

Eastern Oregon University Conditions Report

HECC Staff Evaluation April 2018

Under Oregon law¹, the Higher Education Coordinating Commission (HECC) must determine whether Eastern Oregon University (EOU) 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 EOU 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 EOU 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 based on the revised Final Conditions Report (December 2017) submitted by EOU to the HECC, 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 report takes each of these two components of the Conditions in turn.

1. Mission, Program Rationalization and Competitive Niche

Based on the extensive long-range strategic planning that EOU engaged in during 2016-17 coupled with the initial evidence of alignment with program rationalization and student recruitment and retention, HECC staff concludes that EOU has demonstrated substantial commitment to mission fulfillment tailored to the rural region of the state; program performance monitoring; progress in campus resident enrollment and retention and focus on the state's 40-40-20 goals. EOU continues to face challenges in overall enrollment growth.

Mission Alignment with State Goals

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

With stabilized leadership and a newly appointed governing board, EOU in November 2016 reaffirmed the following university mission last approved by OUS in 2012:

EOU guides student inquiry through integrated, high-quality liberal arts and professional programs that lead to responsible and reflective action in a diverse and interconnected world. As an educational, cultural and scholarly center, EOU connects the rural regions of Oregon to a wider world. Our beautiful setting and small size enhance the personal attention our students receive, while partnerships with colleges, universities, agencies and communities add to the educational possibilities of our region and state.

Guided by this mission EOU engaged in extensive long-range planning in 2016-17 that in May 2017 resulted in the production of the strategic framework, Ascent 2029.

EOU reaffirmed engagement with rural communities, particularly small schools in remote regions and local community colleges through its main campus and 16 regional centers in the western part of the state. Partnerships with other public universities ensure rural students have access to degrees in nursing, agriculture and criminal justice. In the last legislative session, EOU successfully made the case for niche designation as Oregon's rural university.

Stabilize on-campus enrollment, improve retention and increase diversity:

EOU's registration campaigns in partnership with high schools and community colleges resulted in an increase in on-campus student enrollment in Fall 2017 as well an increase in the applications for upcoming fall 2018. However overall enrollment in Fall 2017 continued to decline in tandem with declining online enrollment. Expanded recruitment focused on personalized high touch approaches and restructured advising to increase retention saw an improvement in FTFT students from 57% in Fall 2015 to 72% in fall 2016. In 2017 EOU kept tuition costs below a 5% increase, one of two public universities to do so. Efforts such as TRIO support services, communication material in Spanish and bilingual admission counselors to improve underrepresented student enrollment have delivered notable success especially for Latinx and Pacific Island/Hawaiian populations.

Contribution to 40-40-20:

The Eastern Promise dual credit collaboration coupled with Oregon Teacher Pathway program in that part of the state contribute to the state's 40-40-20 goals. EOU serves transfer students from community colleges and continues to play a key role in meeting the needs of transfer students who do not thrive at larger universities.

Program rationalization:

EOU restructured the College of Arts and Sciences into two smaller colleges to facilitate strategic programming and resource allocation. Planning at departmental levels is grounded in analysis of academic KPIs and aligned with strategic plan goals with regular program review to guide resource allocation. There is clear policy on course release time. Faculty load and course size are regularly monitored. Beginning in fall 2014 both metrics have generally been met or are trending in the right direction. The Academic Futures Council created in fall 2017, is charged with adding programs based on market data and economic forecasting that distinguish on the state's higher education landscape.

Over the period from 2015-2017 EOU has reaffirmed its mission, emphasized its programming niche as the rural university of the state and engaged in strategic planning to promote program rationalization and improved student recruitment and retention. HECC staff commends the efforts of leadership and campus community to make EOU a valuable player on the state’s higher education landscape.

2. Financial Viability

While HECC staff believes that EOU 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 EOU’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 EOU’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

EOU 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.

EOU Financial Ratio Summary				
Performance Metric	2016-17 Value	Conditions Benchmark	Pass/Fail	Trend
Primary Reserve Ratio	21.18%	5-7%	PASS	Stable
Debt Burden Ratio	3.47%	<7%	PASS	Stable
Current Ratio	1.28	2.00	FAIL	Increasing

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 EOU has demonstrably improved its financial position and durability.

Pro forma examination

EOU 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 EOU 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 EOU 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 EOU's Board of Trustees, administration, and faculty possess.

EOU'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. HECC staff did, however, note for EOU staff inconsistencies and inadvertent inaccuracies in financial reports provided to and approved by the Board of Trustees. HECC staff is confident that with care the occurrence of these errors can be eliminated and the quality of information provided to the Board of Trustees improved beyond the status quo, which itself represents a commendable improvement. In addition to improved reporting, 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.