HIGHER EDUCATION COORDINATING COMMISSION

3225 25th Street SE, Salem, OR 97302
www.oregon.gov/HigherEd

FUNDING AND ACHIEVEMENT SUBCOMMITTEE
May 11, 2022
Docket Item #: 4.1

Docket Item:

Current Service Level (CSL) Primer

Summary:

The CSL calculation methodology for higher education institutions has developed over time with the intent that it be as similar as possible to the one used for state agency budgets. However, it is not exactly the same because staff at the Department of Administrative Services (DAS) do not have access to detailed personnel information for the institutions. As a result, DAS staff use the personnel cost inflation rate for non-state employees (contractors) which is different than what the institutions estimate.

Also, CSL is different from the actual cost growth the institutions estimate because it does not include second-year merit increases and COLA adjustments. Those adjustments for state agency employees are later paid for with a special purpose appropriation (salary pot) only available to state agencies.

Materials:

The CSL for higher education support funding is based on the standard inflation rate assumed for non-state employee personnel costs (contract providers), adjusted by estimates of the actual cost increases colleges and universities incur for health and retirement benefits. This blended-rate model has developed over time (see appendix for historical information) and is the responsibility of DAS CFO.

For a state agency, the position control system will automatically update position costs to include 24-month pricing and identified, routine salary adjustments affecting the next biennium. Other adjustments are made for unemployment assessments, overtime, shift differentials and the like. A vacancy factor is included to account for savings reasonably expected from staff turnover. Data for the colleges and universities is not included in the state's position control system.

For related benefit expenses, the intent of the blended rate model is to more accurately predict the growth rates for benefits thereby minimizing any variances to the institutions' actual cost growth. Smaller differences can still exist for other expense categories though like in services and supplies.

In practice, for 2021-23, the actual educational and general expenditures for the most recent biennium (2017-19) are aggregated into five categories and presented as a percentage of total costs. Growth rates are then applied to each of the expenditure categories to arrive at a blended inflationary rate based on the proportional shares of overall expenditures and their corresponding estimated increases.

Using this model, the CSL inflation rate (from 2019-21 to 2021-23) for the universities is 5.88%. For the community colleges it is 5.30%. If the CSL exceeds the standard non-state employee personnel costs inflation rate (5.7%), it requires an exception request to the standard inflation factor. As a result, an exception request was required for the universities but not the colleges for 2021-23.

2021-23 Public University CSL Inflation Rate			
	% of Costs	**Growth Rate**	**Inflation Rate**
Retirement (PERS/ORP)	8.6%	10.04%	0.86%
Health Benefits (PEBB)	10.5%	6.92%	0.73%
Pension Obligation Bonds	1.7%	3.18%	0.05%
Other Personal Services*	59.0%	5.70%**	3.36%
Services & Supplies	20.1%	4.30%	0.87%
Totals	**100%**		**5.88%**

2021-23 Community College CSL Inflation Rate			
	% of Costs	**Growth Rate**	**Inflation Rate**
Retirement (PERS/ORP)	10.8%	1.23%	0.13%
Health Benefits (PEBB)	11.2%	6.92%	0.77%
Pension Obligation Bonds	4.5%	7.69%	0.35%
Other Personal Services*	63.0%	5.70%**	3.59%
Services & Supplies	10.5%	4.30%	0.45%
Totals	**100%**		**5.30%**

*includes salaries, wages, and other benefits; **standard personnel cost inflation rate for non-state employees

The CSL inflation rate for the community colleges is further refined to account for the trend in local property tax collections as shown in the calculations below. This results in a CSL inflation rate for general fund (GF) only appropriations which is the predominate funding source for the community college support fund (CCSF). The CCSF is also funded with a very small amount of timber tax revenue and equalizes funding per FTE student.

2021-23 Community College CSL Inflation Rate (GF Only)	
Calculation of 2019-21 Total Public Resources:	
2019-21 GF appropriation	$640,926,933
2019-21 Timber tax appropriation	45,810
2019-21 Property tax revenues	381,389,000
2019-21 Public Resources (TPR)	1,022,361,743
Calculation of 2021-23 CSL GF Amount:	
2021-23 Cost Inflation (2019-21 TPR * CSL inflation rate, 5.30%)	54,148,674
2021-23 Timber tax revenues	(45,810)
2021-23 Property tax revenues	(407,341,000)
2021-23 CSL GF Amount	$669,123,607
Difference (2021-23 CSL GF Amount – 2019-21 GF appropriation)	$28,196,674
GF Only CSL (Difference / 2019-21 GF appropriation)	**4.4%**

Staff Recommendation:

For discussion and informational purposes only.

Appendix – Development of the Current CSL Model

Overview

The community colleges have used a model similar to that of the public-school districts for years. Under the Oregon University System (OUS), the public universities used the state agency model until OUS disbanded. The chronology below details the development of the post-OUS public university model with the intent that it be consistent with the community college model.

Prior to the 2013-15 biennium

Public university education and program support funding was part of the budget for the Department of Higher Education and the current service level budget was calculated much like other state agencies. However, with the passage of SB 242 (2011), public universities began the process of separating from the state and becoming non-state agency entities, each with its own governing board.

For the 2015-17 biennium

State support for public universities was, and continues to be, budgeted as special payments. The current service level (CSL) budget calculation includes a non-state employee personnel costs (contract providers) inflation factor. The 2015-17 budget applied this inflation factor (3.3%) to the total special payments for public university state support to determine CSL.

During the 2016 legislative session

SB 5701 appropriated a one-time General Fund amount of $1,900,000 for the four technical and regional universities, along with Portland State University, to help fund new compensation agreements for classified staff. HECC is directed to distribute the following amounts to the following universities: Portland State University - $400,000; Eastern Oregon University - $251,559; Southern Oregon University - $468,591; Western Oregon University - $485,646; and Oregon Institute of Technology - $294,204.

A budget note was included in the budget report for SB 5701 directing LFO and DAS in consultation with the HECC and the universities to develop an estimate of public university state support CSL using the community college fund CSL model. The budget note included:

> *The Subcommittee recognizes that the Current Service Level (CSL) is intended to estimate the cost of legislatively approved programs in the upcoming biennium. In 2009, the Joint Committee on Way and Means approved the adoption of a CSL model for the Community College Support Fund (CCSF) to reflect health benefit and retirement costs expected to exceed the Department of Administrative Services standard inflation rate.*
>
> *To ensure consistency in post-secondary state support CSL calculations, the Department of Administrative Services (DAS) and the Legislative Fiscal Office (LFO) are directed to develop, in consultation with the Higher Education Coordinating Commission and the seven public universities, an estimated cost of applying the Community College Support Fund model to the Public University Support Fund, the Agricultural Experiment Station, the Extension Service, the Forest Research Laboratory, and Public University State Programs.*
>
> *The estimate will include data elements that the public universities will be required to submit to HECC in order to implement the model. DAS and LFO will provide the estimated cost to implement the Community College Support Fund CSL model for Public University state support*

to the Emergency Board, through the Legislative Fiscal Office, by July 1, 2016.

For the 2017-19 biennium

After increasing the public university state supported general fund appropriations for phase-ins, phase-outs, and one-time funding, CSL inflation was developed in two stages. First, the standard inflation factor for non-state employee personnel costs (4.1%) was applied to special payments for the public university support fund (PUSF), the Agriculture Experiment Station, the Extension Service, the Forest Research Laboratory, and the public university state programs.

Second, a blended inflation rate was then calculated using a model based on the CCSF which uses more accurate health benefit and retirement costs estimates. The universities submitted prior biennium educational and general funding expenditures aggregated into five categories and presented as a percentage of total costs as shown below.

Expenditure Categories, 2013-15 Actuals (E&G Fund, Type 11)

	FY2014	FY2015	2013-15	% of Budget
Retirement (PERS/ORP)	99,852,148	103,039,067	202,891,215	7.0%
Health Benefits (PEBB)	144,584,265	147,992,468	292,576,733	10.1%
Pension Obligation Bonds	25,455,406	27,044,966	52,500,372	1.8%
Other Personal Services*	852,621,711	893,630,772	1,746,252,483	60.3%
Services & Supplies	284,493,216	315,324,226	599,817,442	20.7%
Totals	**1,407,006,746**	**1,487,031,499**	**2,894,038,245**	**100%**

*includes salaries, wages, and other benefits

Estimated cost increases for each expenditure category were than calculated using the following growth rates:

Retirement

PERS/ORP expenditures were inflated using the percentage growth in the state's PERS rate from the prior biennium to the upcoming biennium. PERS rates are provided by PERS to the DAS Chief Financial Office.

Retirement Growth Rate			
	2015-17	**2017-19**	**Increase**
State Agency Rate	17.9%	20.7%	
Side Account Offset	(7.5%)	(6.9%)	
	10.4%	13.8%	
IAP Employer Pick-Up	6.0%	6.0%	
Total	**16.4%**	**19.8%**	**20.7%**

Health Benefits

Health benefits were inflated using the percentage growth in PEBB monthly premiums from the first month of the prior biennium to the average ending monthly premium, which brings the rate to the end of biennium cost consistent with personal services budgeting for state employees. PEBB provides public university monthly health insurance costs for the biennium by month.

Passage of SB 1067 (2017) limited growth of PEBB self-insured health benefit plans to 3.4% per year (6.9% per biennium). This rate has been used as the growth factor for development of subsequent CSL calculations.

Health Benefits Growth Rate						
	Monthly Cost	**% Increase from Prior Year**	**# of Months at Rate**	**% of Biennium at Rate**	**Average Biennial Cost**	**Increase**
2015	$1,349.33		5	20.83%	281.11	
2016	$1,389.79	3.0%	12	50.00%	694.90	
2017	$1,446.77	4.1%	7	29.17%	421.97	
Totals			**24**	**100%**	**$1,397.98**	**3.6%**

Pension Obligation Bonds

Pension obligation bonds were inflated using the percentage growth in bond debt service payments charged to the public universities. DAS Capital Finance provides the total bond payments for the prior biennium and the amount budgeted for the upcoming biennium.

2015-17	$75,376,458
2017-19	$82,544,634
Increase	**$7,168,176 or 9.5%**

Other Personnel Services – inflated using the DAS inflation factor for non-state employee personnel costs rate (4.1% for 2017-19 budget development).

Services & Supplies – increased using the DAS standard inflation factor (3.7% for 2017-19 budget development).

Growth rates were then applied to each of the expenditure categories to arrive at a blended inflationary rate based on the proportional shares of overall public university expenditures and their corresponding estimated increases.

2017-19 CSL Inflation Rate			
	% of Costs	**Growth Rate**	**Inflation Rate**
Retirement (PERS/ORP)	7.0%	20.7%	1.5%
Health Benefits (PEBB)	10.1%	3.6%	0.4%
Pension Obligation Bonds	1.8%	9.5%	0.2%
Other Personal Services*	60.3%	4.1%	2.5%
S&S/Capital	20.7%	3.7%	0.8%
Totals	**100%**		**5.2%**
*includes salaries, wages, and other benefits			

The difference between the 5.2% blended inflation rate calculated above and the 4.1% non-state employee personnel costs inflation rate was included in a policy option package (POP) for development of the 2017-19 budget. Approval of the POP in the 2017 legislative session confirmed adoption of the model for the public university support fund (PUSF), statewide public services, and the public university state programs CSL calculation in future biennia.

2019-21 biennium

For development of the 2019-21 CSL, the difference between the non-state employee personnel costs inflation rate (4.2%) and the blended inflation rate (5.5%) was included as an "exception request" to the standard inflation factor.

2019-21 CSL Inflation Rate			
	% of Costs	**Growth Rate**	**Inflation Rate**
Retirement (PERS/ORP)	7.5%	19.6%	1.47%
Health Benefits (PEBB)	10.0%	6.9%	0.69%
Pension Obligation Bonds	1.7%	1.5%	0.02%
Other Personal Services*	60.7%	4.2%	2.55%
S&S/Capital	20.1%	3.8%	0.76%
Totals	**100%**		**5.5%**
*includes salaries, wages, and other benefits			