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**Docket Item: 3.0 - Financial Monitoring: Purpose**

**Summary:**

This docket item summarizes the recent history of public university financial conditions reporting by HECC staff and attempts to create a purpose statement for future financial monitoring work. Two referenced reports are posted as additional docket materials:

- A report titled, *Monitoring and Assessing the Financial Health and Risk of Colleges and Universities: Recommendations for SHEEO Agencies*, posted as F&A Subcommittee Meeting docket item 3.0a.
- A report titled, *A Dream Derailed? Investigating the Impacts of College Closures on Student Outcomes*, posted as F&A Subcommittee Meeting docket item 3.0b.

**Docket Material:**

Please see the following docket item materials:

- 3.0a - SHEEO Financial Health Risk Report
- 3.0b - SHEEO College Closure Report

**Background:**

A budget note in HB 5024 (2019) directed the Commission and Oregon's public universities to coordinate on the collection of financial data and measures that would be consistently provided to the HECC in order to improve transparency and accountability. HECC staff collaborated with the institutions on the data to be collected and the uses proposed for that data. Consistency in reporting across the institutions was a focus. The text of the budget note is included below.

**HB 5024 (2019) Budget Note, Full Text**

The seven Public Universities shall collectively report to the Joint Committee on Ways and Means in February 2020 on cost management measures implemented during the 2019-20 academic year. The report should include administration and program reductions, use of fund reserve balances, positions eliminated or left vacant for more than six months, and any new positions established. An updated report for the 2020-21 academic year shall be provided to the Emergency Board in December 2020. The seven Public Universities and the Higher Education Coordinating Commission (HECC) are also directed to coordinate in the interim to identify public university financial data and measures that will be consistently provided to HECC to improve transparency and accountability. Financial information may include administrative costs, financial activity by fund, fund reserve balances, and results of audits. HECC shall report to the Joint Committee on Ways and Means or the Emergency Board no later than September 2020 on this effort.

The first edition of the Financial Conditions Report was submitted to the Legislature in compliance with the budget note in August of 2020. Since then, HECC staff has made this an annual report providing information on the financial condition of the state's public universities.

Since the first edition, three subsequent annual reports have been published. Two perspectives are provided in the reports. The oversight perspective looks at total institutional funding across all funds, including foundation assets, and uses financial ratios to calculate a composite financial index (CFI) to provide an assessment of the financial health of each institution. The governance perspective is limited solely to the education and general (E&G) fund of the institution.

The budget note focused on cost management information and the collection of financial data. HECC staff then used that data to calculate financial ratios.

### **Purpose of Financial Monitoring -**

Financial monitoring work in general could serve a number of different purposes. It could encompass public institutions, private institutions, workforce boards, both two year and four-year sectors, among other elements. It could focus solely on a financial condition analysis, like the current report, or it could seek to address other concerns as well. For discussion, three broad purposes are outlined below.

### **Assessing Financial Health -**

The HECC has a general obligation to the State of Oregon to act in its best interests as a whole and for students in particular. Staff of the State Higher Education Executive Officers Association (SHEEO) write that a state higher education coordinating commission bears the responsibility of ensuring, "that public institutions are financially viable, that they are good

stewards of their public resources, and that they have the resources they need to best serve their students.”

SHEEO recommends<sup>1</sup> that state commissions monitor the fiscal health and risk of the institutions within their states. A number of monitoring tools exist to accomplish this task. All of which are predicated on quality, timely data collected from the institutions -- which is a current shortcoming in Oregon. A reliable way to forecast the financial condition of an institution is elusive because most financial data collected is outdated once its collected.

A forward-looking approach that provides advance warning of financial instability for policy maker awareness is ideal. Closely monitoring individual institutional finance data will help spotlight potential risks. The current Financial Conditions Report relies on prior year data and includes only public universities.

### **Protecting Student Interests -**

Ensuring consumer (or student) protections is a part of the HECC's general obligation. A recent research report<sup>2</sup> highlights the impact of college closures on student outcomes. This work is an attempt to understand what happens to students after a closure occurs, further highlighting the need to obtain advance warning of any potential closures.

The research finds that of closures that occurred from 2004 through 2020, 78% were of private, for-profit institutions while 21% were of private, non-profit institutions, and the remaining 1% were of public institutions. Most students (83%) experienced closures at for-profit institutions. Over two-thirds of students experienced an abrupt closure. Less than half (47%) of students reenrolled in another postsecondary institution after they experienced a closure. Students who reenrolled within one to four months were the most likely to earn a credential (47%) while those who stopped out for more than one year were the least likely (18%).

### **Understanding Broader Trends -**

A broader understanding of the trends within higher education finance more generally will be helpful to inform budget and policy recommendations for stakeholders. This goes beyond individual institutional finances and considers broader data and related impacts. This could include, for example, information about per unit (i.e. student, credential, etc.) costs over time relative to inflation or whether a particular policy should be adopted, or how a previously implemented policy affects student affordability, institution finances, or other related issues.

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<sup>1</sup> Tandberg, David. *Monitoring and Assessing the Financial Health and Risk of Colleges and Universities: Recommendations for SHEEO Agencies*, SHEEO, October 2018.

<sup>2</sup> Burns, Rachel et al. *A Dream Derailed? Investigating the Impacts of College Closures on Student Outcomes*, SHEEO and the National Student Clearinghouse Research Center, 2022.

**Purpose Statement -**

With all that in mind, a proposed purpose statement for future financial monitoring work is summarized below:

The purpose of financial monitoring will be to ensure institutions have the resources needed to best serve Oregon learners and to provide advance warning of financial instability for policy makers to identify systematic risks while maintaining awareness of broader trends that could also support decision making.

**Staff Recommendation:**

Informational item for discussion only.