HIGHER EDUCATION COORDINATING COMMISSION
Office of Postsecondary Finance and Capital
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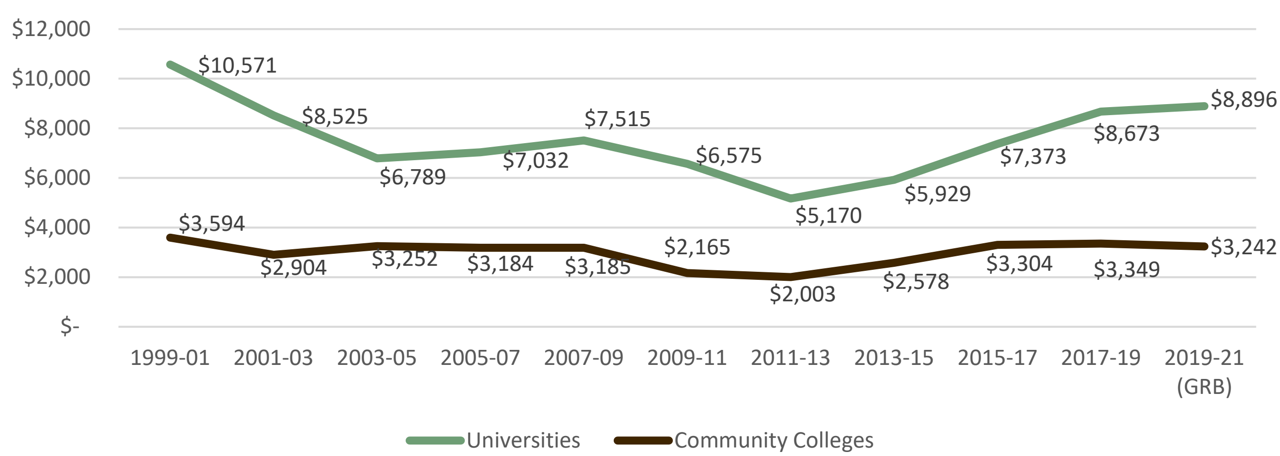
HIGHER EDUCATION COORDINATING COMMISSION
April 11, 2019
Docket Item #: 8.0a

ISSUE BRIEF: Public Community College and University Funding in Oregon

Level of State Support Recovering

In looking at state appropriations on a per student basis (shown below), although there has been a significant increase in funding since the Great Recession, the level of state support at Oregon's public community colleges and universities has shown little progress in the past twenty years when adjusted for inflation.

State Funding per Resident Student FTE (adjusted for inflation)



This data includes funding for debt service which has grown, for the universities, from $25 million to $204 million since 1999-2001. The trend is similar for community colleges although more of their debt service is supported locally.

The last two recessions have created a funding hole that most states are just now beginning to emerge from even after significant funding growth in the past few years. Since FY 2008 (Pre–Recession), Oregon has increased public funding per FTE student by only 0.1%. Based on preliminary data for FY 2018, Oregon continues to rank low (38th) for public appropriations per FTE student.

Cost Drivers Rising Higher Than Inflation

Costs in higher education have risen faster than general inflation for a number of reasons. General inflation is measured by including energy, transportation, food, clothing and other costs. Most institutions of higher education spend more than 75% of total educational expenditures on personnel and benefits costs. So using a general inflation measurement does not account for the mix of expenditures that occur at most institutions of higher education.

For the state's public universities, of the additional $269 million in expected cost increases for 2019 through 2021, 90% of that increase is due to personnel and related benefits as demonstrated in the chart on the following page. The expected increase for services and supplies is more closely related to that of general inflation.

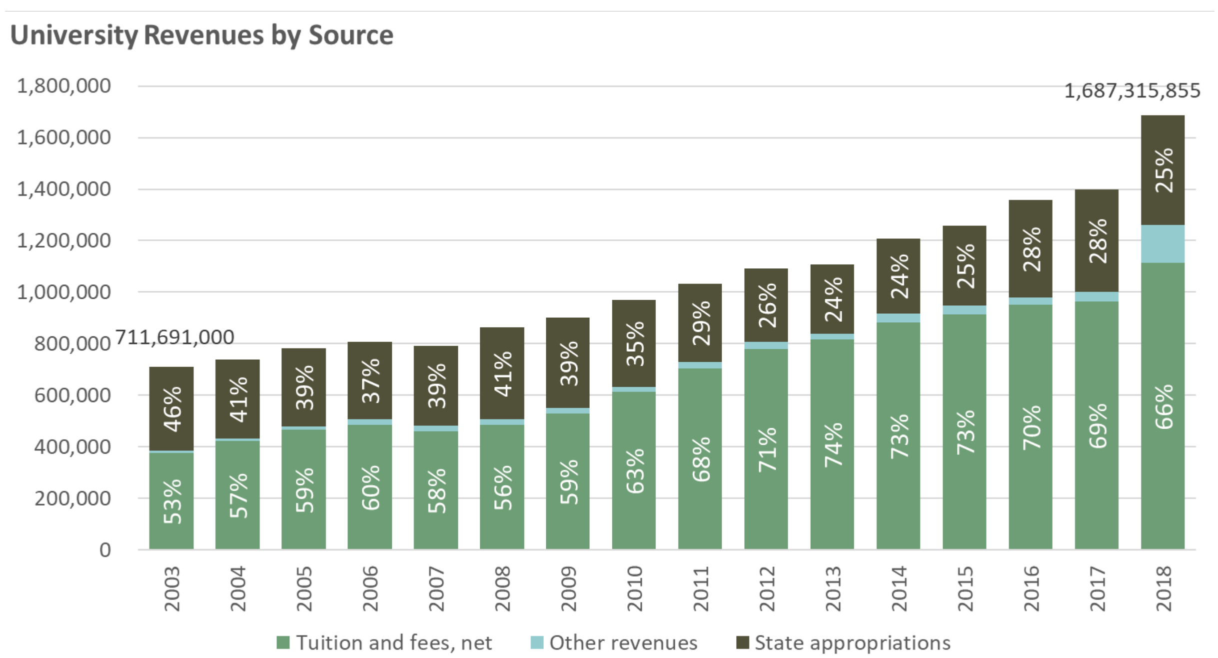
Budget Cost Drivers – Educational & General Fund				
	Projected Increase over 2017-19			
	Universities		Community Colleges	
Compensation	$118,688,390	7.0%	$34,753,880	3.8%
Health Benefits	$32,568,375	9.3%	$8,366,432	5.3%
Retirement Benefits	$76,133,005	22.2%	$37,935,238	21.2%
Services & Supplies	$25,900,428	3.7%	$6,953,278	3.3%
Other Expenses	$15,894,167	6.9%	$33,365,631	2.0%
New Requirements	-	-	$19,081,037	1.1%
Total	**$269,184,365**	**8.1%**	**$140,455,766**	**8.8%**

In addition, institutions have experienced new or expanded state and federal mandates including Title IX compliance, health insurance increases, Fair Labor Standards Act (FLSA) compliance and minimum wage increases. And the burden associated with pension costs has increased significantly almost doubling in just the past decade with an additional 21% increase expected during the next biennium. That's an annual cost of over $200 million for institutions of higher education.

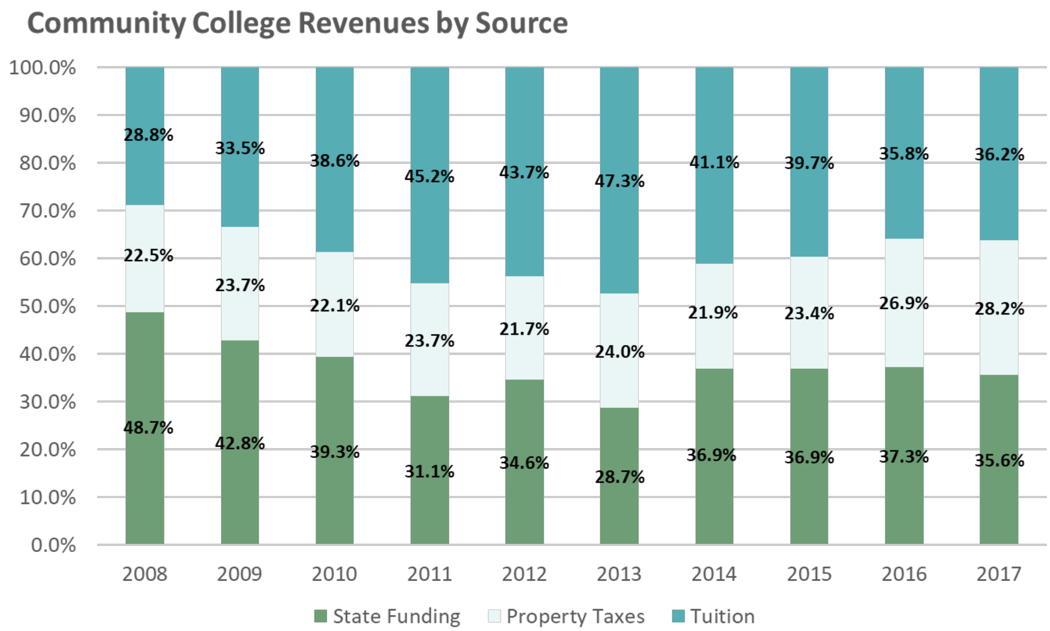
So even with cost savings of approximately $50 million in just the past few years, institutions have been left with cost increases that outpace inflation.

Institutions More Reliant on Tuition to Fund Operations

To close the funding gap, institutions have had to rely on tuition to make ends meet. In a generation, tuition and fees have grown to cover the majority of expenditures. Oregon is not alone in that universities in the majority of states have come to rely on tuition more than state appropriations to fund higher education. As a result, public university resident tuition has increased at a rate faster than inflation growing 38% when adjusted for inflation in just the past decade.



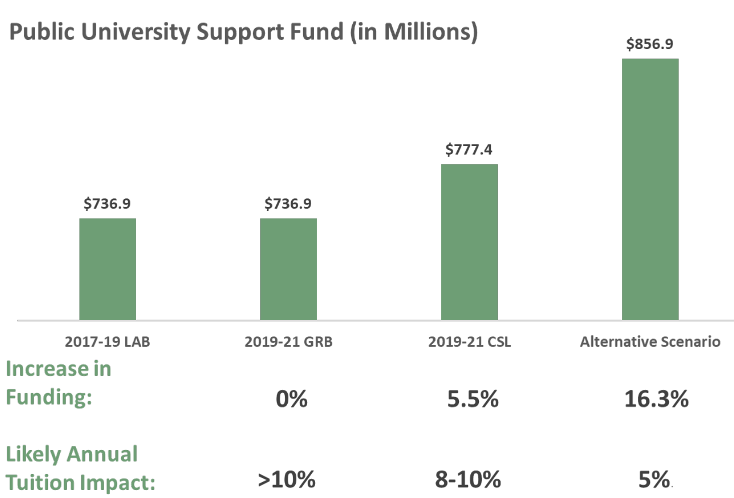
Community colleges have an additional source of revenue derived from local property taxes. The chart below shows the principal revenue sources for the state's community colleges.



Although the growth of which is limited in a number of ways, local property tax revenue can serve as a financial shock absorber that provides them with the opportunity to protect their most price sensitive students as best they can. And yet the trend is almost the same as with the universities. Community colleges are left relying on tuition to bare a larger share of the total educational expenses of the institution.

Minimizing Tuition Increases for the Universities

Tuition and fee rates are generally set by the Board of Trustees of each university. Each campus has a stakeholder process to inform and shape tuition and fee proposals. Should the combined, annual increase in resident undergraduate tuition and mandatory enrollment fees exceed five percent, the HECC or the Legislature must approve the increase.



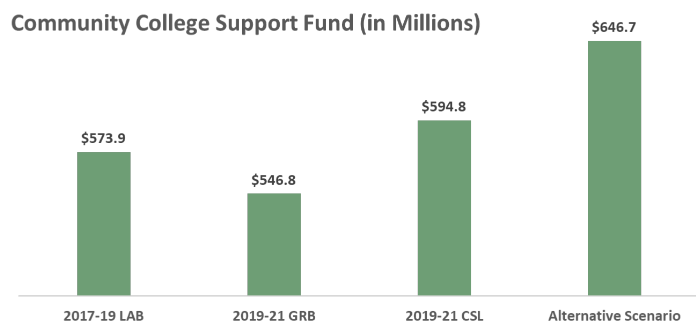
University officials have said that flat funding the public university support fund (PUSF) for the next biennium will lead to tuition increases exceeding 10% per year. But an increase of $120 million, or 16.3%, would allow all of the public universities to keep tuition increases below 5% per year.

The additional $120 million in state funding would be used for two purposes. Just over half the total, $61.7 million, would maintain the state's current share of total educational and general (E&G) spending. The remaining additional funding would be used to increase the state's share of total E&G spending from 20% to 22% during the next biennium thereby reduction pressure on tuition and fee revenue to make up the difference.

Minimizing Tuition Increases for the Community Colleges

Tuition and fees are set by the locally elected governing boards of each community college. Community college officials have said that reducing the community college support fund (CCSF) for the next biennium will lead to tuition increases that disproportionality affect the most price sensitive students.

An increase of $72 million, or 12.5%, would keep tuition increases below 3.5% per year on average. This increase assumes the restoration of the $27.1 million reduction from the 2017-19 legislatively approved budget.



Increase in Funding:	(4.7%)	3.6%	12.7%
Likely Annual Tuition Impact:	>17%	10-12%	3.5%

The additional state funding would be used for two purposes. An estimated $46.6 million, or 8.1% increase, would maintain the state's current share of total educational and general (E&G) spending.

The remaining share of the increase would be used to increase the state's share of total E&G spending thereby reducing pressure on institutions to increase tuition or property taxes to cover the difference.