89.4
Net Tuition	$186.9	$182.8	$176.0	$162.1	$139.2	$132.4	$129.5	$127.0	$133.6	$141.4
Discount Rate	22.6%	22.7%	24.3%	26.6%	31.9%	35.0%	37.0%	39.2%	39.4%	38.7%
Non-Guarantee Growth	0.0%	0.0%	0.0%	2.0%	0.0%	1.8%	2.0%	2.0%	2.0%	2.0%
Guarantee Growth*	1.7%	1.3%	1.3%	3.5%	0.0%	1.8%	2.0%	2.0%	2.0%	2.0%

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 $54.5M in net tuition.

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

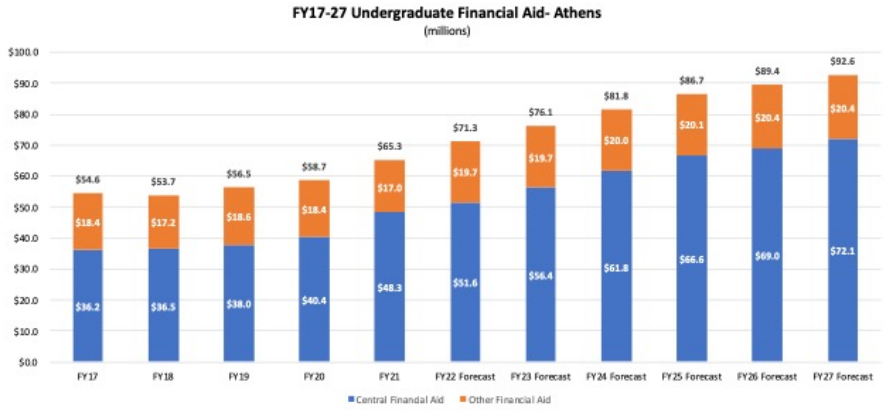
To quantify the impact of the enrollment decline, this slide shows the effect on various tuition metrics.

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 1.8% increase this past year.

Undergraduate Financial Aid



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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)

Graduate Enrollments

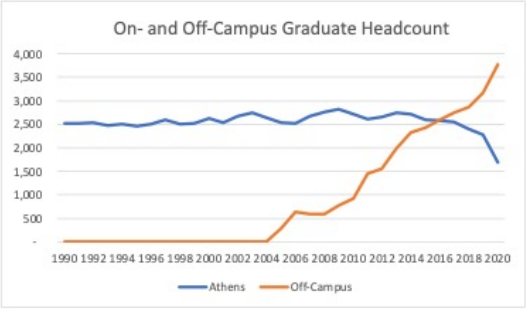
Prior to 2006, the vast majority of graduate enrollments were in traditional on-campus graduate programs with a relatively stable level since 1990 but have recently declined as budget pressures have impacted graduate student support. There is also a decline related to the pandemic.

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.

The off-campus programs ae predominately part-time

They also 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.

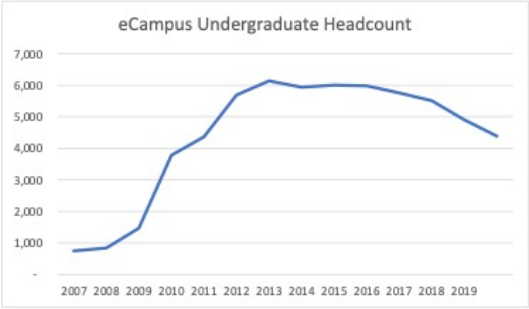
Online Undergraduate Enrollments

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 it peak

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

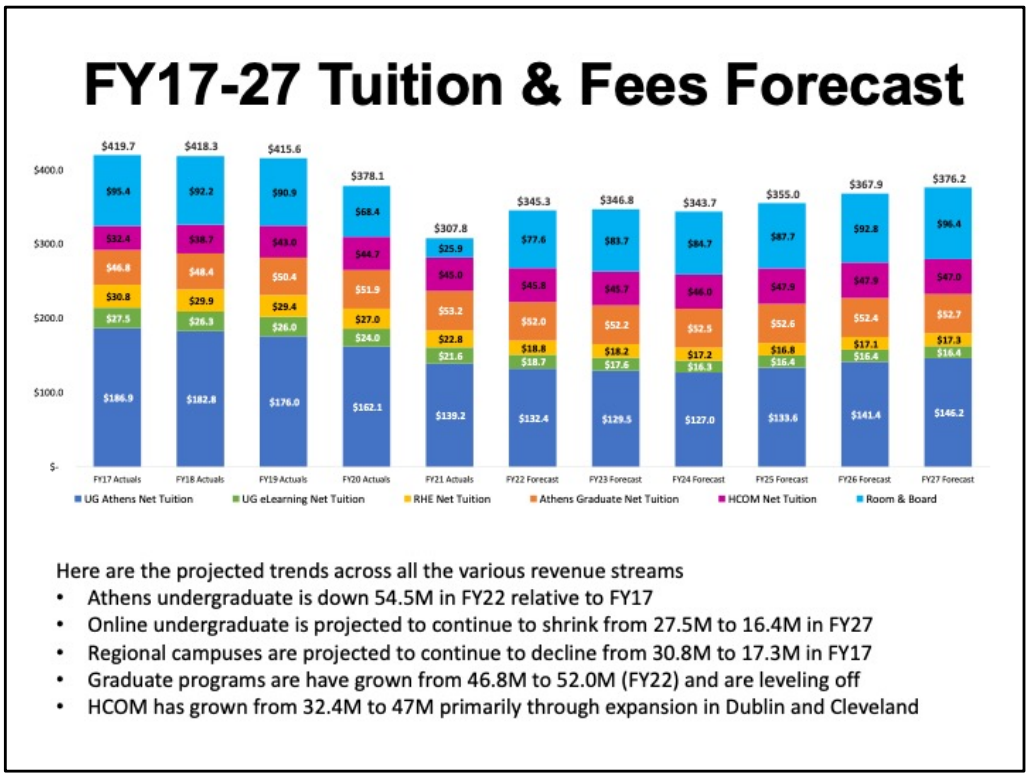
The RN-to-BSN started in the Ohio market and brought in both tuition and SSI.

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.



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. These areas don't bounce back after the end of the pandemic until several years in the future.

Subsidy Trends

	FY18	FY19	FY20 After Cut	FY21 +5% Restored	FY22	FY23	FY24	FY25	FY26	FY27
OU SSI Total	$160.9	$166.7	$168.3	$178.5	$179.7	$172.4	$167.3	$161.9	$159.4	$158.6
HCOM SSI	$17.1	$19.4	$20.5	$22.4	$22.6	$22.6	$22.9	$22.9	$22.9	$22.9
OHIO UG & Graduate	$143.8	$147.3	$147.8	$156.0	$157.1	$149.8	$144.4	$139.0	$136.5	$135.7
OHIO Share %	10.6%	10.9%	11.3%	11.4%	11.4%	10.8%	10.5%	10.1%	10.0%	9.9%

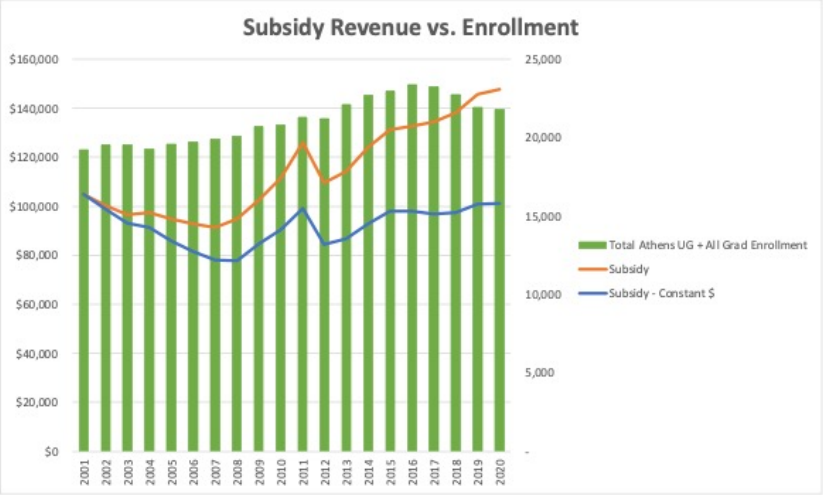
Since SSI is based on three-year averages and degree subsidy is awarded at the time of degree, we are still seeing an increase related to the peak enrollment in 2016 – recent enrollment declines will have negative effects on subsidy going forward. In FY20, the state reduced allocations because of the pandemic but funding was subsequently restored in FY21.

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

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 $20M 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 increase, the rate of decline would be even greater.

You can also see the effect of the lag with the orange line trending up when enrollments are starting down.

SSI and Tuition Trends

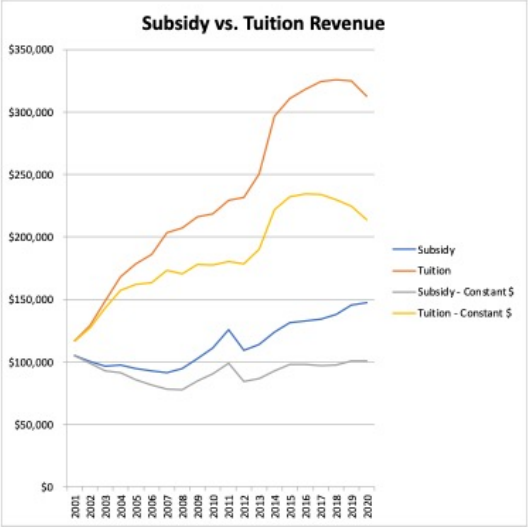
Revenue from SSI is declining on a per student basis.

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.

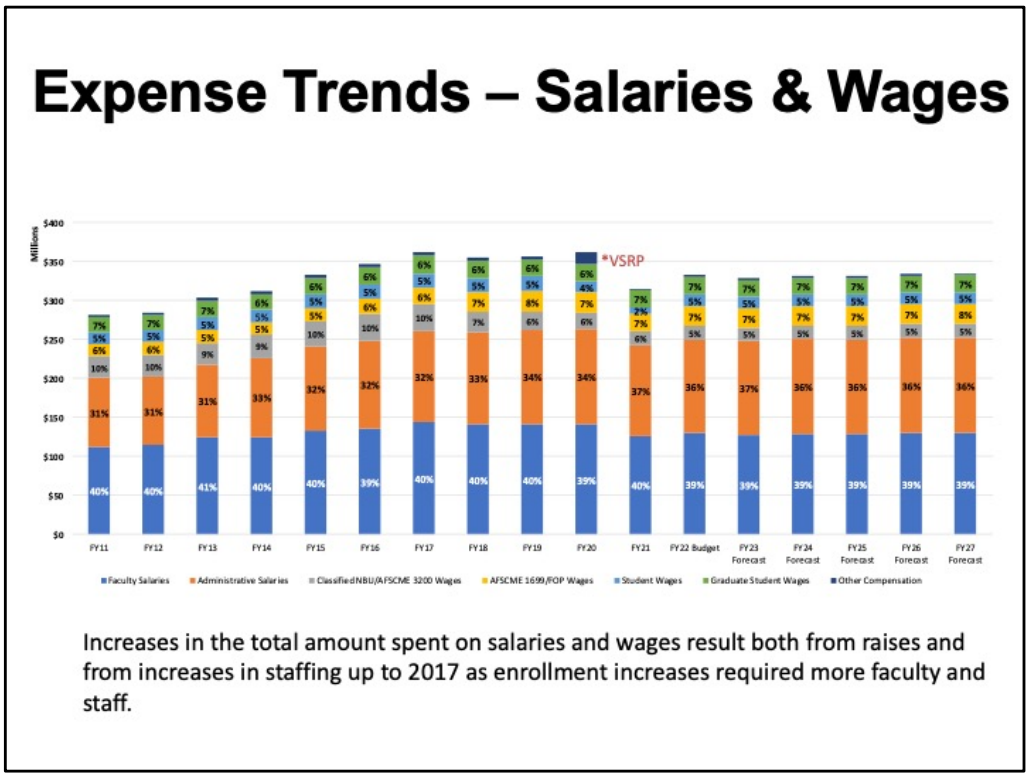
This decline in state support has historically led to increasing tuition rates to make up for that loss. This has shifted the burden of paying for college from the state to families and resulted in rising concerns about affordability. So, at the same time subsidy is constrained, legislatures have responded 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.

The effect of the pandemic can be seen in 2020.



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.

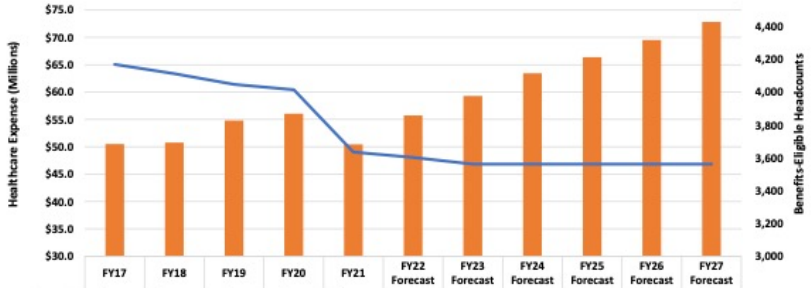
The largest area of expense in the budget is compensation since our residential campus requires large numbers of people. Over time the proportion of compensation for faculty has been about 40% but is projected to has dropped with the implementation of the VSRP and reductions. The percentage for administrative staff has gone from 31% to 36% but this is offset by classified wages going from 10% to 5% 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.

In FY18, $5.8M of salaries & wages was reclassified from Classified NBU to Administrative Salaries due to hourly administrative employees whose pay was previously charged to classified NBU expense codes.

In FY20, there was $10.4M of Other Compensation expense associated with the VSRP/ERIP initiatives.

Expense Trends – Benefits



	FY17	FY18	FY19	FY20	FY21	FY22 Forecast	FY23 Forecast	FY24 Forecast	FY25 Forecast	FY26 Forecast	FY27 Forecast
Healthcare Expense (Millions)	$50.5	$50.8	$54.8	$56.0	$50.5	$55.7	$59.3	$63.4	$66.4	$69.5	$72.8
Benefits-Eligible Headcounts	4,169	4,112	4,047	4,015	3,635	3,602	3,561	3,561	3,561	3,561	3,561
HC Expense per B-E Headcount	$12,112	$12,349	$13,544	$13,961	$13,883	$15,468	$16,653	$17,815	$18,639	$19,522	$20,449

Inflation in Healthcare is another major pressure on the budget. While the number of covered employees has gone down, costs will increase leading to an increase in the cost per employee.

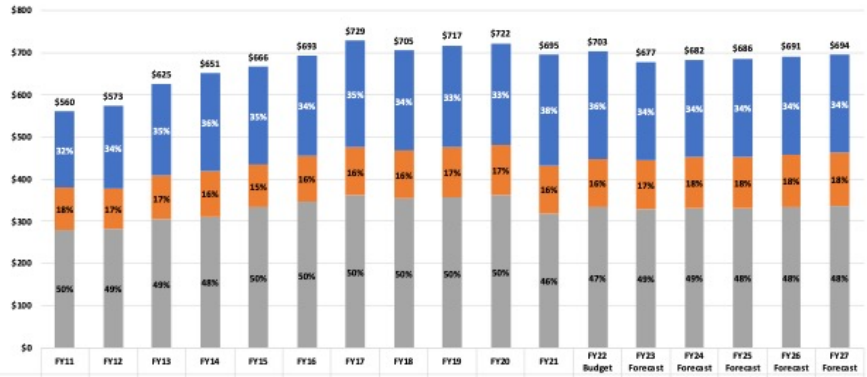
Along with salaries, the trend with benefits is also inflationary. Healthcare cost inflation is a national trend and the amount spent on benefits as not only increased but it is also becoming a larger component of our budget now close to 50% of our total spending on benefits.

Healthcare expenses assumed to continue increasing by 5%, assuming a flat employee base FY23-28.

Healthcare costs represent the largest and fastest growing component of Employee Benefits. Changes to variable benefits are aligned with associated changes to salaries & wages.

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.



	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22 Budget	FY23 Forecast	FY24 Forecast	FY25 Forecast	FY26 Forecast	FY27 Forecast
Total	$560	$573	$625	$651	$666	$693	$729	$705	$717	$722	$695	$703	$677	$682	$686	$691	$694
Non-Compensation Expenses	$179	$195	$217	$233	$231	$237	$254	$238	$240	$240	$262	$255	$231	$230	$233	$232	$233
Benefits	$102	$95	$104	$107	$102	$110	$114	$113	$120	$121	$114	$115	$117	$120	$122	$124	$126
Salaries & Wages	$279	$283	$304	$311	$333	$346	$361	$355	$357	$361	$319	$333	$329	$332	$332	$335	$335

Share of expenditures as a percentage of the total going to staff salaries has been steadily declining from 50 % to 47% 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.

Non-Personnel Expenses

Two fastest growing categories: Professional Services & Principal and Interest

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22 Budget	FY23 Forecast	FY24 Forecast	FY25 Forecast	FY26 Forecast	FY27 Forecast
Total	$179	$195	$217	$233	$231	$237	$254	$238	$240	$240	$262	$255	$231	$230	$233	$232	$233
Internal Principal & Interest	$17	$17	$19	$24	$27	$38	$58	$49	$53	$72	$63	$63	$55	$56	$56	$52	$51
Other Operating Expense	$7	$8	$8	$7	$8	$5	$6	$6	$8	$11	$52	$5	$5	$5	$5	$5	$5
Cost Of Goods Sold	$17	$18	$18	$21	$21	$21	$21	$21	$19	$14	$8	$15	$16	$17	$17	$18	$18
Capital Costs	$9	$6	$8	$11	$13	$9	$9	$10	$7	$6	$6	$4	$6	$6	$6	$6	$6
Occupancy & Maintenance	$36	$38	$40	$39	$39	$42	$39	$35	$35	$35	$30	$37	$38	$39	$40	$41	$42
Professional Services	$31	$39	$46	$48	$38	$41	$41	$38	$39	$39	$50	$61	$39	$37	$37	$37	$37
Supplies & Services	$62	$69	$77	$82	$84	$82	$79	$77	$79	$64	$54	$69	$71	$71	$72	$73	$73

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.

Fastest growing portions of non-personnel expense are Internal Principal & Interest and Professional Services. The Internal Principal & Interest category includes base funding for the century bond ($1.3M per year incremental FY15 through FY24, building to a total of $13M annual debt service beyond that point). In FY20, the College of Medicine made an advance principal repayment of $14.2M on their direct loan.

Other Operating Expense category holds COVID-associated costs in FY21 and FY22 Budget.

Professional services include expenses associated with online vendor payments for revenue sharing in off-campus graduate programs, and also includes COVID-impacts of transitioning to online coursework in FY20-21

An Unsustainable System

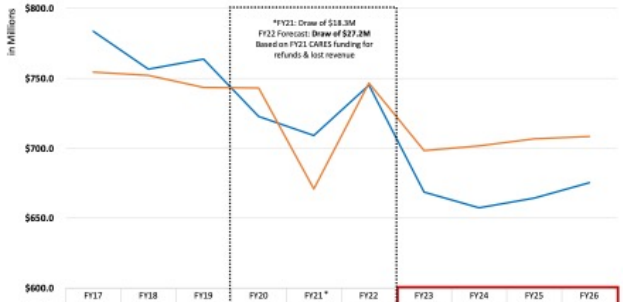
Residential Programs are high cost and the public (legislatures and families) are questioning the value

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

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

Expense growth greater than CPI

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



	FY17 Actual	FY18 Actual	FY19 Actual	FY20 Actual	FY21* Forecast	FY22 Forecast	FY23 Forecast	FY24 Forecast	FY25 Forecast	FY26 Forecast
Revenues	$783.6	$756.5	$763.8	$722.7	$709.1	$745.1	$668.6	$657.4	$664.3	$675.4
Expenses & Transfers	$754.4	$752.1	$743.5	$743.1	$670.9	$746.6	$698.3	$701.7	$706.7	$708.4
Use of Reserves	$29.2	$4.4	$20.3	$(20.3)	$38.2	$(1.6)	$(29.7)	$(44.2)	$(42.3)	$(33.0)
Revenues: Excluding COVID					$635.8	$690.7	$668.6	$657.4	$664.3	$675.4
Expenses & Transfers: Excluding COVID					$597.6	$707.6	$698.3	$701.7	$706.7	$708.4

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.