HIGHER EDUCATION COORDINATING COMMISSION
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FUNDING AND ACHIEVEMENT SUBCOMMITTEE
December 9, 2020
Docket Item #: 3.0

Docket Item:

Monitoring Institutional Financial Health

Summary:

This docket item provides an update on the financial monitoring of the public universities with a focus on the remainder of FY2021. Information about fall enrollments and the projected impact on FY2021 E&G fund balances is included. The appendix includes an article regarding net tuition and its importance to an institution's finances.

Material:

In general, most of the public universities lacked a strong financial position before the pandemic. Five had a net operating deficit in FY2019 with four having entered FY2020 with budget deficits. Overall, enrollment has been dropping for some time. During FY2020, COVID cost an estimated $100 million in direct expenses and lost revenue. Much of the lost revenue was related to auxiliary services (housing, parking, dining, etc.). CARES Act funding helped but did not make up the difference.

The institutions have processes in place to consider financial viability issues with their Boards of Trustees. They made due in FY2020 with cost cutting and the use of fund reserves. When looking only at education and general (E&G) funds across all the public universities, three institutions experienced a net operating deficit while the other four experienced a net gain. The collective E&G fund balance of $268.7 million at the beginning of FY2020 represents about 2 months of revenue. By institution, this ranges from 1.0 to 3.6 months' worth of fund balance. The ideal minimum is 2.5 to 3.0 months. More information by institution regarding FY2020 is included in the appendix.

Many of the actions institutions took to balance their FY2020 budgets, including furloughs and layoffs, continued into FY2021. This is especially true for auxiliary operations since most of the lost revenue is auxiliary, or self-supporting, in nature. Since tuition and fee revenue makes up anywhere from 55% to 80% of total E&G revenue, fall enrollment has an outsized impact on E&G annual budgets. This also affects auxiliary revenue in housing, dining and other services.

Luckily, earlier concerns about potential enrollment declines of 10-15% have not materialized for the public universities. Overall, the fall fourth-week full-time equivalent enrollment fell 3.9% as noted below in table A. The decrease was higher for non-resident students versus resident students.

Table A: Fall Fourth Week FTE, Public Universities

	Academic Year 2019			Academic Year 2020			Variance
	Resident	Non-Resident	Total	Resident	Non-Resident	Total	Total FTE
EOU	1,385	748	2,133	1,360	764	2,124	-0.4%
OIT	2,434	813	3,247	2,443	771	3,214	-1.0%
OSU	15,717	11,403	27,120	15,518	11,495	27,013	-0.4%

PSU	14,064	4,753	18,816	13,474	3,954	17,428	-7.4%
SOU	2,541	1,488	4,029	2,210	1,301	3,512	-12.9%
UO	10,789	11,316	22,105	10,519	10,745	21,263	-3.8%
WOU	3,100	969	4,068	2,911	858	3,769	-7.4%
TOTAL	**50,030**	**31,490**	**81,520**	**48,435**	**29,889**	**78,324**	**-3.9%**
Variance %:				-3.2%	-5.1%	-3.9%	

In aggregate, projected E&G budgets for FY2021 show a 1.7% drop in net tuition and fee revenue and an expected 1.0% decline in total revenue. Expenses are expected to increase slightly by 0.6%, leaving a $20.0 million use of fund balances and reducing the aggregate fund balance to about 1.7 months of reserves. Four of the universities expect to use fund reserves during the year. Auxiliary activities will contribute additional uncertainty but are expected to be self-supporting and, as such, should not affect E&G funds. More information by institution is included in table B below.

Table B: Projected FY2021 E&G Fund Information

The year over year trend in:	**EOU**	**OIT**	**OSU**	**PSU**	**SOU**	**UO**	**WOU**
Tuition and fee revenue	+9.2%	+2.2%	-0.4%	-4.5%	-8.7%	-2.6%	+8.7%
Total E&G revenue	+6.0%	+4.1%	-0.9%	-3.0%	-4.7%	-1.5%	+4.7%
Total E&G expenses	+9.8%	+7.7%	+1.2%	+3.5%	-4.8%	-2.1%	-4.5%
Projected Operating Gain or Loss?	Gain	Gain	Loss	Loss	Even	Loss	Loss
Projected Use of Fund Balance?	No	No	Yes	Yes	No	Yes	Yes
Projected Fund Balance at the end of FY2021 (months of revenue)	3.1	2.6	1.4	3.4	1.0	1.1	0.8

Staff Recommendation:

This is an informational and discussion item only.

Appendix A – FY2020 E&G Fund Information

(Unless noted, amounts in $ thousands)

	EOU	OIT	OSU	PSU	SOU	UO	WOU
Gross tuition and fees	24,013	39,203	441,286	233,174	42,532	478,617	41,519
Less fee remissions	(2,897)	(4,697)	(46,160)	(20,536)	(3,965)	(53,611)	(6,583)
Net tuition	21,116	34,506	395,126	212,638	38,567	425,005	34,935
State appropriations	21,159	31,311	146,512	104,836	22,895	78,448	27,134
State debt service	638	-	1,073	2,182	179	1,073	382
Indirect cost recovery	281	-	42,503	11,087	162	25,087	702
All other	1,240	2,767	34,305	15,613	2,291	15,858	3,779
Total revenues	**44,434**	**68,584**	**619,518**	**346,355**	**64,095**	**545,471**	**66,933**
Salary & Wages	21,758	31,686	304,993	179,117	33,507	264,475	38,133
Benefits: Health	5,594	-	61,241	29,228	7,312	-	9,385
Benefits: Retirement	5,348	-	63,166	39,892	7,881	-	9,801
Benefits: Other	1,770	16,763	42,415	22,572	3,275	182,614	3,294
Supplies & Services	7,277	12,081	116,647	59,977	10,378	89,236	7,810
Capital Expenditures	422	2,220	7,530	1,477	99	3,722	411
Institutional Student Aid	-	-	1,949	946	-	5,515	-
Net Fund Transfers	(76)	1,462	15,957	2,188	1,913	7,008	5,886
Total expenses	**42,093**	**64,212**	**613,898**	**335,397**	**64,367**	**552,569**	**74,720**
Net Income (Loss)	**2,341**	**4,372**	**5,620**	**10,958**	**(272)**	**(7,099)**	**(7,787)**
As a % of Revenue	5%	6%	1%	3%	0%	-1%	-12%
Beginning Fund Balance	8,993	10,001	73,572	94,052	5,353	63,822	12,956
Additions/Deductions	-	(780)	-	-	-	(2,251)	1,072
Ending Fund Balance	**11,334**	**13,593**	**79,193**	**105,010**	**5,081**	**54,472**	**6,240**
Balance as a % of Revenue	26%	20%	13%	30%	8%	10%	9%
Months of Balance	**3.1**	**2.4**	**1.5**	**3.6**	**1.0**	**1.2**	**1.1**
Additional Data:							
% of Revenue that is Tuition	48%	50%	64%	61%	60%	78%	52%
Remission Rate	12%	12%	10%	9%	9%	11%	16%
Personnel as % of Total	82%	75%	77%	81%	81%	81%	81%

Appendix B – Article on Net Tuition Revenue

Moody's Forecasts Widespread Drop in Tuition Revenue. Here's Why That Matters.
By Lee Gardner

OCTOBER 29, 2020

People looking for clues about higher education's future fiscal health saw reasons for worry in a new report by Moody's Investors Service. The bond-rating agency announced on Wednesday that, for the first time in the 12-year history of its annual tuition survey, both private and public colleges are likely to lose net tuition revenue in the 2021 fiscal year.

Private institutions are expected to experience a median 3-percent decrease in net tuition revenue, while public institutions are expected to see a median 1-percent decrease. Last year's report projected slight, softening growth for both sectors, due to tough competition for students in an increasingly challenging environment. This year's report is comparatively bearish.

So what does this mean? Why do such small changes in this nerdy-sounding number make a critical difference for colleges, and bode ill for higher-ed finances for years to come?

Net tuition revenue matters more than enrollment. Much attention has focused in recent weeks on whether enrollment is up or down, as if the number of students sitting in class is the key indicator of a college's financial health. That matters, but the more granular — and more important — indicator is net tuition revenue: how many tuition dollars actually come in, minus how much financial aid goes out. Net tuition revenue is, essentially, the bulk of the operating margin at private colleges and many public colleges; it's the money they use to operate.
On the surface, it would seem that a college could increase its revenue by raising what it charges for tuition. But it's not so simple. In reality, that often means that more students will find the institution difficult to afford (even with grants, loans, etc.), which may lead it to hand out more financial aid, which cuts into the money it gained by charging more tuition — a zero-sum game for net tuition revenue.

Of course, neither enrollment, nor net tuition revenue, is likely to go up during a global pandemic, when enrollment is down, family finances have suffered, and institutions may need to expend more financial aid. Another worrying sign for colleges: International students, long seen as cash cows because they often pay full tuition, have been trending down. (If a college's revenue can't be increased, then expenses must be cut, but that's another story.)

Private colleges face a big problem. Generating net tuition revenue has become more and more fraught for many private colleges. Their tuition prices have been creeping up for years, but, as described above, so have the amounts they hand out in financial aid, also known as tuition discounts, even as the number of college-bound high-school graduates declines in many parts of the country. Many observers were calling this model unsustainable long before Covid-19.

Many admissions offers for the fall of 2020, and their accompanying financial-aid packets, went out before the pandemic started rewriting all the rules. But some colleges nonetheless offered additional aid, tuition-payment deferrals, discounts, and other deals designed to appeal to students who might not otherwise attend, and also to secure paying customers for years to come (more on that in a minute). Fewer students means less net tuition revenue. Fewer students — and more aid — means even less. Seventy-five percent of the private institutions surveyed projected a net-tuition-revenue decline for the 2021 fiscal year.

About 60 percent of private colleges reported discount rates higher than 50 percent for incoming students this fall, according to Moody's. Nearly 30 percent had discount rates higher than 60 percent. Considering that Covid-19 and the social and economic recovery from it could extend for years, it's difficult to imagine that colleges will be able to significantly increase their tuition, or reduce their level of aid, anytime soon.

Public colleges face problems of their own. Public institutions tend to operate in a different ecosystem than private colleges. Their obligations, to the state and its residents, can be complicated. They are also competing for a limited number of students in a challenging environment, with private colleges and sometimes with peer institutions in the same system.

Again, it's all about net tuition revenue. If, say, a flagship is short of its enrollment target next summer, it could go deeper into its wait list — which might take students away from one of its four-year-public peers. A consultant recently relayed a story about a public flagship university that went deeper into its wait list for this fall and met its enrollment goal — but mostly with in-state students, who pay in-state tuition, instead of the always-desirable out-of-state students who pay more. The enrollment was right on target. The net tuition revenue was not.

Since public colleges are public, they get part of their financial support from their states, and while it may be a much smaller percentage of their operating budgets than it was before the 2008-9 recession, every dollar counts these days. The pandemic is expected to ravage state tax revenues. Education is typically one of the largest pieces of a state's discretionary budget, so public colleges can count on some of the pain being passed on to them in the form of cuts in support. That's not in the Moody's tuition report, but it hangs over public higher education like a storm cloud.

Bad news now could mean trouble down the line. Incoming first-year students were down a median of about 6 percent at both private and public colleges surveyed for the report. The effect is likely to linger: The number of first-year students more or less establishes a rough size for that class as it moves through the institution. So a smaller class this year could help depress net tuition revenue for the next four years or so, unless the college can make up the ground in the years to come — a daunting proposition at best.