

## Southern Oregon University Conditions Report

### HECC Staff Evaluation April 2018

Under Oregon law<sup>1</sup>, the Higher Education Coordinating Commission (HECC) must determine whether Southern Oregon University (SOU) has satisfied the conditions that the former State Board of Higher Education (SBHE) imposed upon it at the time it approved the university's new institutional Board of Trustees in 2014.

The Conditions required SOU to submit to the HECC a comprehensive report demonstrating the institution's unique mission, program focus, and long-term financial viability. The Commission is required to evaluate whether the institution meets the conditions by demonstrating a clear institutional focus and durable niche within the portfolio of public higher education assets in Oregon, and determining that this niche:

- Supports the state's and region's civic, cultural, economic and 40-40-20 needs;
- Enables a cohesive and sustainable enrollment model; and
- Supports the long-term viability of the institution.

The Conditions require that the HECC focus particular attention on "the institution's ability to maintain financial stability within the outlined mission and program framework and absent extra-ordinary and discretionary revenue (e.g., state appropriations) and expense items."

The HECC must notify the Governor, the Legislative Assembly, and the Boards of Trustees upon its determination of whether the institutions have met the conditions.

The HECC's evaluation of SOU focuses on whether the institution is able to "foster a competitive niche within the institution's mission, and provide a pathway towards long-term financial viability." While the former involves an assessment of the academic operations of the institution based on the Final Conditions Report submitted by SOU to the HECC in December 2017, an examination of recent financial statements and a multi-year, forward-looking pro forma provide the primary evidence of whether the institution has made progress toward the latter. This staff report takes each of these two components of the Conditions in turn.

#### **1. Mission, Program Rationalization and Competitive Niche**

Based on the extensive strategic planning that SOU engaged in to define its competitive role in higher education in the state, coupled with evidence of implementation of policies and processes, initial outcomes for program rationalization and improved student recruitment and retention, HECC staff concludes that SOU has demonstrated substantial commitment to mission fulfillment; continuous program review and monitoring; identification of new program development opportunities; and growth in student enrollment and retention.

#### Mission Alignment with State Goals

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<sup>1</sup> Section 168a, Chapter 768, Oregon Laws 2013 (as amended by SB 493 (2015))

Following an extensive strategic planning process SOU has defined a new mission, vision and strategic direction, and with these, an innovative role in the higher education landscape in Oregon. The new mission, approved by the Commission in January 2018 defines a non-traditional niche premised on agility:

*SOU will move forward as a regionally engaged learning community committed to being the educational provider of choice for learners throughout their lives*

The Conditions required that SOU demonstrate “a clear institutional focus and durable niche within the portfolio of public higher education assets in Oregon, and that this niche:

- Supports the state and region’s civic, cultural, economic and 40-40-20 needs
- Enables a cohesive and sustainable enrollment model; and
- Supports the long term viability of the institution”

In a departure from traditional understandings of competitive niche that tend to identify specific areas of academic programs, SOU has anchored its mission and strategic plan in its capacity to be agile and responsive to the evolving regional needs of higher education and in alignment with the State and HECC’s strategic goals.

#### Contribution to 40-40-20

SOU’s new mission and strategy are grounded in continuous transformation of curriculum and pedagogy, commitments to inclusivity, the leveraging of evolving technologies and purposeful partnerships with employers in the Rogue Valley to increase educational attainment of adult Oregonians from undergraduate degree completion to reskilling of those already in the workforce as these needs change.

#### Increase in enrollment, retention, completion, and student diversity

In fall 2017, SOU’s enrollment was 2.1% higher than that of the prior fall. It achieved this increase by revamping processes and coordination in financial aid, admissions and enrollment services. Included in these initiatives were award letters handed to prospective students during recruitment, deployment of improved communication software, increased tuition assistance to the most economically vulnerable students, and tighter academic pipelines integrated with economic and advising support between high schools and SOU. Pathway programs such as Academia Latina, Pirates to Raiders and Konoway Nika Tillicum are specifically directed at pre-college underrepresented students. Collectively these efforts have produced a 26% increase in applications from Fall 2016 to Fall 2017. Currently 25% of SOU’s degree seeking student population are from underrepresented populations.

SOU invested student success initiative funding from the 2015-17 legislative session in a new decentralized approach to advising and career preparation; mental health services; support for sight impaired students; analytical software to identify students at risk; curricula and pedagogical collaboration with Rogue Community College to reduce DFWI (drop, fail, withdraw, incomplete) rates in gateway courses; and Adverse Childhood Experiences Training for faculty and staff to be more responsive to student needs. These programs collectively increased retention for all degree-seeking students from 76.5% in Fall 2016 to 78.1% in fall 2017. The retention rate for underrepresented students

for that same period was 79.5% and for Pell Grant recipients 80.5%. Total bachelor's degrees awarded grew by 8% and for resident students by 10%.

### Program Rationalization

In 2014, SOU reorganized its academic structure from a very large College of Arts and Sciences and two professional schools in Business and Education to seven more manageable and evenly sized divisions. This reorganization included administrative and staff reductions, elimination of academic programs, streamlining of the curriculum, more efficient course scheduling, and improved faculty workload efficiency. SOU implemented operational management processes that include metrics for academic resource management. SOU monitors and manages faculty instructional and non-instructional work, which has increased time spent on instructional activities, and implemented software for documentation of faculty work and achievements. SOU is using this resource management system to analyze program offerings in order to facilitate strategic decisions about program viability and continuation.

In AY 2015-16 SOU migrated from the standard five-year review of academic programs to continuous monitoring for efficiency with annual assessment reports and feedback from accreditation evaluators. As a result of these new processes, SOU has reallocated resources from other programs to develop a Master's degree in Outdoor Adventure and Expedition Leadership, a Bachelor's degree in Healthcare Administration, a Wine Business Certificate, and a fully online MBA this spring 2018.

SOU has redefined its niche in the higher education landscape in the state with a mission premised on agility and constant evolution to meet the regional educational needs of students, workers and employees. As SOU emerges from the transition of retrenchment it has demonstrated substantial commitment to implement new processes and policies in the form of academic reorganization and resource management, program rationalization and targeted initiatives to improve overall student enrollment, retention, and the latter in particular, directed at underrepresented and economically challenged students. The evidence so far is commendable. SOU has grown its enrollment, an increasingly difficult achievement in the state and nationally; improved retention and graduation rates for all sectors of student populations and has instituted a continuous system of program review for academic resource efficiency coupled with alignment with the workforce needs of the regional economy.

## **2. Financial Viability**

This HECC staff evaluation of Southern Oregon University with respect to the Conditions established by the State Board of Higher Education in 2014 is focused on whether the institution is able to "foster a competitive niche within the institution's mission, and provide a pathway towards long-term financial viability." While the former involves an assessment of the academic operations of the institution, an examination of recent financial statements and a multi-year, forward looking pro forma, provide the primary evidence of whether the institution has made progress toward the latter. Additionally, measurement of key financial performance indicators against benchmarks established at the inception of these Conditions is a critical element of this financial analysis.

While HECC staff believes that SOU has shown significant and durable progress in meeting the financial-focused targets and goals of these Conditions, staff acknowledges that the institution failed to meet the

“Current Ratio” financial benchmark, one of three required by the Conditions. That said, staff recognizes that SOU’s failure to meet this benchmark is not anomalous among Oregon public universities; for the 2017 fiscal year, no Oregon public university would meet that specific target. While the Conditions state that the institution’s performance against the benchmarks should “substantially inform” the HECC’s conclusion, they also emphasize that this analysis should “not serve as a single decision point.”

Process

HECC staff’s opinion of SOU’s financial condition is based on three analytical methods:

1. An examination of the institution’s most recent (2016-17) financial statements, including stress-testing targeted elements of reported revenues and expenditures;
2. An examination of the institution’s current five-year pro-forma, including stress-testing targeted elements of projected revenues and expenditures;
3. A cumulative assessment, including comparison of elements 1 and 2 to ensure internal validity and consistency of results and conclusions.

Financial statement examination

SOU meets stated expectations for its Primary Reserve Ratio and Debt Burden Ratio but is significantly short of the Current Ratio benchmark established by the Conditions.

<b>SOU Financial Ratio Summary</b>				
<b>Performance Metric</b>	<b>2016-17 Value</b>	<b>Conditions Benchmark</b>	<b>Pass/Fail</b>	<b>Trend</b>
Primary Reserve Ratio	10.50%	5-7%	PASS	Stable
Debt Burden Ratio	4.10%	<7%	PASS	Increasing
<b>Current Ratio</b>	<b>1.72</b>	<b>2.00</b>	<b>FAIL</b>	<b>Increasing</b>

Through an understanding of major revenue and expenditure components incorporated in each ratio, and the relative stability or instability of these elements over time, HECC staff performed a sensitivity analysis to identify the level of robustness within these results. Based on that analysis, HECC staff concludes that these ratio results demonstrate expected levels of vulnerability, resulting in a conclusion that SOU has demonstrably improved its financial position and durability.

Pro forma examination

SOU provided a five-year pro forma that projects financial performance through the 2021-22 fiscal year. HECC staff adjusted this pro forma to reflect its standard expectations about State support of public universities and to reflect projected funding allocations through 2021-22. Other assumptions embedded within the pro forma fall within a range that staff finds reasonable and not inconsistent with assumptions made by other Oregon public universities. In a manner consistent with the ratio sensitivity analysis, specific revenue and expenditure elements were flexed by staff to demonstrate the level of robustness in these results, as determined by final fund balance projections for each subject fiscal year. Based on that analysis, HECC staff concludes that the five-year pro forma supports the ratio finding that the institution has demonstrably improved its financial position, outlook, and durability.

Conclusion

While SOU has failed to meet one of the fiscal ratio benchmarks contained within the Conditions, HECC staff recognizes that the institution has implemented processes and policies that, to date, have been effective in establishing a foundation for financial durability. This qualified opinion recognizes that forming a definitive view of an institution's long-term financial health requires an exhaustive and broad-reaching examination of the institution. While SOU has provided the HECC its final Conditions report, which is much broader in scope than this quantitatively-focused analysis, HECC staff lacks the comprehensive view of the institution that SOU's Board of Trustees, administration, and faculty possess.

SOU's team of trustees, management, and faculty is deserving of much credit for its progress toward long-term financial viability. Financial reporting by management is comprehensive and frequent. The Board of Trustees is engaged and active in monitoring institution financial performance. Concomitantly, administration is committed to developing and using management tools to continue the positive financial trajectory of the institution. Adding to these factors, two biennia of increases in State funding have been a critical component of the institution's strengthened financial position and will continue to be a key factor in its viability. Should current trends and projections hold, the institution is poised to make critical strategic investments to further strengthen its place in the State's public university portfolio and its contributions to the achievement of State higher education goals.