HIGHER EDUCATION COORDINATING COMMISSION
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Docket Item:

Monitoring Institutional Financial Health

Summary:

This docket item lays out the need for proactive monitoring of the financial wellbeing of public universities, and speaks to the collaborative process to occur between HECCC and university staff throughout the fall and winter. Background information is provided on multiple, pandemic-related challenges based on national survey data. A recap of existing financial assistance along with additional options is included.

Material:

The Need for Monitoring

COVID-19 has created unprecedented challenges for our institutions. The hope is that current circumstances are temporary and do not imply chronic financial distress. However, certain events could lead to a breaking point for any institution regardless of circumstance. These include the revocation of the right to grant federal aid to students, the withdrawal of accreditation, banks refusing to provide short-term loans, the loss of a reliable funding source, or catastrophic enrollment declines.[1] A more complete list of the warning signs of chronic financial distress is included in appendix A.

Generally, financial distress is derived from an institution's disconnect between mission, services, markets, and price. Initially, an institution might have a single problem that continues to grow until its many manifestations signal that financial health is deteriorating and reaching a critical state. In the end, most financial problems boil down to a continuing cash crisis.

In an effort to anticipate distress resulting from the pandemic, it is recommended we seek to systematize and enhance the warning signs[2] so that action can be taken sooner if needed. More timely indications of financial changes are needed. This includes proactive financial and enrollment monitoring that considers prospective, and not just historical, information.

At its August meeting, the Commission adopted a motion directing staff to develop a process for assessing financial conditions at public universities and notifying the Governor, legislators, and other parties that it believes State action is warranted in order to stabilize one or more institution. As a result of the motion and in keeping with planning that had already been underway, HECC and university fiscal staff have agreed on a collaborative process for 2020-21 to ensure the Commission staff's detailed understanding of university financial circumstances and risks. This process will involve the collection of additional, sensitive information throughout the fall and winter including financial projections, contextual information, and scenario analysis all based on substantial uncertainty.

If HECC staff determines that a university's Board of Trustees has exercised all reasonable options at its disposal for managing a fiscal crisis – including but not limited to a declaration of financial exigency or its equivalent – and

[1] Michael Townsley, *Small College Guide to Weathering Turbulent Times*, National Association of College and University Business Officers (NACUBO), 2009.
[2] Jared Colston, Gregory Fowler, Amy Laitinen, Clare McCann, Jamienne Studly, David Tandberg, & Dustin Weeden, *Anticipating and Managing Precipitous College Closures*, New America, March 2020.

still finds itself in significant budgetary distress, staff will recommend that the Commission advocate with the Governor and Legislature for emergency support. See Appendix A: “Warning Signs of Chronic Fiscal Distress.”

Preliminary Budgets for FY2021
The public university governing boards have passed preliminary budgets for FY2021 with one passing an expenditure authorization based on a level equal to FY20. These budgets were passed in May or June before the second special legislative session was called and include sizeable state funding reductions as a result. They also include enrollment assumptions based on projections made before summer enrollments were certain and COVID-19 operations with in-person fall term instruction. Most of them plan on presenting final FY2021 budgets to their boards in November once fall enrollments are known.

Appendix B includes more detailed information on the assumptions made and the status of the FY2021 budget for each of the public universities.

Challenges and Concerns
The National Association of College and University Business Officers (NACUBO) has conducted a variety of polls and surveys to measure the impact of the pandemic on institutional finances. The polling information includes institutions from across the country. However, this information is a helpful starting point to better understand the challenges Oregon institutions face.

- **Liquidity concerns** – a national poll conducted in May[3] showed that a majority of participating institutions were somewhat concerned about their liquidity outlook through December 31, 2020. Of those institutions without liquidity concerns, most reported having a strong cash position and a plan to use reserves to handle their cash needs. Less than half of the participating institutions reported having faced liquidity issues due to the pandemic.

- **Online learning transitions** – a national poll conducted in May[4] showed that most institutions were well prepared to transition to online learning following campus closures with more than 90% able to transition within two weeks or less. A quarter of institutions reported having spent more than $50,000 on new learning software and/or licenses to support online learning with at least 15% of institutions having spent more than $50,000 on additional technology training for faculty and staff as well. Two-thirds of institutions reported spending money to provide new or improved internet access to students, faculty and staff and have invested in new technology equipment as well.

- **Fall 2020 Enrollment** – a national poll conducted in April[5] showed that eight of ten institutions anticipate enrollment declines in fall 2020. Nearly half are considering increasing financial aid offers to prospective students. Also, 39% of surveyed institutions have seen a decline in admissions deposits.

Staff Recommendation:

For discussion purposes only.

[3] https://www.nacubo.org/Research/2020/COVID-19-Research/May-26-Flash-Poll
[4] https://www.nacubo.org/Research/2020/COVID-19-Research/May-12-Flash-Poll
[5] https://www.nacubo.org/Research/2020/COVID-19-Research/April-28-Flash-Poll

Appendix A – Warning Signs of Chronic Financial Distress

This information is adapted from the book *Small College Guide to Financial Health, Weathering Turbulent Times* written by Michael Townsley and published by the National Association of College and University Business Officers (NACUBO) in 2009. Not all of these items will apply to larger, public institutions.

Business Operations

- Audit management reports indicate that the business office makes numerous and large errors that underreport the financial condition of the institution
- Uncollected accounts receivables are growing faster than tuition
- Bank deposit statements include large numbers of large amounts of overdrafts
- Payables for a large portion of vendors are more than 120 days late
- The IRS regularly places a penalty charge on tax deposits
- Employee benefit coverages lapse for several months

Revenue and Expenses

- Enrollment is declining in academic programs providing the major share of revenue
- Independent studies are reaching the point where they represent a substantial portion of all sections offered during a semester
- Revenue is growing slower than expenses

Finance

- Credit lines are growing at a fast pace and becoming a large portion of current liabilities
- The cash account as reported in the audited statement of financial position is less than 8% of expenses and shrinks every accounting period
- Endowment principal is used to provide cash flow
- Fixed assets are being converted to cash

Composite Financial Index

- The index score for the Composite Financial Index (CFI) is less than 1.0
- The CFI has been declining for the past several years

Appendix B – Preliminary Budgets for FY2021

Eastern Oregon University

- Adopted preliminary FY2021 budget in June; final budget in November
- 8.5% state funding cut
- Slight increase in tuition/fee revenue based on “conservative enrollment projection”
- $1.25 million in budget reductions needed; 2.7% of operating budget
- Budget gap of $2.6 million or 5.7% of budget
- Use of $2.6 million in fund balance; projected balance at 16% (1.8 months) of revenue

Oregon Institute of Technology

- Adopted FY2021 budget in June
- 10% state funding cut
- Enrollment assumed at net increase of 1%
- Budget gap of $3.6 million or 5.2% of budget
- Budget reductions were assigned to operating departments with $1.1 million set aside for priority areas
- Strategies to address gap include furlough savings, S&S savings, positions savings, early retirement program and restructuring one-time expenses
- Fund balance projected to be $10 million or 14% (1.7 months) of revenue

Oregon State University

- Adopted preliminary FY2021 budget in May
- For COVID, assumes remote teaching for summer and modified return by fall
- 18% state funding cut
- 3% drop in net resident tuition; 5% drop in non-residents; 10-15% drop in international students; 6% gain in eCampus
- Budget gap of $48 million or 7% of budget in E&G
- Spending reductions needed: 7.7% in Corvallis, 9.5% in Bend, and 14.1% in Statewide Public Services
- Balancing strategy includes reduced capital renewal spending, reduced S&S, unit level layoffs and delayed hiring, university wide progress pay or FTE reductions
- Assumes use of fund balance of $11 million; fund balance projected to be $78 million or 11% (1.3 months) of revenue

Portland State University

- Adopted FY2021 budget in June
- Assumes no cuts to state funding – “pre-COVID enrollment and state support assumptions”
- Assumes “changes in enrollment for FY21 as of March 2020”
- Each division assigned a budget cut of 3.87% to keep budget flat compared to prior year (i.e. roughly $13.6 million gap based on FY2020 E&G budget)
- Assumes use of fund balance of $11 million; fund balance projected to be $83 million or 14% (1.7 months) of revenue (assuming no use of fund reserves during FY2020)
- Presented document called “*Strategies to Advance Innovation and Financial Sustainability at PSU*” during August 20, 2020 special meeting of the board of trustees, pages 117-141 of meeting materials available at: https://www.pdx.edu/board/board-meetings.

Southern Oregon University
- Adopted preliminary FY2021 budget in June
- 3% state budget rescission
- Assumes 10% enrollment decline with hiring freeze through summer and furlough through 12/31/20
- Budget gap of $6.4 million or 10% of revenues
- Assumes a projected fund balance of 8% (1 month) of revenue

University of Oregon
- Adopted FY2021 expenditure authorization in June of $1.13 billion in all funds ($564 million in E&G)
- Authorizes expenditures at a level equal to FY2020
- Over the past four years, annual growth of 4% in E&G spending
- Authorization requires updates as part of quarterly finance report:
    - How quarterly expenditures compare to annual expenditure authorization
    - Whether state has implemented cuts or if university projects decline in tuition revenue due to enrollment
    - Steps the university is taking to reduce expenditures
    - Whether the current authorization remains appropriate

Western Oregon University
- Adopted preliminary FY2021 budget in June
- 8.5% state funding cut
- Assumes 2.5% enrollment decline
- Budget gap of $6.5 million or 10% of revenues
- Adjusted budget due in November with positive projected ending FY21 fund balance