Secretary of State Audit Report

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Oregon University System: Opportunities to Control Costs, Improve Student Outcomes, and Clarify Governance Structure

Summary

Leaders see a college education as a key to Oregon's future, and set a goal that by 2025 at least 40% of Oregonians will have a college degree, 40% will have an associate degree or technical skill, and the remaining 20% will have a high school degree or its equivalent.

However, a college degree is becoming more expensive for students, with resident undergraduate tuition and fees increasing 61% over the last decade when adjusted for inflation. Tuition increased in part to make up for reduced state funding and the increased compensation costs for university personnel. Nonetheless, Oregon's universities need to undertake a number of strategies to better understand and contain costs for students, better address the approximately 40% of students who fail to graduate within six years, and evaluate their longer term budget and enrollment strategies.

The objective of our audit was to identify opportunities to control the cost of attendance and improve outcomes at Oregon's public universities.

Governance and accountability need clarification

Clear governance structures and goals can reduce inefficiency, limit duplication of efforts, and improve accountability. Rather than ensuring effectiveness and efficiency, Oregon's current education governance structure risks creating confusion and a lack of accountability. There is overlap in roles and authority between the Oregon Education Investment Board, the Higher Education Coordinating Commission, and the State Board of Higher Education. In addition, there are three sets of overlapping performance measures with different reporting structures. As a result, the actual relationship between performance and funding is unclear, as is the entity responsible for monitoring performance and approving funding.

Tuition is an increasing source of funding

The Oregon University System (OUS) has a biennial budget of $5.2 billion divided among the seven universities, governing board, central administration, support services, and public services. Revenue for OUS comes from students, federal and state governments, sales and services, and other private and miscellaneous sources.

Funding allocated by the Oregon Legislature to OUS was $941 million in the 2001-03 biennium and decreased to $678 million in the 2011-13 biennium after adjusting for inflation and excluding capital. Nonetheless, between the 2001-02 and 2011-12 academic years resident tuition and fees increased more, in both percentage growth and actual dollar costs, than declines in state appropriation per resident student.

Oversight and control over tuition has been weakened by recent legislation. Prior to Senate Bill 242, OUS was required to seek approval from the legislature to spend tuition revenue they collected. After the Bill's passage in 2011, universities may keep and spend both tuition revenues and the interest earned on these revenues without requesting permission from the legislature. New controls on tuition increases were envisioned by Senate Bill 242 in the form of the Higher Education Coordinating Commission (HECC), performance compacts, and student involvement in the tuition-setting process. However, the current role and powers of the HECC are unclear and OUS administrators were unaware of HECC's potential role in setting tuition limits. Currently, student involvement occurs primarily through student government participation in university tuition-setting committees. The legislature can recommend limits to tuition increases through budget notes but, as before, universities are not required to adhere to these limits.

We also found a larger share of state dollars are dedicated to specific purposes such as university debt and Targeted Programs rather than enrollment funding. For example, Debt Service funds have increased substantially as a percent of total state funding, from 3% in the 2001-03 to 13% in the 2011-13 biennium. The debt increases are largely due to payments for new construction projects. Despite less funding for Targeted Programs overall, their share of Education & General funds increased from 21% to 28% between the in 2001-03 and 2011-13 bienniums.

In the 2011-12 academic year, the average budgeted cost of attendance for resident undergraduate students at OUS universities was $20,809. Living expenses remain the largest cost, comprising about 64% in 2011-12. In addition, many students require five or six years to graduate, or stop out with no degree while incurring costs.

Debt information is lacking for many students

We found that student debt for OUS graduates was on average 9% higher than the national average for the classes of 2005 through 2010, and increased about 6% over inflation during the past 6 years. However, these debt figures only represent the students who start as freshmen and graduate from an OUS university; the debt for those who do not graduate or start at another institution is not known.

Student aid is not always proportional to family income

While tuition has increased, we found that many students receive grant aid and scholarships, which reduce the net price paid. The Oregon Opportunity Grant (OOG) administered by the Oregon Student Assistance Commission (OSAC) is the state's largest need-based grant program. Due to insufficient funding, only an estimated 19% of eligible applicants received grants in 2011-13. In addition, we found that while students with lower family incomes receive grant aid and scholarships, the financial burden on them was greater than those with higher incomes.

Students and their families often borrow money to cover the cost of a college education. Federal loan programs provide about 65% of financial aid to OUS students, totaling $2.3 billion between 2003-04 and 2009-10. Parents of OUS students borrowed additional funds to finance their children's education, about $77.8 million in 2009-10.

Universities need to track education spending

Despite the increased tuition rates and higher spending by universities, educational spending per student has declined. The student-faculty ratio has increased from 25 in 2001-02 to 27 in 2010-11. While universities have improved administrative headcount ratios, current financial tracking and reporting makes it difficult to understand how many university resources are devoted to educational activities.

Tuition money may pay for non-instructional costs

Within universities, some colleges or departments generate less revenue than their expenses, while other programs generate surplus revenues. For example, departments offering core courses required for many students may bring in more revenue than their costs. Other departments that require more resources, such as laboratories, may operate at a loss. The nature of a university's mission may justify subsidizing programs that operate at loss, but effective financial and performance management requires evaluating programs for both quality and cost-effectiveness.

For example, we found that universities are subsidizing externally-sponsored as well as unsponsored research conducted by faculty members. University officials are aware that outside funds for supported research do not cover the full cost of administering that research, but they do not track the amount of money spent by the university to cover these costs, nor do they discuss this cost when reporting the amount of research money generated by each university.

Tenured and tenure-track faculty at Oregon State University (OSU), Portland State University (PSU), and University of Oregon (UO) are expected to conduct research, and non-sponsored costs are absorbed within the department budget. Universities do not track the amount of time that professors spend on research, teaching, advising, or other duties.

Financial reporting not useful for decision-making

Oregon universities have taken some steps to control costs but the efforts and results are varied. During the 2006-07 academic year, for example, Southern Oregon University (SOU) reduced 22 academic programs and cut 24 Full Time Equivalent (FTE) positions. Eastern Oregon University (EOU) went through a similar effort, cutting $3 million. Yet, both universities still face financial challenges.

Although individual universities keep detailed financial information, budget reports and analyses are not presented to decision-makers in a way that aids evaluation or financial management. For example, neither OUS Payroll nor OUS Institutional Research has the data available to link compensation costs to specific kinds of faculty such as tenured, tenure-track, or adjunct instructors. This means that the Chancellor's Office cannot analyze actual personnel cost trends in detail without working closely with individual universities. Universities themselves may be able to perform this analysis, but their multi-tiered budget process makes it difficult for them to enforce systematic decision making. This limits OUS's ability to evaluate and manage costs and performance, and make effective financial decisions. It also makes cost management more difficult for the universities.

Competition for non-resident students poses difficulties

All seven Oregon universities have embarked on efforts to enroll more non-resident students. However, the universities are at a competitive disadvantage when it comes to rankings, endowments, and research funding, all of which affect the ability to attract students and faculty.

Parents and students rely on university rankings by organizations such as U.S. News and World Report to help guide their decisions about where to apply and attend. OIT was ranked the 10th best regional college in the West by U.S. News and World Report and outranked most of its peer institutions. No other OUS universities ranked in the top 50 on either the U.S. News and World Report or the Forbes Best College Lists, and only UO and OSU were included in rankings of "Best Value" schools.

In addition, large endowments at other universities can provide more aid to students than Oregon universities, reducing the net cost below the advertised tuition. In 2011, The University of Oregon endowment, valued at $467 million, was ranked 155 out of over 800 U.S and Canadian institutions. OSU and PSU were ranked 165 and 621, respectively, and none of the regional universities were ranked at all.

The amount of research funding is another draw for prospective students, but none of Oregon's universities ranked in the top 50 universities, with OSU at 64, UO at 115, and PSU at 170. Recent studies conclude that university efforts are unlikely to improve their rankings significantly.

Past enrollment and funding trends may not continue

Oregon's universities have relied upon tuition increases and larger enrollments to help balance budgets, but changes in enrollment patterns, market competition, and state demographic projections pose some risks in the long term.

Oregon universities lose money on resident students, and as a result increasingly rely upon the higher tuition from non-resident students to help finance their operations. OUS universities admitted 3,900 more non-resident students in 2011-12 than in 2001-02. In the 2011-12 fiscal year, non-resident tuition was 37% of total tuition revenue, up from 27% in 1999-00. Oregon universities cannot continue to raise tuition and remain competitive.

Further, OUS universities do not know the full costs of increasing enrollment, particularly the cost of increased physical capacity needs or different costs associated with different kinds of students. OUS universities can estimate the cost to add a group of students to a department, but this estimate generally does not consider overhead costs of physical space. With debt for new construction taking a greater share of state general funds, space needs should be considered in decision-making about enrollment.

Universities cannot demonstrate that reliance on non-resident students is not displacing residents in Oregon's larger universities. Universities said that non-resident students are not taking the spots of qualified resident students. However, while universities still admit many more resident students than non-residents, admittance of non-resident students has increased while admittance of resident students has slowed and in some cases decreased. Regional universities appear able to accommodate increases in non-resident students, but some universities have acknowledged that they are increasing recruitment of non-resident students despite the fact that their campuses are currently at or over capacity. Both UO and OSU described themselves as at physical capacity. Some UO classes are taught in local churches for lack of space on campus.

Displacement of resident students may be a short-term issue because enrollment is forecast to flatten as the number of students graduating from Oregon high school slows. We found that the Chancellor’s Office does not analyze information about the demographics of admitted and non-admitted applicants. As a result, decision makers do not fully understand admittance patterns or the kinds of students who do and do not choose to attend OUS universities. This information could be helpful for decisions affecting enrollment, student outcomes, and competitiveness.

Need to monitor and assist students more likely to stop out

We also found that when Oregon universities accept applicants who are less prepared for college, the students are less likely to graduate. This may have personal and financial consequences to the 35% of students who stop out, and if these students fail to graduate, Oregon is less likely to achieve the 40-40-20 goal. Stop outs are students who leave the OUS system for any reason, including enrolling in a non-OUS institution. If these students stop out after taking out loans to attend school, they may have difficulty paying back the loans, particularly if they fail to earn a degree.

OUS institutions have continued to admit students whose GPA and SAT scores indicate that they are unlikely to graduate, without improving outcomes for these students. We analyzed the SAT scores, GPAs and outcomes for all students admitted as first-time, full-time freshman in both 1998-99 and 2005-06 and found that although UO and OSU had slightly better numbers, overall 30% of admitted students had a combined Math and Reading score below 1000, a score that is associated with lower likelihoods of graduating. We found that 41% of students with an SAT score between 700 and 999 stopped out within four years, while 53% of students with an SAT score of 400-699 had stopped out. Conversely, only 25% of students with SAT scores over 1300 stopped attending in the same time period. Some of these students may be continuing their college education elsewhere, but OUS does not routinely track this.

Outcomes need attention

OUS universities have steadily improved the number of degrees granted each year, and they increased their 6-year graduation rate from 55.4% to 60% between the 1999-00 and 2009-10 academic years. However, with the exception of UO and OSU, OUS six-year graduation rates are lower than average national graduation rates for similar institutions. University retention rates improved 4.5% in the eight years between 2001-02 and 2009-10, although significant numbers of students still stop out of school after the first year. OUS institutions do not report four-year graduation rates, but for students entering OUS as first-time, full-time freshman between 1998-99 and 2005-06, only 30% graduated in four years and only 53% graduated in five years. UOs four-year graduation rates were higher, with 42% of first-time freshman between 1998-99 and 2005-06 graduating within four years. OUS only tracks outcomes for students who begin as first-time, full-time students, meaning that performance metrics do not accurately represent the outcomes for the entire student body.

All OUS universities have initiated programs to boost student outcomes and some universities are already working to assess the effectiveness of student support services. Further development of systematic assessments of student learning, particularly those practices aimed at supporting at-risk students, could increase the universities' ability to efficiently and effectively boost student outcomes.

Recommendations

We recommend that the Legislature, the Boards and Commissions, OUS, the universities, and other higher education entities clarify their governance responsibilities. In addition we recommend OUS provide greater transparency in education costs and spending, better track and improve student outcomes, and make more efforts to control costs and reduce debt for all OUS students. Our detailed recommendations appear on page 70.

Agency Response

The agency response is attached at the end of the report.

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Background

Individual and societal benefits of higher education

Educational attainment has economic and social benefits for both the student and society. Graduates with at least a bachelor's degree are more likely to obtain a high-wage job because of their education. Workers with a bachelor degree will earn an average of $1.42 million over a 40-year career as compared to a high school graduate who will earn an average of $770,000. In addition to higher incomes, college graduates also have more savings, improved working conditions, greater professional mobility, and are more likely to be employed than those without a college degree.

These personal economic advantages translate to public benefits. Those with higher educational attainment generate increased tax revenue, have greater workplace productivity, spend more on consumer products, and are less likely to participate in government assistance programs. For example, Oregon college graduates pay 40% more in state and local taxes than the average high school graduate. Other social benefits of a college education include improved health, longer life expectancy, and improved quality of life for children of graduates. Higher education also results in reduced crime rates, increased charitable giving and community service, increased civic participation, greater social cohesion, and improved ability to use technology.

National decline in public funding of higher education

Public funding for higher education in the United States has been declining. Nationally, over the past decade, state appropriations to universities decreased 23% per student when adjusted for inflation. In response to state revenue shortages, universities shift more of the cost of college to students. With the increased cost, there has also been increasing attention to value for dollars spent. While federal student aid increased from 2008-09 to 2010-11 to offset declining state support and helped to keep net tuition cost down, the higher level of federal support is unlikely to continue due to federal budget shortfalls. Given the decline in public funding and the heightened awareness of student costs, controlling higher education costs is more critical than ever.

Other emerging trends affecting higher education

Higher education has been receiving considerable attention in recent years, with questions about its ability to respond to changing circumstances and public expectations. For example, the emphasis on outcome-based accountability is occurring in Oregon and other states, with an expectation of job-ready graduates. Technological innovations such as online courses and an international reach are creating challenges as well as opportunities for higher education, including increasing competition for students and their tuition dollars. Public and private colleges are also facing new competition from for-profit universities. In addition, economic and demographic forces will continue to create challenges, as affordability continues to be an issue for more students and there is the possibility of flattening university enrollment.

OUS and its governance structure

The Oregon State Board of Higher Education (Board) was formed by the legislature in 1929 to oversee Oregon's public colleges and universities, thereby creating a unified Oregon University System. In 1931 the Board hired its first Chancellor. Today, the Oregon University System (OUS) consists of the Chancellor's Office and seven public universities: Eastern Oregon University (EOU), Oregon Institute of Technology (OIT), Oregon State University (OSU), Portland State University (PSU), Southern Oregon University (SOU), University of Oregon (UO), and Western Oregon University (WOU).

The seven universities offer diverse educational experiences in different regions of the state. EOU, WOU, and SOU all offer liberal arts and professional programs in smaller regional settings. OIT is the Northwest's only polytechnic institution, offering programs in health technologies in both Klamath Falls and the Portland metro area. PSU's urban campus provides liberal arts and professional programs in a variety of areas. OSU is one of only two universities in the country to hold land, space, sea, and sun grant designations, and offers a variety of professional programs in areas such as agricultural sciences, oceanography, forestry, pharmacy, and veterinary science. UO, located in Eugene, Oregon, is a major liberal arts and science university that also offers a law school. The OUS legislatively adopted budget for 2011–2013 was $5.2 billion with $669.2 million in state General Funds.

The vision of the OUS System is to raise the educational aspirations and achievement for all Oregonians by providing lifelong education and knowledge development through teaching and learning; inquiry and innovation; and the application of knowledge to global, national, state, and local needs.

The strategic priorities for OUS are to increase educational attainment, invest in globally competitive research, and assure the long-term financial viability of OUS and its universities. The mission, goals, and priorities of OUS are carried out primarily through the efforts of the seven universities that comprise the system.

The Chancellor's Office acts as the coordinating office for the State Board of Higher Education and OUS. The Office's duties include developing and implementing Board goals and initiatives, and coordinating consolidated functions across campuses such as payroll, financial reporting, and information systems. Each university has a president who acts as the executive and governing officer of that university, as well as president of the faculty.

Recent changes to OUS governance structure

Legislative actions in 2011 have altered the goals, structure, and governance of higher education in Oregon. Senate Bill 253 redefined the mission of higher education in Oregon: to ensure that at least 40% of adult Oregonians have earned a bachelor's degree or higher; 40% have earned an associate's degree or post-secondary credential; and the remaining 20 percent or less have earned a high school diploma or the equivalent by 2025. OUS is charged with helping meet these goals by awarding bachelor's degrees.

Senate Bill 242 made fundamental changes to OUS. These included eliminating its designation as a state agency and exempting OUS from state laws affecting state agencies, allowing the possibility of offering alternatives to public employee health benefits, and permitting the purchase of property and capital construction without consulting the legislature, as long as state funds are not required.

Senate Bill 242 also created the Higher Education Coordinating Commission (HECC) charged with coordinating post-secondary education policy between OUS and community colleges. HECC is also responsible for developing state goals and accountability measures for post-secondary education in Oregon, and a plan to meet these goals. Last, HECC is authorized to evaluate, recommend or make changes to institutional missions, finance models and tuition rates, and to recommend future higher education biennial budgets and state appropriations to universities.

Senate Bill 909 created the Oregon Education Investment Board (OEIB) to oversee a unified public education system from early childhood services through post-secondary education, with the purpose of ensuring that all public school students in the state reach the 40-40-20 goal. The Board directs the newly established Chief Education Officer who, according to statute, has authority over both the OUS Chancellor and the Executive Director of the Higher Education Coordinating Commission.

The 2013 Oregon Legislative Session may bring more change to Oregon's higher education governance structure. A special legislative committee on university governance, created during the 2012 legislative session, has drafted legislation regarding the creation of individual institutional governing boards, separate from the State Board of Higher Education, for some universities within OUS. The draft legislation of institutional board powers includes tuition-setting within certain limits, appointment and termination of university presidents, and hiring of faculty.

Setting tuition rates

OUS universities have similar tuition-setting processes. Each university has one or more committees responsible for recommending tuition and fee levels. These committees include students, faculty, and administrators. When recommending tuition levels, the committees have access to some or all of the following information:

- Enrollment projections
- Tuition at competitor schools
- Expected state appropriation level
- Current and expected revenues and expenditures
- The university's strategic priorities or major projects

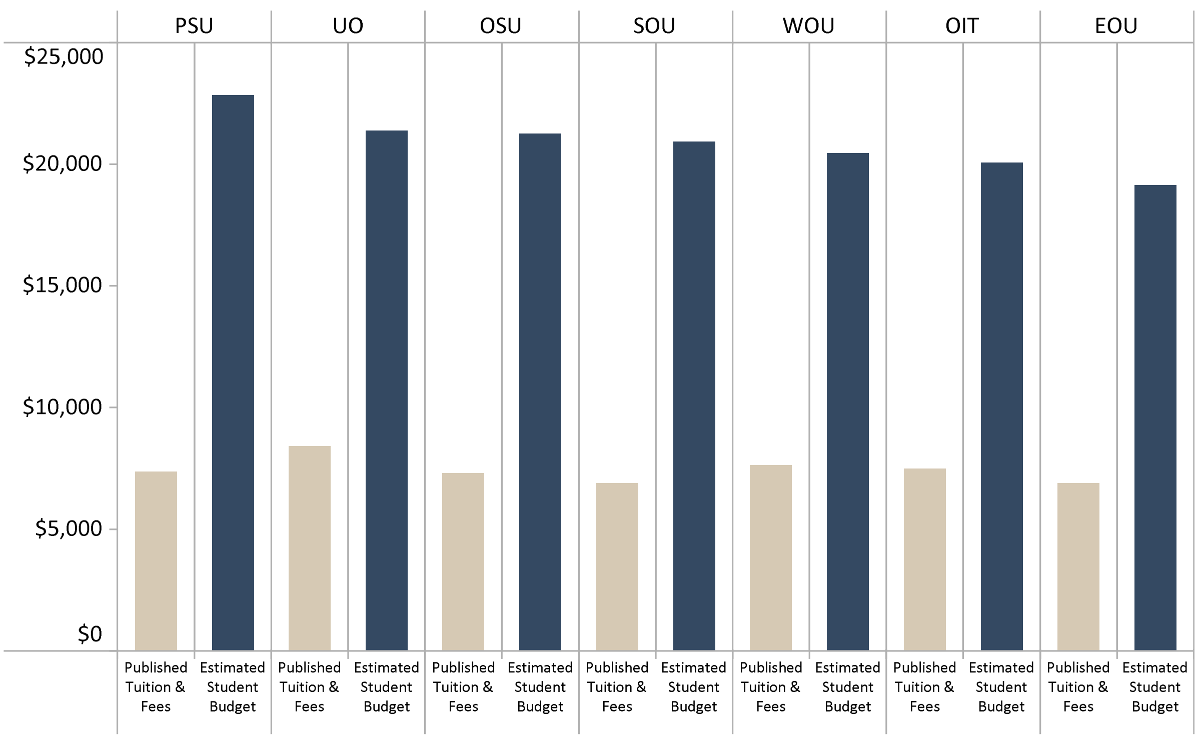
The committees' tuition recommendations are forwarded to their president or provost, who reviews the recommendations, discusses them with the committee, and makes changes they think are necessary. At Eastern Oregon University, the president also serves as a non-voting member of the tuition-setting committee and is therefore involved in creating the initial tuition recommendation. At Southern Oregon University, there are several committees that consider tuition levels, all of which approve the recommendation before it goes to the president, who has final say. The president then submits the recommendation to the OUS Chancellor's Office, who can also change the recommendation. The recommended tuition levels are then presented to the State Board of Higher Education for ultimate approval.

SB 242 requires that each university involve both individual students and student government in the tuition-setting process. Currently, student involvement occurs primarily through student government participation in university tuition-setting committees. The Oregon Student Association, a non-profit organization dedicated to affordable and accessible higher education, also works to ensure that tuition levels remain affordable for Oregon students.

Cost of Attending an Oregon University

The total cost of attending college is estimated by each university and published as a student's budgeted cost of attendance for an academic year. In addition to tuition and fees, students also have living expenses, such as room and board, books, supplies, and personal expenses which are included in the budget. The average published cost of attendance for resident undergraduate students at OUS universities was $20,864 for the 2010-11 academic year, which is comparable to the national average for public four-year institutions of $20,842. Figure 1 shows the total cost of attendance, or student budget, for each university along with the estimated tuition and fees, included in the total cost of attendance. Tuition and fee increases have outpaced increases in living expenses within the student budget and now comprise a larger portion of the overall estimated cost of attendance than previous years. However, living expenses still make up the largest portion of the cost of attending college.

Figure 1: Estimated Cost of Attendance for Resident Students, 2010-11

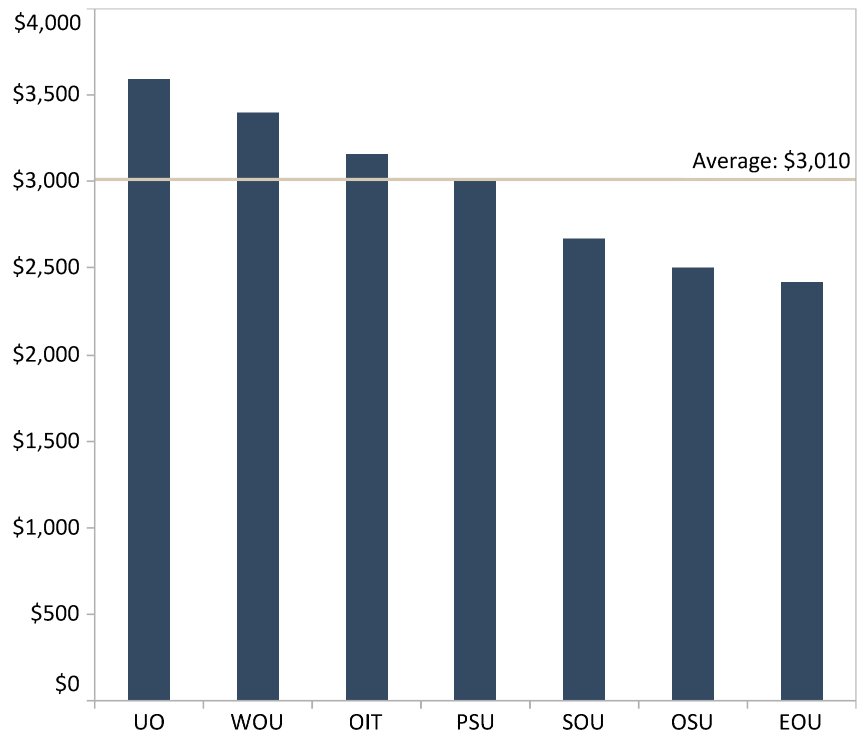


Source: OUS Institutional Research. Adjusted for constant (2012) dollars.

Tuition has increased faster than the rate of inflation

OUS tuition and fees are increasing faster than the rate of inflation for all undergraduate students. However, tuition and fees for resident students increased at a higher rate than non-resident students. Resident undergraduate students saw a 61% increase between the 2001-02 and 2011-12 academic years when adjusted for inflation. This represents an average yearly increase of 4.9% above the rate of inflation, which is slightly lower than the national average yearly increase of 5.6%. Non-resident students saw a 41% increase during this same time with a larger overall dollar impact – $6,735 compared to $3,010 for Oregon residents. In 2011-12, OUS average tuition and fees was $7,956 for residents and $24,734 for non-residents.

Figure 2: Increase in Resident Tuition and Fees, 2001-02 to 2011-12



Source: OUS Factbook. Adjusted for constant (2012) dollars.

The State Board of Higher Education has traditionally set annual fees based on recommendations from the institutions and OUS Chancellor. Students are assessed mandatory fees that ranged from $1,236 to $1,626 for full-time undergraduate students for the 2011-12 academic year. The fees pay for things such as educational, cultural and student government activities, supporting the institutional health service centers, and financing debt service for student centers, health centers, and recreational facilities. In addition to these mandatory enrollment fees, students also pay one-time fees, such as a matriculation fee and lab fees for instructional related services.

Living expenses make up the largest share of the cost of attendance

Over the past 25 years, living expenses have been the largest portion of the estimated cost of attendance at OUS, comprising 64-75% during the 1987-88 and 2011-12 academic years. For this analysis, living expenses are everything except tuition and fees, and include room and board, books, supplies, and other personal expenses.

In 2011-12, the average budgeted cost of attendance for resident undergraduate students at OUS universities was $20,809. Living expenses accounted for 64% ($13,251), while tuition and fees accounted for 36% ($7,558). This is comparable to national averages for public four-year universities, where living expenses averaged 65% and tuition and fees averaged 35% between 2005-06 and 2010-11.

Student choices can increase or decrease living expenses from what is estimated in the student budget. Room and board is the largest single expense, larger than tuition and fees. For students living on campus, the residence hall, meal plan, and number of roommates can dramatically affect the cost of room and board. On campus living options ranged $7,312 to $17,209 at OSU and $8,726 to $16,835 at UO for the 2011-12 academic year. Student choices on personal expenses, such as eating out, transportation, and travel can increase or decrease costs. While living at home can reduce living expenses, research indicates that living on campus for the first year improves grade point averages, retention and completion, and student development.

Other student choices can affect the cost of attendance

In addition to choices regarding living expenses and debt, students make academic choices that affect their cost of attendance. For example, students pay tuition per credit hour. Taking an extra year to graduate, unnecessary credits, repeating courses, or failing classes increases the cost to obtain a degree. Some degree programs charge differential tuition, a higher rate than the base undergraduate tuition rate, which can also contribute to increased costs.

In addition, students who choose to attend full-time pay less in fees over their college careers than those who attend part-time and therefore take longer to earn a degree. For example, an undergraduate attending OSU full time for the traditional four years (12 terms) would pay $6,065 in fees, based on 2011-12 rates. A part time student graduating in 20 terms would pay $10,110, an additional $4,045. These amounts are likely understated as fee rates typically increase over time.

Admitting students who need remedial classes can increase degree cost

Remedial courses, which do not count toward degree requirements, increase the cost to obtain a degree. In the 2012-13 academic year, it costs OSU students $555 to take one three-credit remedial math class; at UO it costs resident students $712 for a four-credit class.

Between 2001-02 and 2011-12, the percent of all OUS undergraduate students enrolled in remedial math or writing remained between 3% and 4%. In 2011-12, there were 3,228 undergraduate students taking 14,299 credit hours of remedial math or writing. The number of first-time students from Oregon high schools enrolled in remedial math or writing remained similarly consistent averaging 1,028 (13.6%) students per year, over the 10 year period.

However, more students appear to be taking multiple remedial classes, such as both elementary and intermediate algebra. The number of remedial credit hours per student shows an upward trend since 2008-09. Among the universities, EOU and WOU have a noticeably higher percent of undergraduate students enrolled in remedial courses, with higher average credit hours per remedial student, indicating students at these universities, on average, need more preparation for college level courses than at other OUS institutions.

Published tuition may be more than the net price paid by the student

The net price of attending college is the published price minus grant aid, scholarships, and federal education tax credits and deductions. This amount, which varies depending on student circumstances, is the amount actually paid through personal assets and/or debt. In a 2012 national report, the College Board reported that only about one-third of full-time students pay the full published tuition price with no grant assistance. Roughly one-third of OUS students received grant aid in 2009-10, lowering their net price of attendance.

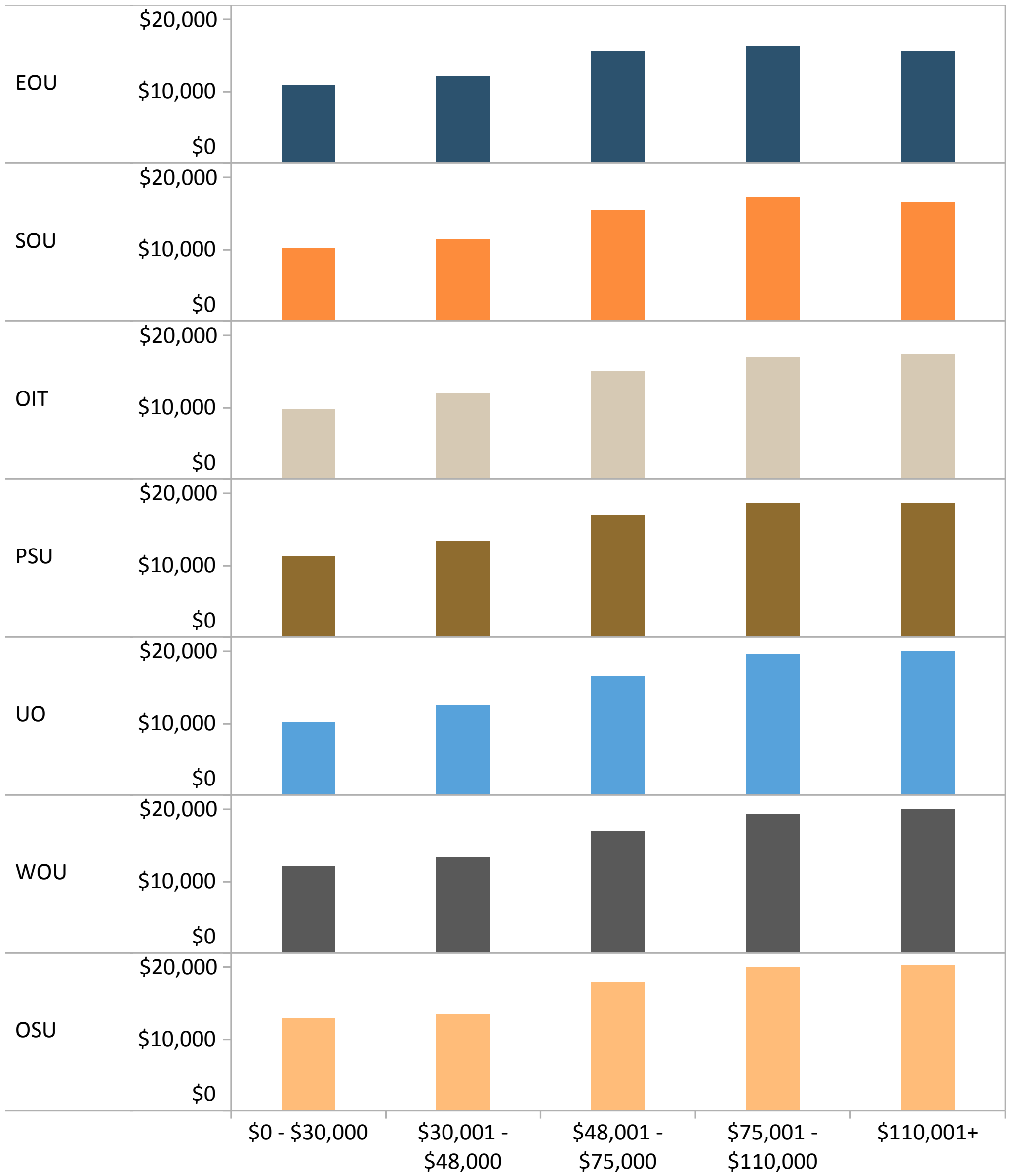
Figure 3: Net Price

	Cost of Attendance
–	Student aid
=	Net price

Information on the net price of attendance is relatively new. Since 2006-07, the U.S. National Center for Education Statistics collects and reports on net price of attendance in its IPEDS data center. OUS universities, along with other post-secondary institutions participating in Title IV federal aid programs, are required to post an online net price calculator as of 2011 so students can calculate their estimated costs. However, students do not know their actual net price until they apply and receive a financial aid package.

The Education Trust, an advocacy group promoting high academic achievement for all students at all levels, examined the amount of annual family income required to finance a college education at multiple income levels. The Education Trust, in its evaluation of financial aid for low income students, identified as a key policy for influencing college aspirations, access, and success, that an institution's lowest income students should contribute no more than middle-income students do as a proportion of their annual family income. However, the Education Trust found low income families had to pay or borrow 72% of their family income to attend a four-year college, while middle class students had to finance 27%, and high-income students just 14%. This finding is consistent with pricing at OUS universities, where families with higher incomes pay a higher net price, but families with the lowest incomes contribute the highest percent of their income toward attending college. Figure 4 depicts the average net price at each university by family income level. The average net price for students from middle income families ($48,001-75,000 per year) at OUS universities ranged from 20% to 37% of income for the 2010-11 academic year. Oregon median family income during this time was $60,076.

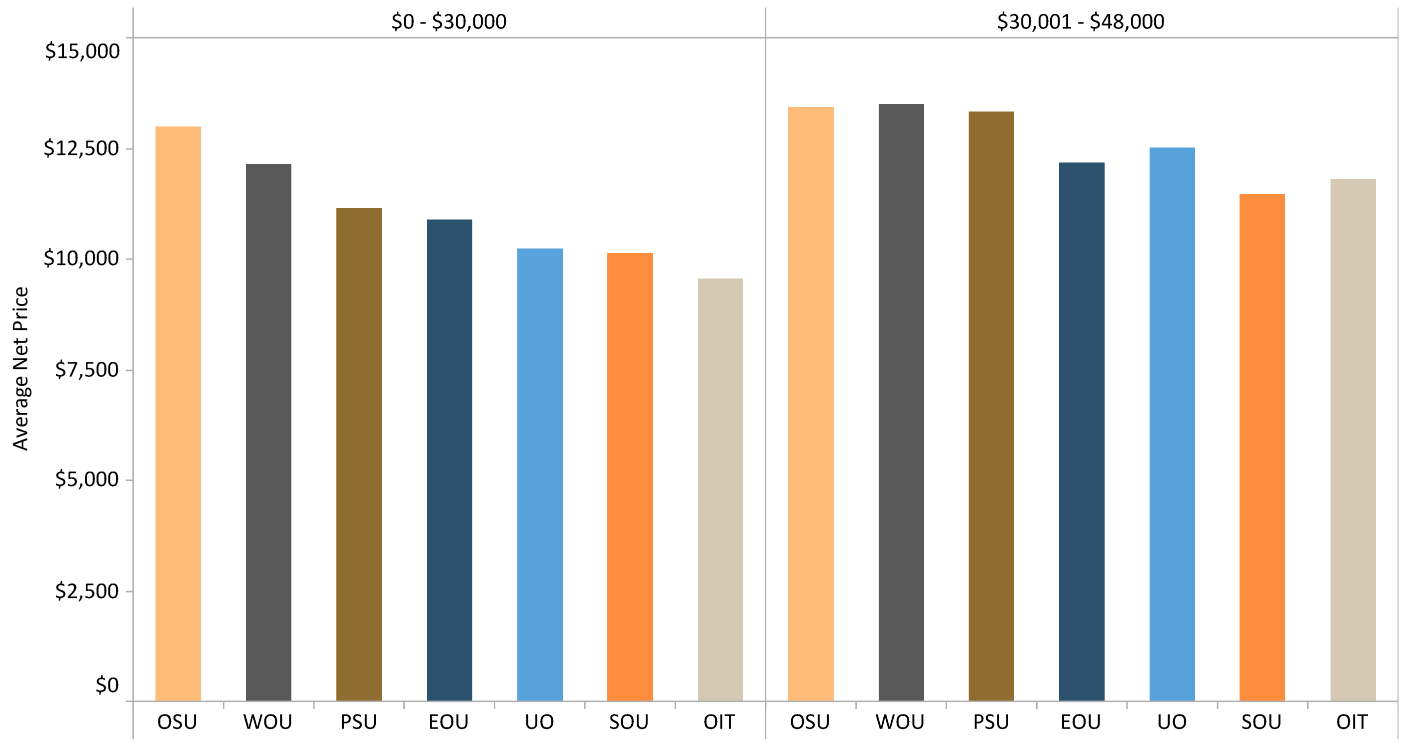
Figure 4: Average Net Price of Attendance by Income Level and University, 2010-11



Source: The National Center for Education Statistics Integrated Post-Secondary Data System. Title IV students. Adjusted for constant (2012) dollars.

The heaviest burden falls on those with the least means to pay. Figure 5 depicts the average net price at each university for the lowest income levels. An individual or family living on wages from a full-time minimum wage job falls into the lowest income bracket ($0-30,000). In 2010-11, the average net price for OUS universities was 60% of the wages for an individual working a full-time minimum-wage job. However, within the universities there is considerable variation. Students attending OIT had the lowest average net price, while those attending OSU had the highest, 52% and 71% of a full-time minimum wage job, respectively.

Figure 5: Average Net Price of Attendance for Lowest Income Levels by University, 2010-11



Source: The National Center for Education Statistics Integrated Post-Secondary Data System. Title IV students, adjusted for constant (2012) dollars.

Audit Results

The objective of our audit was to identify opportunities to control the cost of attendance and improve outcomes at Oregon's public universities.

Governance and Authority Over Higher Education Needs to be Clarified

Effective governance and oversight enables policymakers to monitor how efficiently and effectively the higher education system is meeting the state's needs, and make changes to improve performance. Effective governance requires creating and monitoring performance objectives that are linked to state goals, financial policies that incentivize education productivity, and clear lines of accountability. Conversely, weak governance and lack of clear goals can lead to inefficiency, duplication of efforts, and limited accountability.

Rather than ensuring effectiveness and efficiency, Oregon's current education governance structure risks creating confusion and a lack of accountability. The multiple higher education governance structures created or altered in the 2011 Legislative session have resulted in overlapping authority. Although the OEIB is statutorily responsible for overseeing Oregon's public education system and ensuring that the state meets the 40-40-20 goals, responsibility for specific aspects of these goals is currently scattered among various bodies and institutions. There are overlapping responsibilities between the OEIB, the HECC, and the State Board of Higher Education, and three sets of overlapping performance measures with different reporting structures. As a result, the actual relationship between performance and funding is unclear, as is the entity responsible for monitoring performance and approving funding.

For example, Senate Bill 242 states that HECC should receive and approve funding requests from the State Board of Higher Education. However, OUS said that the OEIB has directed OUS to submit funding requests to OEIB. In the most recent budget cycle, OUS submitted a funding request to the Oregon legislature as they have done in the past, while also submitting a separate funding request to the OEIB. OUS did not send a funding request to HECC.

Senate Bill 242 also requires the State Board of Higher Education to enter into performance compacts with HECC. The bill included performance compacts to provide accountability for OUS once OUS was no longer a state agency. Performance compacts are agreements between the State Board of Higher Education and the State of Oregon to achieve certain performance targets in exchange for funding. According to statute, the performance compacts must be submitted to HECC with biennial funding requests as a condition for state appropriations, and the compacts must address tuition affordability for students. When SB 242 was developed, OUS created a draft performance compact, but the specific performance measures have not yet been formalized.

After SB 242 passed, Senate Bill 1581 was passed, requiring all public education entities to enter into achievement compacts with the OEIB. Similar to performance compacts, achievement compacts are intended to connect student achievement to funding, and are envisioned as partnership agreements between the state and its education institutions. Achievement compacts for OUS have been submitted and approved for the 2012–13 academic year. The compacts focus on completion of bachelor's degrees, employment outcomes, and partnerships with high schools and community colleges. Although achievement compacts appear to have been designated as the preferred accountability measure for OUS, compacts are not currently tied to State funding and university leaders are unsure of the consequences if universities meet, exceed, or fail to reach their achievement compact targets.

Achievement compacts do not include many of the measures analyzed in this report that OUS has historically reported to the State Board of Higher Education. After SB 1581 passed, OUS attempted to modify its draft performance compact to incorporate both achievement compact measures, and other performance measures currently reported to the State Board of Higher Education. However, the draft performance compact has not been finalized. Currently, OUS reports its performance in separate reports to the OEIB, The State Board of Education, and the Oregon Department of Administrative Services. These multiple reports create confusion around educational goals and accountability for performance.

OUS Revenues

Revenue sources and trends

OUS has a biennial budget of $5.2 billion divided among the seven institutions, governing board, central administration, support services, and public services. Revenue comes from student tuition, federal and state government, fees, sales and services, indirect cost recovery on grants, and other private and miscellaneous sources. Universities that participate in programs under the Higher Education Act of 1965 report their financial and student information to the federal government in a uniform way. Revenue sources include the following functional classifications:

- Student tuition and fees
- Government appropriations
- Grants and contracts from federal, state, local, and nongovernmental sources
- Sales and services of educational departments
- Auxiliary revenue
- Other revenue including designated operations

Unless otherwise stated, revenues and expenditures are reported by fiscal years beginning on July 1st. Fiscal years are referred to by the last year of the fiscal period.

In 2011, the largest source of revenue for OUS was student tuition and fees. As shown in Figure 6, in constant (2012) dollars, student tuition and fees increased from $482 million in 2003 to $741 million in 2011 due to increased enrollment and higher tuition and fees. Revenue from student tuition and fees has increased annually since 2003 except for a slight decrease in 2007. Fees are those associated with education and do not include housing costs.

Government appropriations include State General Fund, Lottery funding, Harvest Tax, federal appropriations, and county appropriations. In the 2003 fiscal year, government appropriations were $464 million and declined to $398 million in 2011. In fact, government appropriations have decreased every year in the last decade except for slight increases in 2006, 2007 and 2008. For the 2009-11 biennium, OUS also received federal stimulus funds as part of the American Recovery and Reinvestment Act.

Grants and contracts originate from a variety of sources, including federal, state, local, and nongovernmental entities. Operating grants and contracts are restricted and can only be used for their intended purpose. Most operating grants and contracts for OUS are federal research grants.

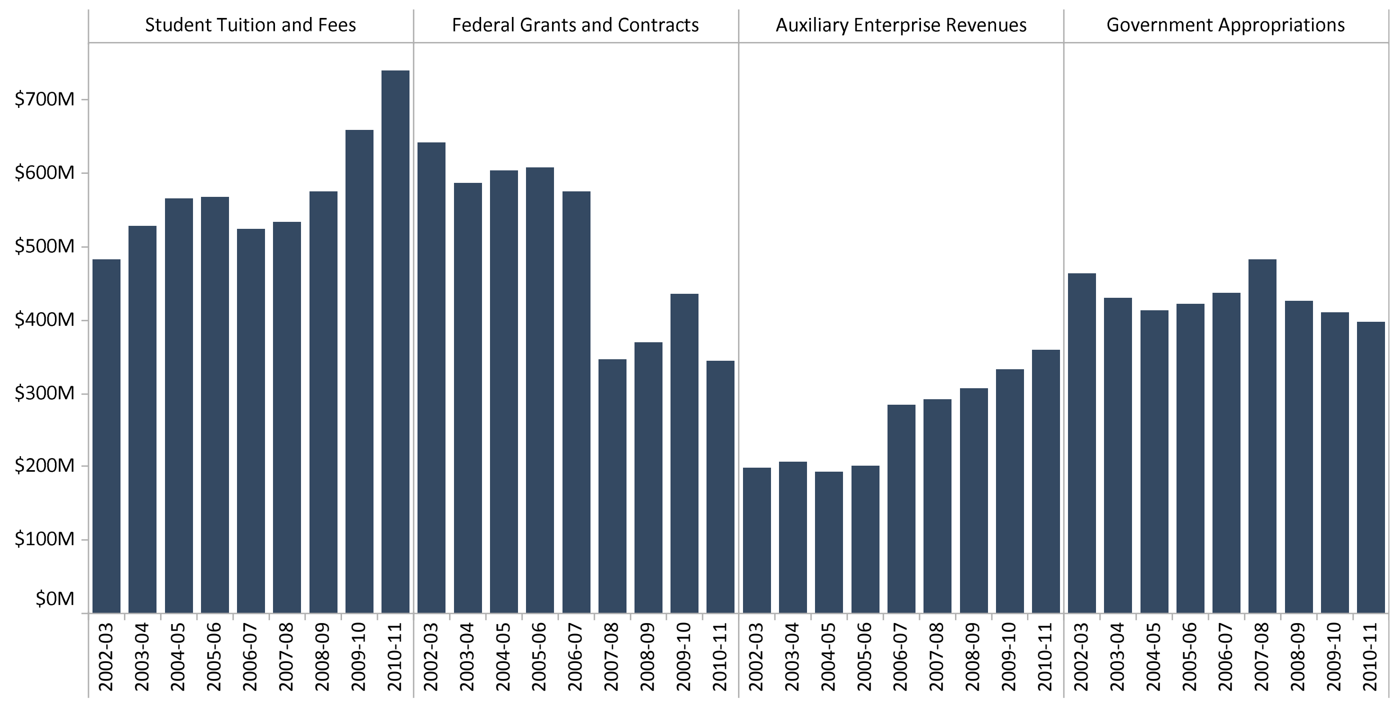
Revenue from federal grants and contracts exceeded $574 million in fiscal years 2003 through 2007 and then declined sharply. OUS attributed the change beginning in 2008 to an accounting reclassification of student loan funds from federal grants and contracts revenue to agency funds. Average annual federal grants and contracts revenue was $502 million from 2003 to 2011, starting at $641 million and declining to $345 million as shown in Figure 6. Revenue from state and local grants and contracts has varied over time as shown in Figure 7, averaging $39 million annually. Nongovernmental grants and contracts generated $43 million in annual average revenue between the 2003 and 2011 fiscal years.

Revenue from sales and services through educational departments remained between $58 and $71 million between 2003 and 2011. The average annual revenue from educational department sales and services during this period was $64 million.

Auxiliary enterprise revenue includes student incidental fees, health service fees, revenue from dormitories, athletics, food service, student centers, book stores, and parking. Auxiliary enterprises are designed to be self-supporting. Revenue from auxiliary enterprises increased each year since 2006 and averaged $263 million during the last decade.

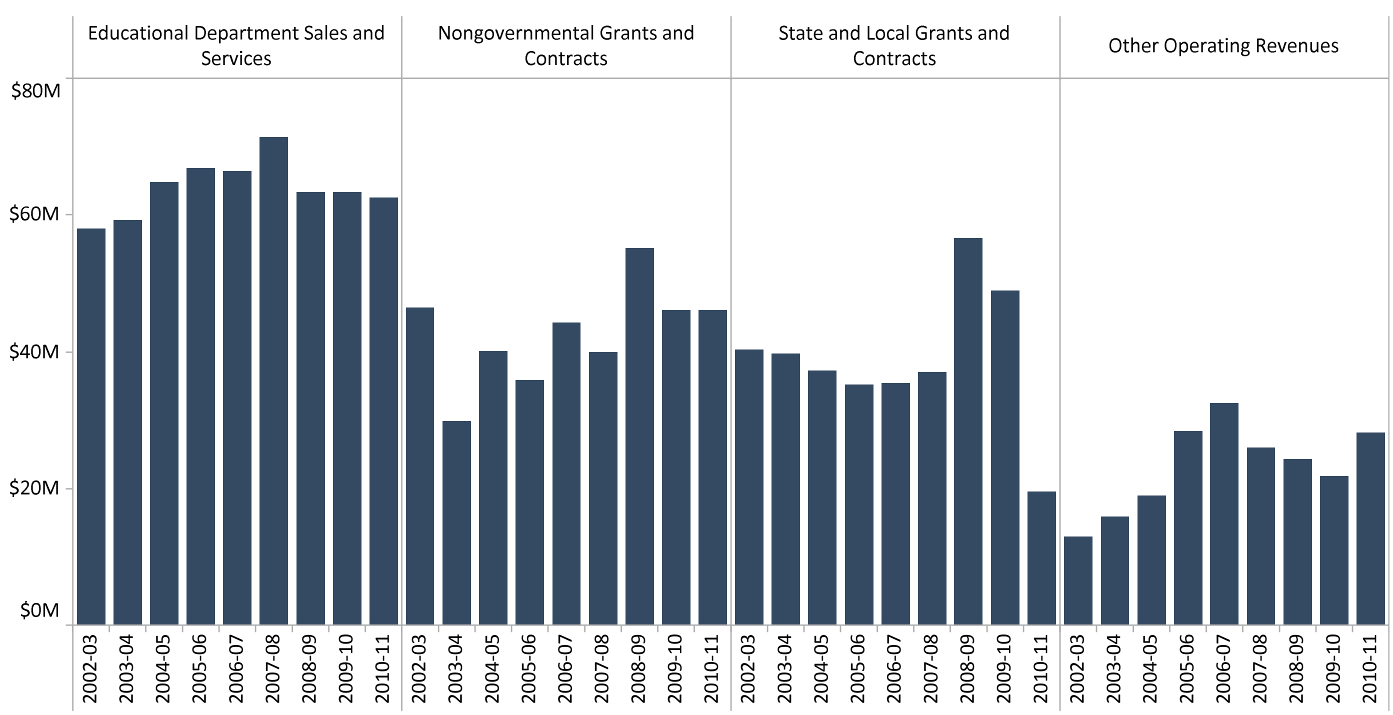
Additional revenue is collected from designated operations including non-credit continuing education, self-supporting instruction, unrestricted gifts, user fees and special equipment or facility users' fees. Combined, these other revenue sources bring in approximately $23 million per year.

Figure 6: Major Revenue Sources for OUS, 2002-03 to 2010-11



Source: OUS Audited Financial Statements for FY 2003-2011. Auxiliary Enterprise Revenue and Student Tuition and Fees are net of scholarship allowance. Government Appropriations for 2009 and 2010 include State Fiscal Stabilization Funds as part of the American Recovery & Reinvestment Act. Due to changes in accounting principles, 2011 excludes financial aid related grants. Per OUS, declines in federal grants and contracts revenue are due to an accounting reclassification of funds beginning in 2008. Adjusted for constant (2012) dollars.

Figure 7: Additional Revenue Sources for OUS, 2002-03 to 2010-11

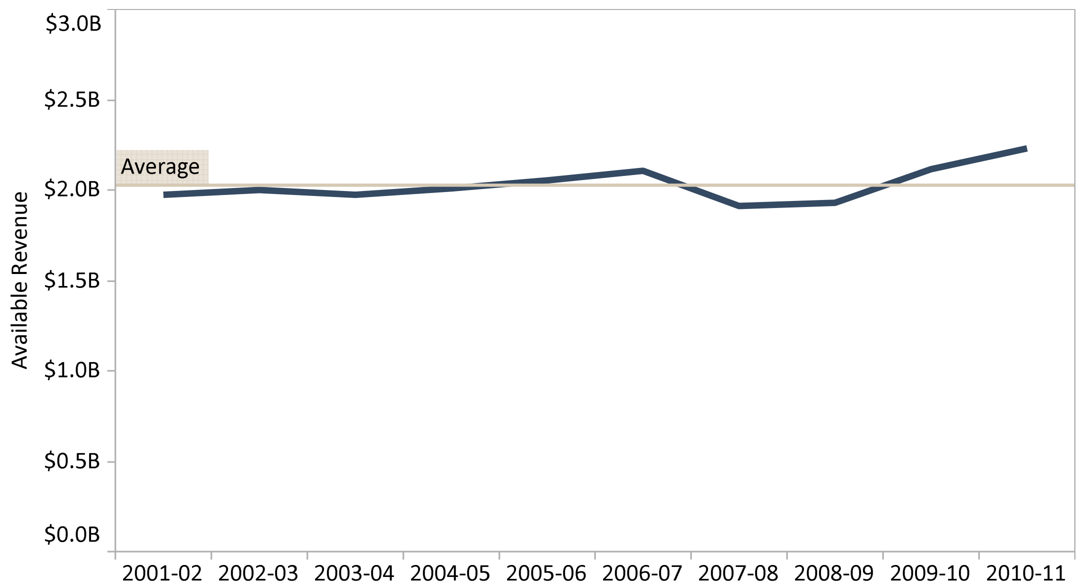


Source: OUS Audited Financial Statements for FY 2003-2011. Adjusted for constant (2012) dollars.

Total available revenue increased for large OUS universities, declined for others

Available revenue for OUS rose every fiscal year from 2003 to 2011, except for slight drops in 2004 and 2008 (see Figure 8). Available revenue includes all operating and non-operating revenue, which excludes capital appropriations, capital grants and gifts, capital contributions, and additions to permanent endowments. Total available revenue averaged about $2 billion per year over this period in constant (2012) dollars.

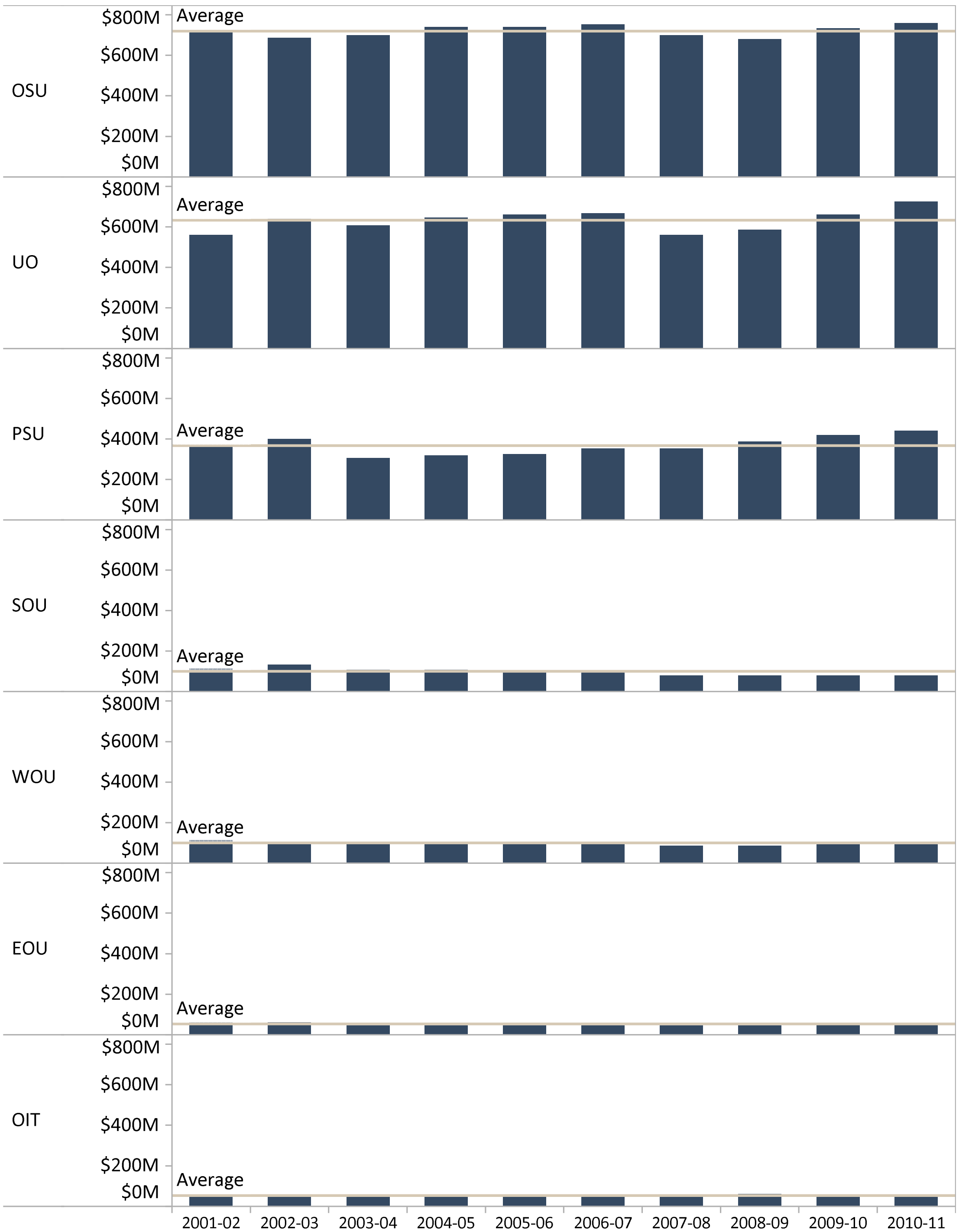
Figure 8: OUS Total Available Revenue Adjusted for Inflation, 2001-02 to 2010-11



Source: OUS Audited Financial Statements for FY 2002-2011. Adjusted for constant (2012) dollars.

Available revenue varies by OUS university. OSU, UO, and PSU have significantly more available resources than the other four OUS universities, shown in Figure 9. OSU had the most available revenue with $725 million on average from 2003 through 2011, followed by UO with $634 million. EOU and OIT had the least available revenue with $49 and $52 million on average respectively for the same period.

Figure 9: Total Available Revenue by University, 2001-02 to 2010-11



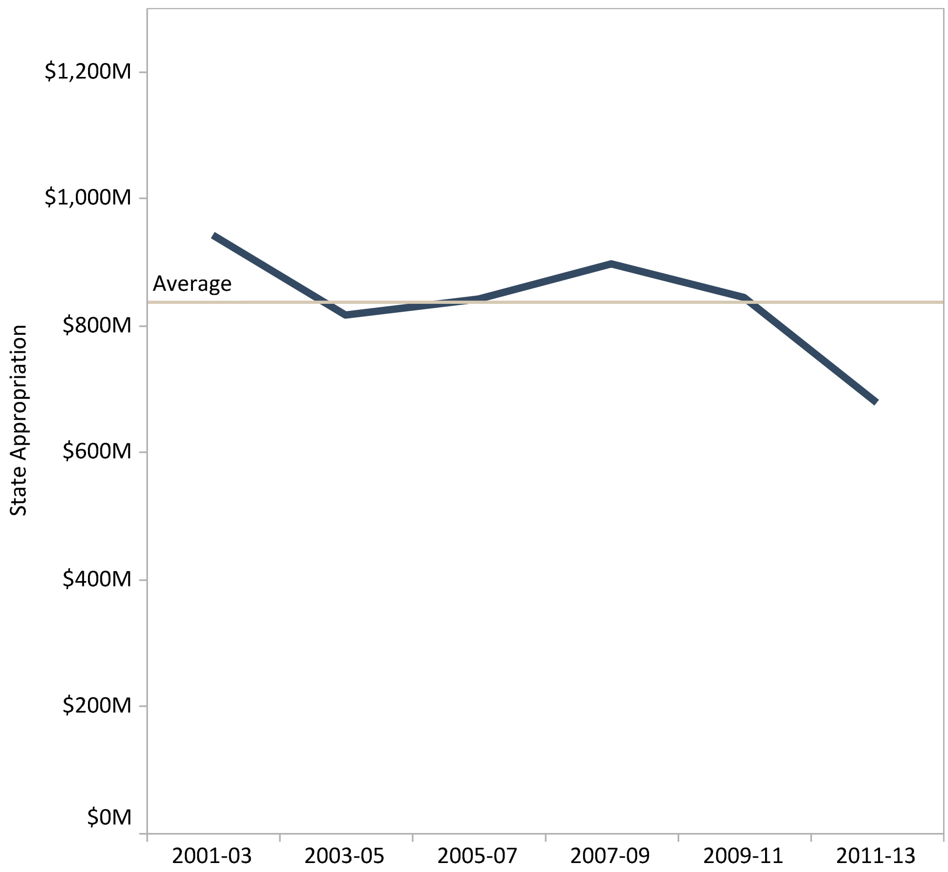
Source: OUS Audited Financial Statements for FY 2002-2011. Adjusted for constant (2012) dollars.

State appropriation to OUS has declined

The significant decline in public funding for higher education is both a national and state trend. As shown in Figure 10, the State of Oregon's appropriation for OUS declined 28% from $941 million in the 2001-03 biennium to $678 million in the 2011-13 biennium, adjusted for inflation and excluding capital construction. Despite a 3% increase in the 2005-07 biennium and a 7% increase in the 2007-09 biennium, overall state appropriations have declined. In addition, some of the increase in the 2007-09 biennium was due to funds awarded as part of the American Recovery and Reinvestment Act. Federal dollars were reported as state appropriation, bolstering the appropriation for 2007-09 and 2009-11.

Similarly, OUS's share of the state General Fund decreased dramatically, from 15% for the 1987-89 biennium to less than 7% for the 1995-97 biennium. OUS's share increased slightly in the 2001-03 biennium, but declined to just over 6% in the 2009-11 biennium.

Figure 10: Adjusted State Appropriation by Biennium, 2001-03 to 2011-13



Source: OUS Budget Report Summaries compiled and provided by OUS. Data excludes Capital Construction. Adjusted constant (2012) dollars.

State funding is not based on enrollment

Each biennium, OUS submits three different types of requests for consideration by the governor and legislature: 1) operating budget requests for Current Service Level and new General Fund funding, also known as Policy Option Packages, 2) capital budget requests, and 3) funding requests for other statutory changes. The Current Service Level budget is calculated based upon the budget necessary to continue previous program levels forward through the next biennium. Any new program funding is requested through a Policy Option Package. Past packages have included requests to pay for enrollment growth or to sustain or implement new programs.

OUS receives State General Funds appropriated by the Oregon Legislature on a biennial basis for these areas:

- Education & General Funds (E&G)
- Statewide Public Services
- Debt Service Funding

Most of OUS's appropriated General Fund dollars are designated to the E&G Fund, which covers instruction, research, public service, operating costs, and related support services for students and faculty at each of the seven OUS institutions. The E&G Fund also covers centralized administrative services and support services for the system. However, the majority of the E&G Fund is comprised of student tuition and fees. The fund is also supplemented with indirect cost recovery from sponsored research. Statewide Public Services funding is comprised of separate appropriations for three land grant programs. Debt Service funding covers debt-related costs for general obligation and lottery bonds and other debt issued in coordination with the state.

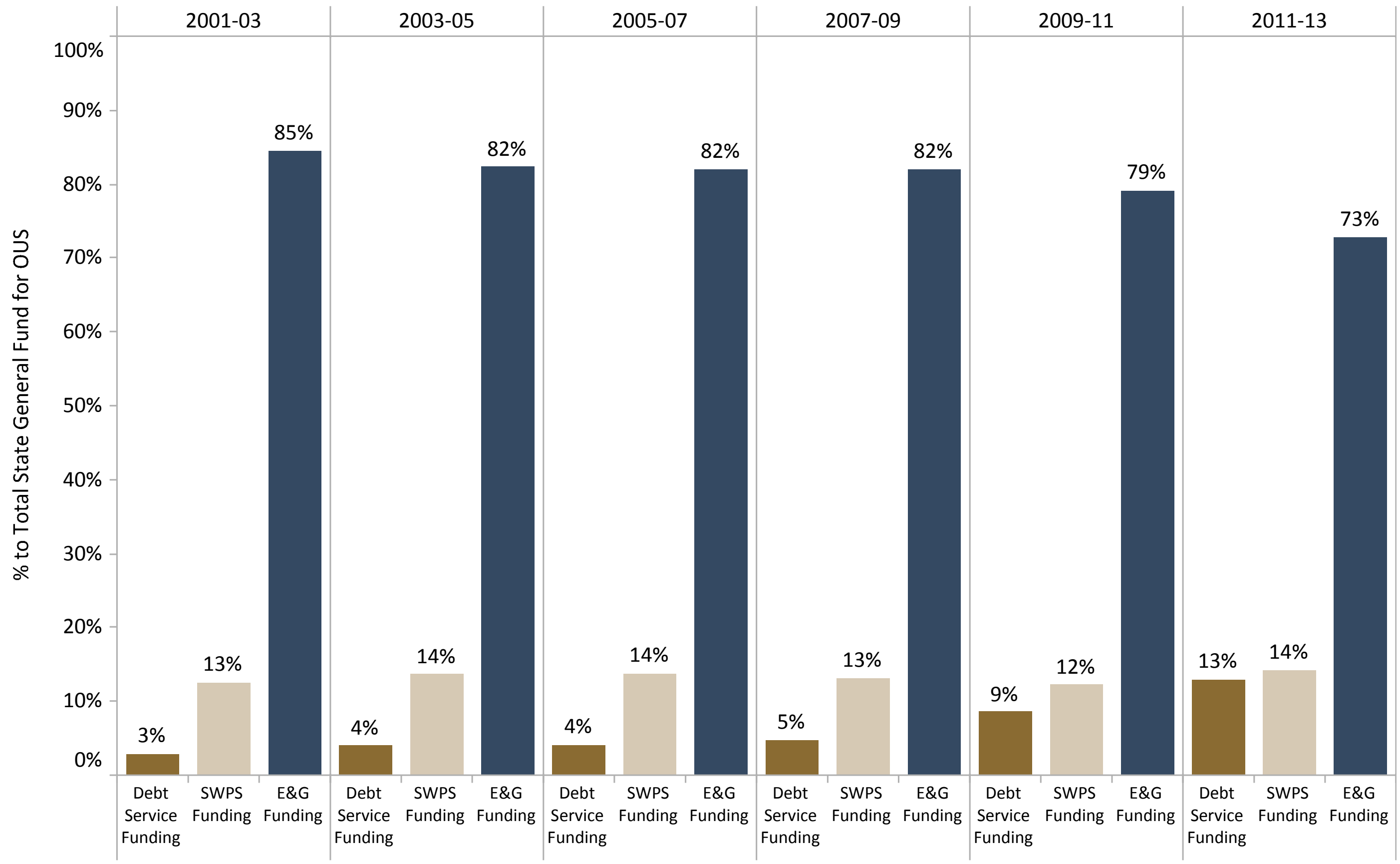
In 1999, the State Board of Higher Education adopted the Resource Allocation Model (RAM) that was intended as an enrollment-based methodology to both request state funding and allocate that funding to each of the seven OUS universities. The RAM is a formula based on the average cost to educate students at comparator universities and the amount of "fundable" student Full Time Equivalents (FTEs) projected to attend OUS. "Fundable" students are primarily residents, with some other categories including students from nationally recognized tribes or students enrolled under specific reciprocity agreements with other states. However, the RAM formula has not been fully funded by the legislature since its adoption in 1999. As a result, the OUS budget requests are not related to the RAM formula. OUS does use the RAM formula to allocate funding.

The state appropriation is allocated to two areas: enrollment-based funding and Targeted Programs. Enrollment funding is given to campuses to subsidize student instruction. Targeted Programs generally originate from the Oregon Legislature or the Oregon State Board of Higher Education. For the 2011-13 biennium, about half of the 30 targeted programs were created by legislative action and half were created by Board direction. Targeted Program funds can be designated for programs at one or more universities, or for strategic initiatives involving the Chancellor's Office. Examples of targeted programs created by the legislature include the health professions programs established to address workforce shortages, a rural access pilot project to increase rural college attendance, and regional support to help achieve financial stability at the five regional campuses.

As a result of the overall amount of the state appropriation and the order of the allocation, the enrollment-levels for the universities have not been fully funded since the RAM model was adopted in 1999. During the allocation process, funding for Targeted Programs is distributed first. The remaining state appropriation is allocated for enrollment funding to the seven campuses using the RAM model and other guidance from the governor and legislature. Since enrollment funding is allocated last, and the RAM has not been fully funded since its adoption, the level of enrollment funding is generally decreased to match the available dollars. This allocation provides the basis for the OUS institutions' annual budgets for each year of the biennium.

The distribution of state appropriation for the E&G Fund, Statewide Public Services, and Debt Services has shifted over time. The E&G portion of total state General Fund appropriation decreased from 85% in the 2001-03 biennium to 73% in 2011-13. While the enrollment-based portion of E&G funding was designed to keep pace with actual student enrollment, it has declined from the 2001-03 level despite higher enrollment. As a result, the enrollment-based portion of the State General Fund appropriation has decreased from 67% in the 2001-03 biennium to only 53% in the 2011-13 biennium. Statewide Public Services have remained a relatively constant share of total state general funds. However, Debt Service funding has increased substantially, from 3% of total state funding in 2001-03 to 13% in 2011-13, largely due to bonds sold for capital construction projects approved in the previous biennium.

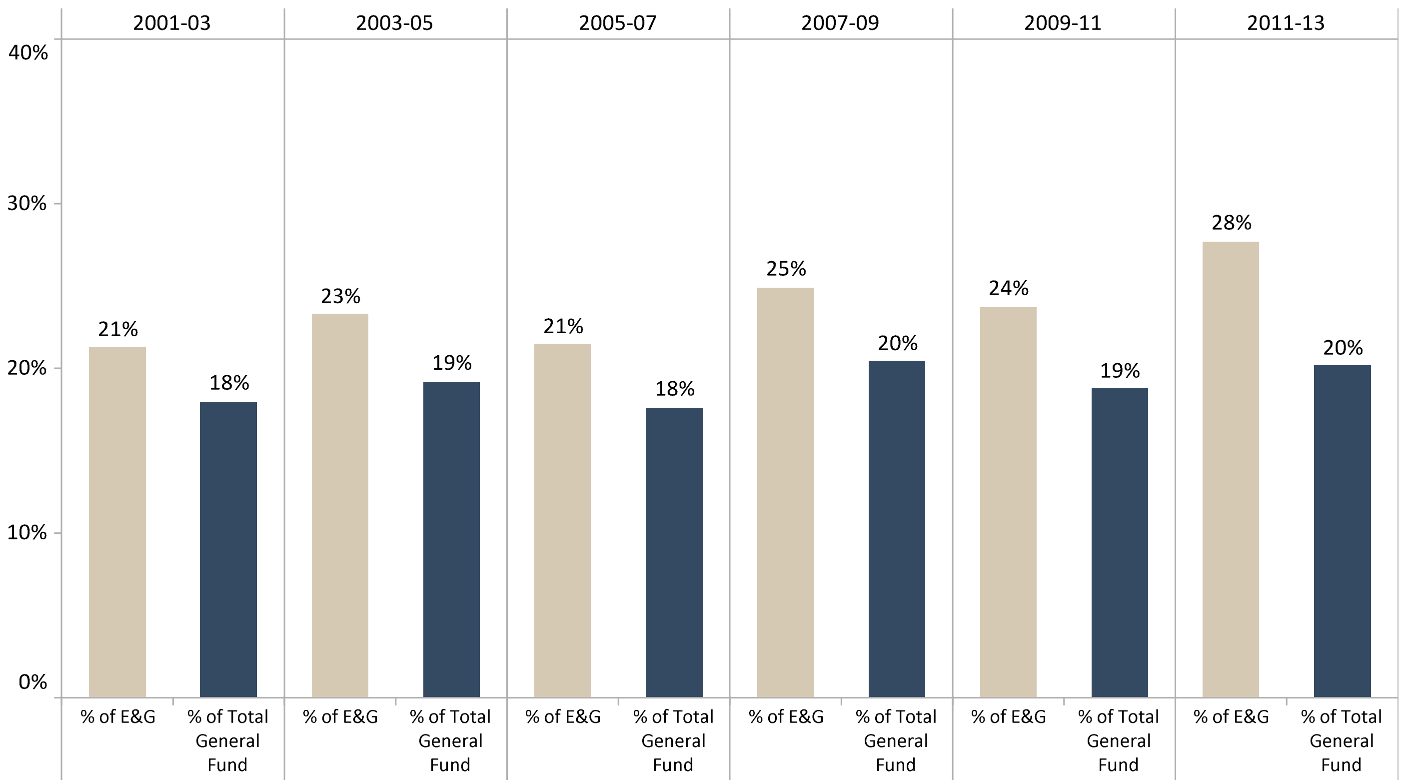
Figure 11: Distribution of Oregon State General Fund for Debt Services, Statewide Public Service (SWPS), and Education & General Funding by Biennium, 2001-03 to 2011-13



Data: OUS Budget Report Summaries compiled and provided by OUS. Excludes Capital Construction. Adjusted for constant (2012) dollars.

The number of Targeted Programs has increased over time. There were 22 Targeted Programs for OUS in the 2001 biennium and 30 in the 2011 biennium. While the amount dedicated for Targeted Programs has gone from $169 million in the 2001-03 biennium in constant (2012) dollars down to $137 million in the 2011-13 biennium, Targeted Programs take up a greater percent of OUS's available state funds. As shown in Figure 12, in the 2001-03 biennium, Targeted Programs accounted for 18% of total General Fund appropriation compared to 20% of the General Fund appropriation in 2011-13. However, Targeted Programs accounted for 21% of E&G funding in the 2001-03 biennium, compared to 28% of E&G funding in 2011-13.

Figure 12: Targeted Programs as a Percent of State Funding Education & General (E&G) and General Fund (GF) by Biennium, 2001-03 to 2011-13



Source: OUS Budget Report Summaries compiled and provided by OUS. Excludes Capital Construction. Adjusted for constant (2012) dollars.

These shifts in state funding priorities, coupled with increased student enrollment, have resulted in less state funding per resident student. The total General Fund appropriation per resident student decreased 22% from the 2001-03 to 2009-11 biennium – from $8,529 to $6,695 per student in constant (2012) dollars. Enrollment funding per resident student decreased, in constant (2012) dollars, from $5,555 per resident student in the 2001-03 biennium to $4,039 in 2009-11.

Tuition comprises a larger share of university revenues

As a result of less state funding, public universities have become more dependent on student tuition as a revenue source to meet increasing costs. Net tuition and fees were 22% of total revenue at public colleges and universities in the United States in the 2009 fiscal year, as compared to 16% in 1999.

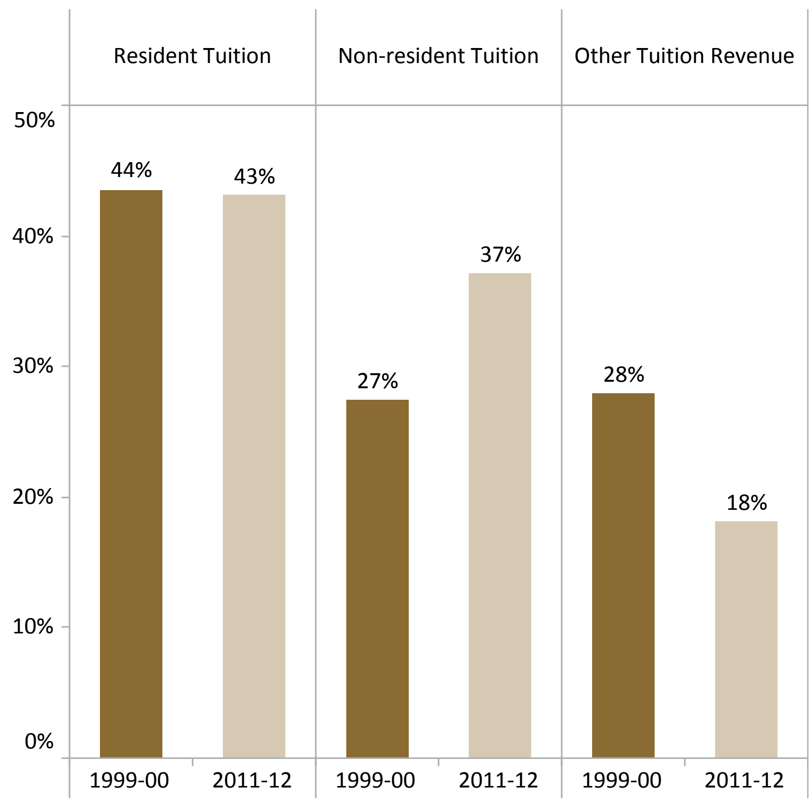
Similarly, OUS tuition and fees revenue has risen every year due to increases in tuition and fee rates, as well as increased enrollment. Adjusted for inflation, tuition and fees revenue for all of OUS went from $482 million in fiscal year 2003 to $741 million in 2011, an increase of 54% in less than a decade.

OUS's tuition and fee revenue sources include:

- resident tuition
- non-resident tuition, generally three times the cost of resident tuition
- other tuition from faculty and staff, who are offered a reduced fee if they take courses at an OUS institution; continuing education tuition and English as a Second Language tuition
- other non-tuition revenue including the Western Undergraduate Exchange Program offering students from participating western states to enroll at 150% of resident tuition

The composition of tuition revenue has shifted for OUS over the last decade. Resident tuition and fee rates increased 61% when adjusted for inflation between the 2001-02 and 2011-12 academic years, a constant dollar increase of $3,010, while non-resident tuition and fees increased 41%, or $6,735. Increases in non-resident tuition rates and the share of non-resident students have resulted in non-resident tuition becoming a larger share of all tuition revenue for OUS. As shown in Figure 13, in fiscal year 2000, non-resident tuition was 27% of all tuition revenue. By 2012, it comprised 37%. In contrast, resident tuition stayed about the same, 44% of total tuition in 2000 and 43% in 2012. Other tuition sources, excluding fee remissions, have gone from 29% of total tuition revenue in 2000 to 20% in 2012. Other non-tuition revenue includes non-credit fees such as matriculation, authorized course fees, health centers, study abroad programs, recreation services, and applications, as well as late and incidental fees.

Figure 13: Tuition Revenue by Source, FY 1999-00 and 2011-12

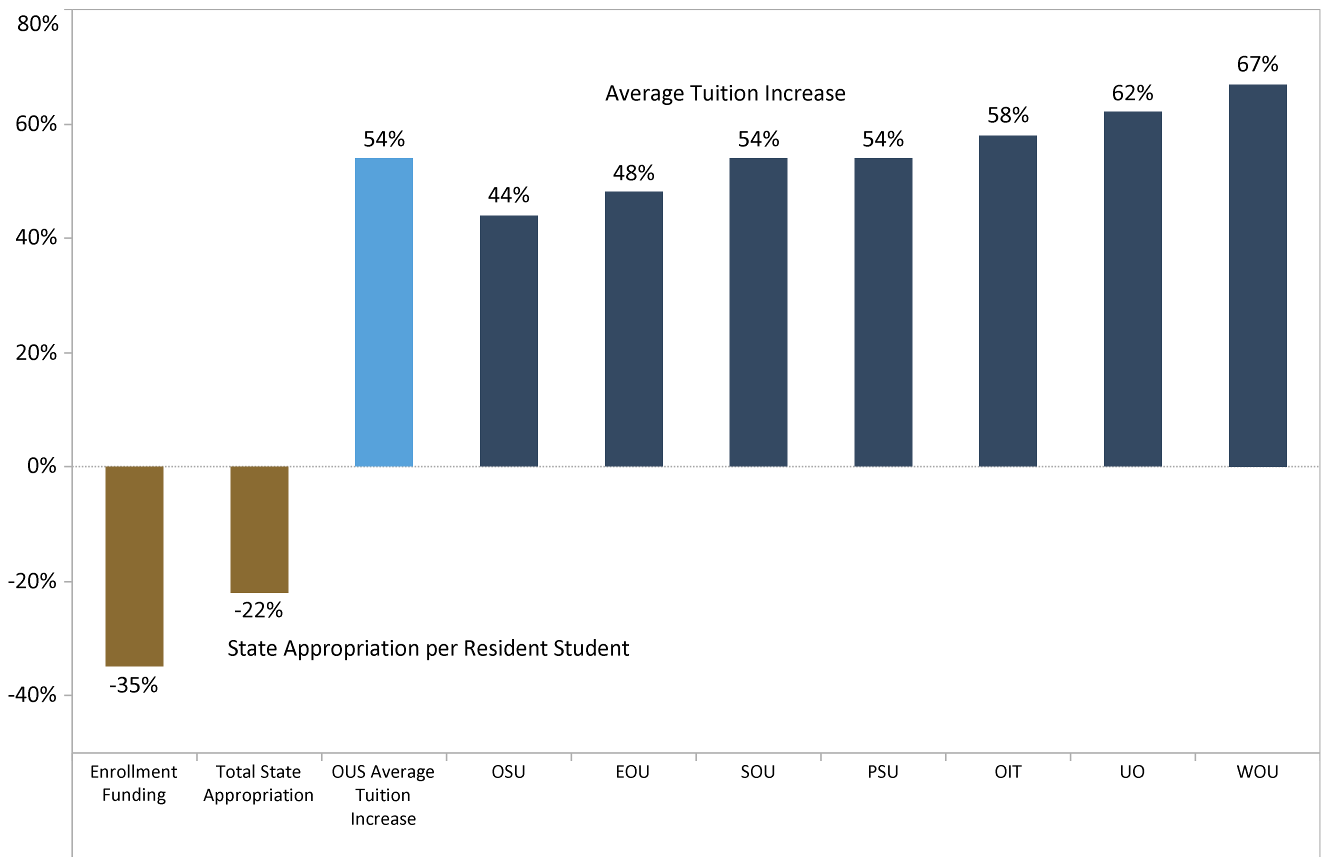


Source: OUS Controller's Division. Other Tuition Revenue is less remissions and includes Western Undergraduate Exchange revenue.

A common justification for raising tuition has been to offset the decline in state appropriation. However, the amount of required tuition increases depends on an institution's reliance on state funding. According to an EOU report, some organizations define a university as "heavily reliant" upon state funding if that university receives at least 30% of its revenue from the state. According to their own reports, in 2011, state appropriations made up 45% of Eastern Oregon and 34% of Western Oregon's total revenues, respectively. However, at the University of Oregon, state funding makes up a much smaller percentage of the university's budget.

Moreover, declining state funding is not the only reason for tuition increases. From 2001-02 to 2010-11 across OUS, resident tuition and fees increased more, in both percentage growth and actual dollar costs, than state appropriation declined per resident student. As shown in Figure 14, state enrollment funding per resident student declined 35% ($1,516) during this period, while tuition and fees increased an average of 54%, or $2,674. The increase in tuition, and the reasoning behind these increases, varied among universities. For example, EOU and SOU identified declining state appropriations as significant reasons for tuition increases, while Oregon Institute of Technology additionally noted its higher cost programs as significant for its tuition increases. In addition, some universities noted that increases in personnel costs are a driver of tuition increases along with declines in state appropriation.

Figure 14: Change in State Funding and Tuition, 2000-01 to 2011-12



Source: OUS Budget and Payroll Operations, OUS Institutional Research, OUS Factbook.

OUS Expenditures

Despite more tuition revenue and increased total spending, educational spending per student is down in recent years

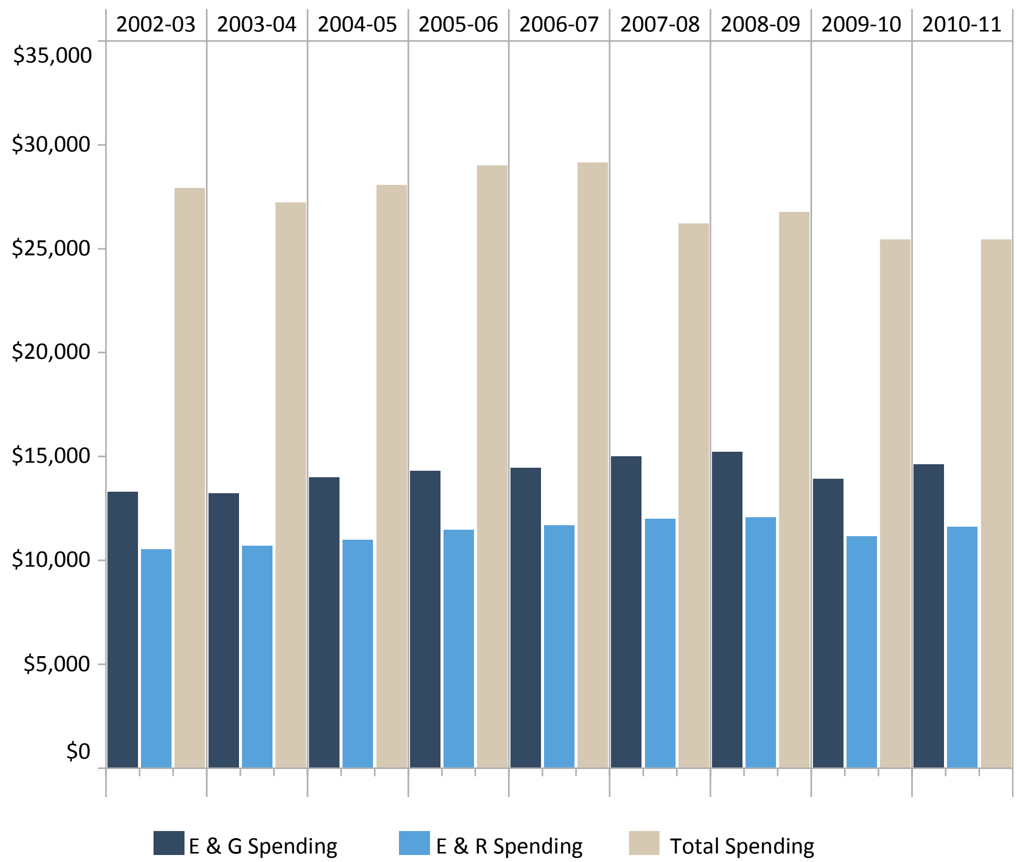
According to OUS data, OUS total spending, including debt service and capital construction, increased 48% between fiscal years 2000 and 2012, from approximately $2 billion to $3 billion annually in constant (2012) dollars.

Given recent increases in tuition, students want assurance that tuition dollars are devoted to educating students. A key measure for university spending is how much is spent per student. The Delta Project, a national group focused on improving productivity and accountability for performance in post-secondary education, provides criteria for analyzing spending per student. These measures help monitor spending priorities and allow universities to compare their progress to peer universities. The three spending measures are:

- Total Operating Expenditures per student, which includes auxiliary enterprises. This measure includes expenditures not directly related to students' education.
- E&G Fund per student, which includes instruction, research, public service, student services, academic support, operations and maintenance, and institutional support.
- Education and Related (E&R) spending per student, which excludes research and public service and focuses on core instruction expenses, often called the full cost of education.

Spending for all three categories has decreased in recent years. Per student total operating expenditure spending was $27,926 in fiscal year 2003 in constant (2012) dollars and declined to $25,440 in 2011. Between 2003 and 2009, E&G spending per student rose by almost 15%, from $13,296 to $15,235, but E&G spending fell in 2010, and in 2011 was at $14,602, about 10% above 2003 levels. E&R spending per student followed the same trend as E&G spending, increasing from $10,533 to $12,063 between 2003 and 2009, but decreasing to $11,592 in 2011(see Figure 15). From 2009 to 2011 total student enrollment increased 7%, or over 6,000 FTE. However, 82% of this increase, almost 5,000 FTE, came from non-resident students, who pay approximately three times as much in tuition and fees as resident students.

Figure 15: Spending per Student by Performance Metrics Used in Best Practices, 2002-03 to 2010-11



Source: OUS Controller's Division, OUS Institutional Research, OUS Audited Financial Statements for FY 2003-2011. Adjusted for constant (2012) dollars.

OUS has maintained staff ratios

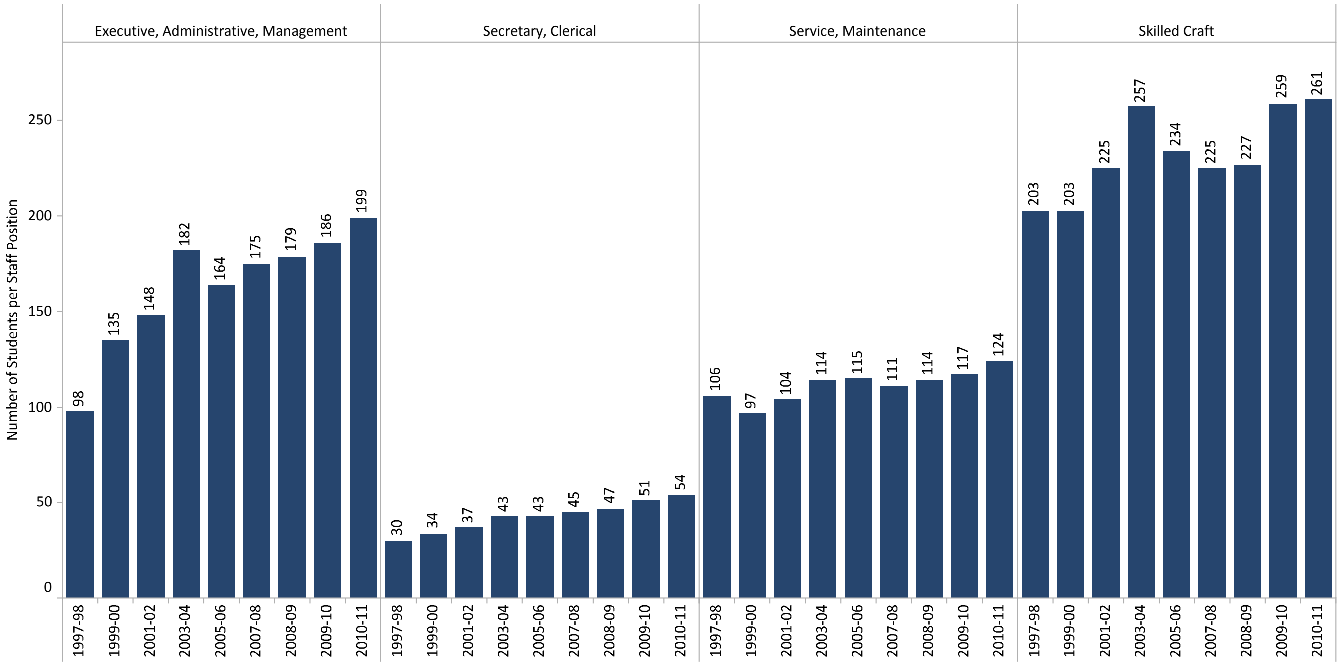
Based on OUS reporting, over the past ten years, despite increasing enrollments, OUS maintained steady faculty to student and administrative staff to student headcount ratios. One measure for staffing is to examine the number of students for each staff position. As resources have diminished, many public universities are expected to stretch their resources and serve more students with fewer staff positions. Many OUS non-faculty staff classifications show this trend, with more students per employee now than a decade ago, as shown in Figures 16 and 17.

We calculated staff ratios by comparing staff and student headcounts reported in the OUS Factbook. The definition of faculty used includes faculty who instruct, conduct research, and/or perform public service, including part-time faculty. These ratios use headcount instead of Full Time Equivalents (FTE). The ratios do not measure overall course or workload. Changes in either student or staff FTE, including increases in part-time status, can influence these ratios even though the ratio of student FTE to staff FTE has remained stable. However, we feel that examining these ratios is still instructive in understanding patterns in staffing within OUS.

Positions classified as executive, administrative, or management had 98 students per staff in the 1997-98 academic year and 199 in 2010-11. For the past ten years, OUS has maintained an average student to faculty ratio of 14 students per faculty as shown in Figure 17, although the ratio has increased somewhat since 1997-98.

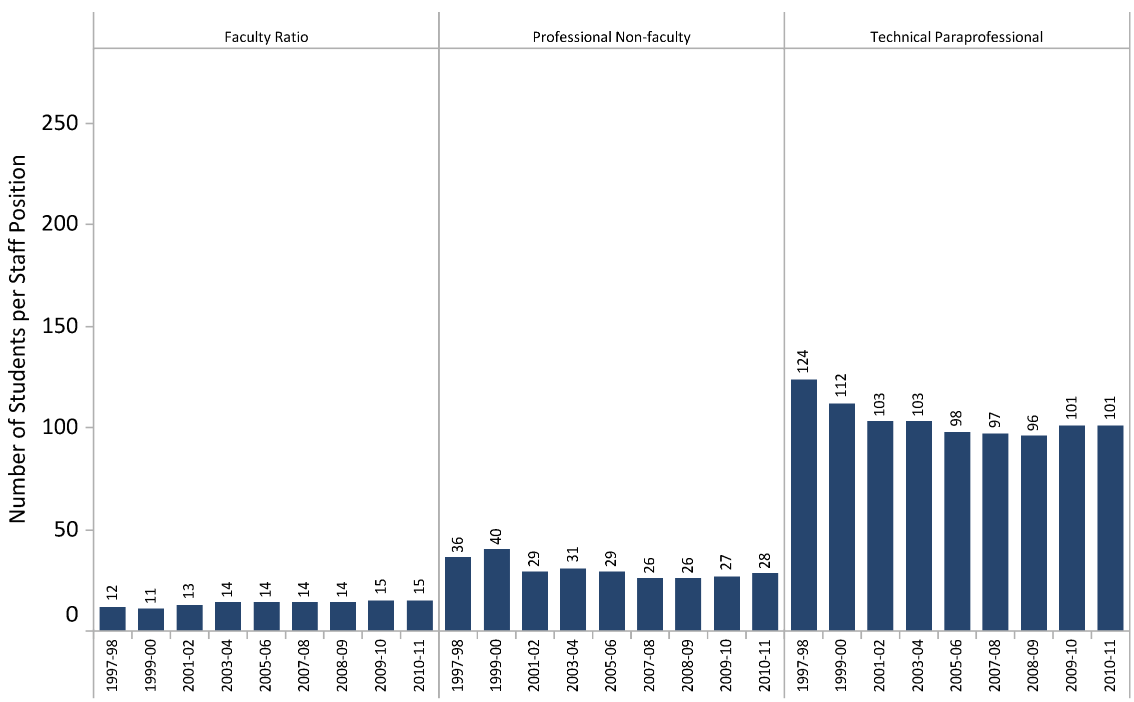
Two specific job classifications had a lower student to staff ratio in 2010-11 than twelve years ago. Professional non-faculty had 36 students for every staff in 1997-98 and 28 in 2010-11. Similarly, technical, paraprofessional positions went from 124 students per staff in 1997-98 to 101 in 2010-11.

Figure 16: Ratios of OUS Student to Staff Headcounts, 1997-98 to 2010-11



Source: OUS Fact Book, OUS Institutional Research. Incongruent years reflect available data.

Figure 17: OUS Student to Staff Headcounts, 1997-98 to 2010-11



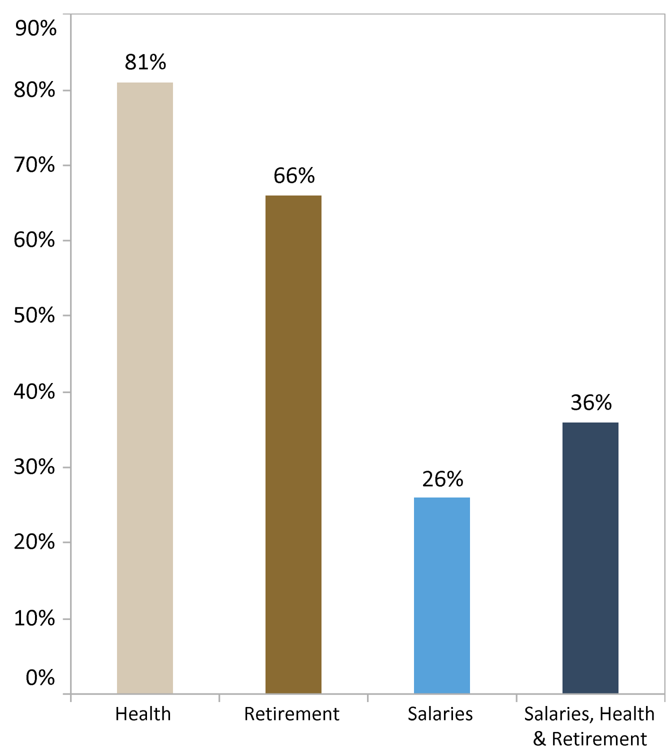
Source: OUS Fact Book, OUS Institutional Research. Incongruent years reflect available data.

OUS reports a different student-faculty ratio in its performance reports to the State Board of Higher Education, the ratio of fall FTE enrollments to full-time instructional faculty headcount. Full-time instructional faculty are those faculty at or over .9 FTE who are assigned more than .5 FTE to an instructional department. This is a more restrictive definition of faculty than the definition used in our previous ratio, and the ratio was 27 students to one full-time instructional faculty member in the 2010-11 academic year.

Largest expenditure category is personnel costs and compensation costs are increasing

Despite maintaining faculty ratios, personnel costs remain OUS's largest expenditure. In fiscal year 2011, salaries and wages were 64% of the total operating expenses for OUS. According to OUS figures, salary costs increased 26% over inflation between the 2004 to 2012 fiscal years. During the same time period, according to OUS figures, total FTE employment within OUS increased approximately 23%. Retirement and health costs increased 74% over inflation during the same period. This represents an increase of $152 million, from $205 million in 2004 to $357 in 2012. Combined, salaries, health, and retirement costs increased by 36% over inflation for the same period; a constant dollar increase of approximately $354 million (see Figure 18).

Figure 18: Percent Increases in Compensation Costs, 2003-04 to 2011-12



Source: OUS Payroll and OUS Budget Operations and Planning, FY 2004 – 2012. Due to changes in GASB reporting requirements, OUS could not provide confirmation of health costs prior to 2008. Adjusted for constant (2012) dollars.

Although OUS has maintained ratios of administrative staff to students, according to OUS records, non-teaching 12-month contracts were the fastest growing employee category for OUS between fiscal years 2003 and 2012, with full-time unclassified non-faculty administrative positions making up 27% of OUS total salary costs and 21% of total FTE in fiscal year 2012. These nonteaching positions represent 40% of the total personnel cost increase between 2003 and 2012.

OUS has limited control over some personnel costs

Compensation for personnel includes salary and benefits. OUS can control personnel costs in terms of the number and type of employees as well as their job functions. OUS cannot control most of the costs related to health and retirement which are driven by the Public Employee Retirement System and the State.

According to OUS reports, OUS salaries are lower than national peer groups. However, retirement costs make up 20% of salary within OUS as compared to the national average of 10.9% of salary for public academic institutions in the United States. Similarly, healthcare contributions average $9,218 for each covered employee in public academic institutions nationally, while the average OUS contribution is $14,616. Total benefits as a percent of salary for an OUS employee is 44%, and only 29.6% for national public institutions.

Decisions Need Better Information and Implementation

Principles of good management include four general elements:

Planning:	Articulating the organization's mission and vision, establishing measureable organization-wide objectives or priorities and identifying strategies for achieving the objectives
Budgeting:	Using the objectives and strategies from the planning process as the basis for developing a spending plan that is most likely to achieve the organization's desired results
Managing:	Organizing personnel and developing work processes to focus on desired results
Evaluation:	Following up to understand the results of programs and expenditures in comparison to desired results, and using the information to refine plans, budgets, and operations

However, the structure of universities, where budget and personnel decisions are often made on a departmental level, makes it difficult for universities to fully implement these principles of good management, particularly budget, management, and evaluation.

Local control of budgets makes it difficult to implement university budget priorities

University budget processes begin when the president, provost and budget officials make fiscal projections based in part on State General Fund budget allocations from OUS. Resources are then allocated to different colleges or departments within a university, in consultation with budget committees, faculty senates, and other representatives from various levels of the university. The president has final decision-making authority, though all levels of the university, including students, have an input into financial and budget decisions. For example, at Portland State University, a budget committee consisting of 14 faculty members, analyzes budget implications and recommends budget priorities. At Western Oregon University, the Faculty Senate makes recommendations to the president in a variety of areas including budget and personnel.

Once resource allocations are decided, individual colleges and departments create their own budget requests. These budgets may be created by the department head or the Dean of a college in collaboration with the departments. These budget requests are then submitted to a central authority – a budget committee, budget office, the president, or all three – for any changes and for final approval. If the department funding request is altered, or funding received is less than requested, the deans or department heads decide how to allocate the available resources within their departments.

Placing college-level budget authority at the level of deans or individual departments makes it difficult for universities to ensure that departments are aligning their budgets with university-wide plans. Although the university may establish budget priorities, the methods used by different schools and departments to make budget decisions vary. Department chairs sometimes serve as chair for a limited period of time. While they have a good understanding of their department budget, they may have little or no knowledge of the needs of the university as a whole. As a result, department budgets, which are the building blocks of a university budget, may not be consistent with the university's overall financial situation, priorities, goals, or mission.

Cost analysis and management varies among universities

Within OUS, types of cost analyses and financial management differ. Just as budget development varies by department and college, local review and management of these budgets also vary depending upon the knowledge and resources of different department chairs. For example, personnel costs make up the largest part of most university departments, so managing personnel is critical to effective management. However, a recent Oregon Secretary of State Audits Division audit found that management of faculty workload varied by both university and department. Some universities were analyzing or managing their faculty workloads better than others, with difficulties due in part to the limitations of the department chair and the shared governance model of decision-making. Inconsistent analysis limits universities' ability to effectively manage the largest share of their costs, and ensure those resources are directed to the highest priority areas.

Prompted by recent financial challenges, some universities have performed broad cost analyses and made cost-saving efforts, but they have produced only limited and short-term solutions. During the 2006-2007 academic year, for example, Southern Oregon University completed a budget-cutting process that resulted in reductions to 22 academic programs, elimination of approximately 24 FTE, and the merging of the three largest academic schools into the College of Arts and Sciences. Nonetheless, SOU raised tuition 9.9% for the 2012-2013 academic year in order to bridge gaps between available funding and costs. In 2007-09, Eastern Oregon University made almost $3 million in cuts, but by 2010-11 financial conditions once more threatened EOUs long-term sustainability.

Current financial reporting is not effective for evaluation and cost management

Although individual universities keep detailed financial information, budget reports and analyses are not presented to decision-makers in a way that aids evaluation or financial management. Without information that allows for detailed financial analysis, it is difficult for decision-makers to understand patterns in revenues and expenditures. This limits OUS's ability to evaluate and manage costs and performance, and make effective financial decisions.

For example, the OUS Annual Financial Report presents expenditures in two separate categories: function (instruction, research, academic support) and classification (compensation and benefits, services and supplies, depreciation). However, these two categories are not linked in any way, so it is not possible to understand from this report how much of compensation and benefits is attributable to instruction, research, or administration, or how much is spent from each functional category on services and supplies. Individual institutions report linkages between functional and classification spending to the National Center for Education Statistics each year. OUS has access to this information, but does not report this information to Oregon decision-makers.

Similarly, the OUS Annual Factbook, which serves as a report to the public and the legislature, presents expenditure information in terms of broad fund categories, such as "E&G Fund" or "Debt Service." Within these categories the types of expenses are not clear. Also, it is not possible to know the amount of E&G expenditures that went to specific educational costs such as instruction, research, or administration.

Although OUS has centralized payroll operations for all seven universities, it does not collect personnel information at a level of detail that would allow an understanding of important trends. For example, neither OUS Payroll nor its Institutional Research department has the data available to link compensation costs to specific kinds of faculty such as tenured, tenure-track, or part-time instructors. Universities themselves may be able to perform this analysis, but the Chancellor's Office cannot analyze actual personnel cost trends in detail without working closely with individual universities.

Cross subsidies weaken accountability

Within universities, some colleges or departments generate less revenue than their expenses, while other programs generate surplus revenues. For example, departments offering core courses required for many students that also have low facility costs may bring in more revenue through tuition than the cost to offer those courses. Other departments that require more resources, such laboratories, may operate at a loss. Across universities, the revenue from departments with surpluses is used to support departments that cannot cover their expenses. This is referred to as cross-subsidization.

The nature of a university's mission may justify subsidizing programs that operate at loss. For example, the College of Forestry at Oregon State University is an expensive program that requires subsidies from other university departments, but it is important to OSU's research mission. However, effective financial and performance management requires evaluating programs for both quality and cost-effectiveness. Cross-subsidization makes it more difficult to understand program performance and may mask inefficiencies in programs.

Less oversight on tuition-setting

Oversight and control over tuition levels has been weakened by recent legislation. Although the State Board of Higher Education had authority to set tuition rates prior to Senate Bill 242, OUS was required to seek approval from the legislature to spend the tuition revenue they collected. In addition, the state was able to use both tuition revenue and interest earned on tuition revenue for other state purposes. After the passage of Senate Bill 242, universities can keep both tuition revenues and the interest earned, and they can spend this money without requesting permission from the legislature. The legislature can still recommend limits to tuition increases through budget notes but, as before, universities are not legally required to adhere to these limits. Since this change in law, Southern Oregon University raised tuition higher than the limit suggested by the legislature.

Senate Bill 242 envisioned new controls over tuition increases through oversight by the Higher Education Coordinating Commission, performance compacts, and student involvement in the tuition-setting process. According to SB 242, HECC is authorized to recommend tuition limits for OUS, and will monitor performance compacts with the universities that address tuition affordability. However, the current role and powers of the HECC are unclear, including whether they have real authority over either tuition levels or performance. In our interviews, OUS and university administrators were unaware of HECC's potential role in setting tuition limits. As noted later in this report, the status and nature of performance compacts is currently unclear, meaning that the controls on tuition increases envisioned in Senate Bill 242 are uncertain. Currently, student involvement occurs primarily through student government participation in university tuition-setting committees.

Oregon's lack of legislative control over tuition is part of a growing trend. In recent years, Texas, Virginia, Washington, and New York have all proposed different formats for allowing public universities more autonomy in setting their own tuition. In some states, similar to efforts in Oregon, this tuition-setting authority was accompanied by performance expectations in such areas as graduation and retention rates. However, in Oregon, both the definition of and accountability for performance measures, including measures of affordability, are currently unclear.

Student tuition may cover non-educational costs

With tuition increasing and students bearing more of the costs of education, universities should be transparent about the use of tuition revenues. According to the State Board of Higher Education, tuition revenue supports the direct instruction and administrative costs of each institution. However, tuition is unrestricted revenue and is kept in universities' E&G Fund, which also includes state appropriations and federal research indirect cost reimbursements. E&G funds act as the general operating fund for universities, with payments from the funds covering a variety of costs at each university. Centrally, OUS does not have accounting controls to ensure that tuition revenues are spent on instruction or administrative costs or otherwise control how money is spent from this fund.

Since tuition is unrestricted revenue kept in university general funds, it is possible that tuition is paying for costs that are not directly related to instruction. For example, according to OSU reports, in fiscal year 2010 over $3.5 million of OSU's E&G funds were paid as a subsidy to the Athletics Department. In 2011 and 2012 these transfers increased to $9 and $10 million, respectively. The State Board of Higher Education has received reports on E&G transfers to athletics, but these reports did not analyze whether tuition payments made up some or all of the E&G funds used for athletics.

The OUS financial system does allow universities and central administration to investigate whether E&G funds, including tuition, are being used to fund non-instruction-related costs. However, except for the reports on transfers to athletics, the Chancellor's Office does not typically perform this kind of analysis. The State Board of Education does receive quarterly reports on revenues, expenditures and fund balances compared to yearly projections, but these reports do not analyze the use of funds in detail.

OUS does not track subsidies for externally funded research

Research conducted at OSU, UO, and PSU can benefit students, the state, and the local economy. Within each of these universities, research can enhance students' education both by exposing students to innovations in knowledge and by teaching them valuable skills through participation in research. Some studies have found that participation in research is positively linked to student engagement and retention. On a local level, industries may choose to locate near a university because it produces a steady supply of highly qualified labor, especially in science and engineering fields. Research can also boost the state and national economy. For example, according to Oregon State University, varieties of wheat developed at OSU accounted for 76% of all winter wheat produced statewide in 2011, helping Oregon wheat growers generate $17 million in additional revenue.

However, a national study found that all universities lose money on externally-funded research because performing the research costs more than the amount of external funding received. Some universities have started to track and report this spending, but within OUS, none of the universities either track or record the amount of money that is spent to subsidize "funded" research.

Within OUS, most research is funded by federal grants, which include a reimbursement for indirect costs at a rate that the university negotiates with the federal government. The federal indirect cost reimbursement goes into the E&G Fund, which also includes tuition dollars and state appropriations. Some of the reimbursement is distributed back to the department that initiated the research. Research funded by state or local entities may have an even lower indirect cost reimbursement rate. The reimbursements do not cover the full indirect costs of a grant, and universities sometimes recoup less than the negotiated amount. Failure to recover the full cost of federal research is not specific to OUS. On a national level, universities are estimated to spend between $700 million and $1.5 billion to cover the unreimbursed costs of research, an amount equivalent to one-fifth of all university funds dedicated to research.

Within OUS, universities are aware that external research funding does not cover the full cost of administering that research, but they do not track the amount of money spent by the university to subsidize these costs. In addition, this cost is not referenced when reporting the amount of research money generated by each university. Since the indirect cost rate does not cover the full cost of this research, other E&G funds, including tuition, must make up the difference.

OUS does not account for spending on unsponsored research

Performing research is an expectation for tenured and tenure-track faculty at OSU, UO, and PSU. The amount of required research typically depends upon the department. Professors are generally able to perform research on topics of their choice, without receiving permission from the dean, department chair, or university. The cost of any unsponsored research is absorbed by the department as part of that professor's salary and time. Universities do not track the amount of time that professors spend on research, so they are unaware both of how much university money is going into research and how much of a professor's time is spent on research rather than teaching, advising, or other duties.

Universities should account for all of their costs, particularly when increased costs are borne by students in the form of higher tuition. Universities do keep detailed records of sponsored research expenditures for externally funded research, in accordance with the requirements of the funder. As such, they should be able to use similar methods to record and track the time and money spent on internally funded research. Transparency about the full cost of all research and how it is funded would allow the university to evaluate both the costs and the benefits of research, and would help universities use resources more efficiently and effectively.

Financing an Education – Student Aid and Debt

Many OUS students benefit from federal, state, and institutional aid that lowers their net costs and/or provides a means for financing higher education. From academic years 2004-05 to 2009-10, roughly half of OUS students received student aid, including loans, grants and scholarships. OUS distributed $3.5 billion in student aid between 2004-05 and 2009-10. Student loans accounted for 70% of the aid, while grants, scholarships, work study, and other aid accounted for the remaining aid.

Student financial aid

Students choose to apply for financial aid in order to receive need and/or merit-based aid. Once a student applies for financial aid, an award letter is sent outlining the types of aid available to them. According to OUS, "the responsibility for financing a student's share of public higher education rests primarily with the student and his or her family."

All OUS universities require that students applying for aid complete the Free Application for Federal Student Aid (FASA). The FAFSA is used to determine eligibility for both federal and state aid, including the Oregon Opportunity Grant, the state's largest need-based aid program. The FAFSA is available each January for the school year starting the following fall. Since aid is often first-come, first-served, submitting the application as soon as possible is recommended. The FAFSA must be filled out every year a student is enrolled to remain eligible for federal aid.

The federal government processes the FAFSA, calculates the student's Expected Family Contribution (EFC) according to a formula established by federal law, and sends information to the student and the university's financial aid office. The EFC is a measure of the family's ability to contribute to the cost of an education. OUS universities use the EFC to determine financial need, which is the difference between the universities' estimated cost of attendance and EFC. Given a student's financial need, the OUS universities calculate how much aid a student is eligible to receive in aid.

Federal aid lowers net price and finances college education

The federal government awards about $150 billion annually in grants, work-study funds, and low interest loans to more than 15 million students across the nation for higher education. Federal programs financed over $2.7 billion and accounted for 77% of aid to OUS students from academic years 2004-05 to 2009-10.

Pell Grants and direct loans are the most significant programs to assist OUS students. The Federal Pell Grant Program provides need-based grants to low-income undergraduate and certain post-baccalaureate students to promote access to higher education. Awards are made on a sliding scale based on the institution's cost of attendance and a student's EFC. Federal Pell Grants contributed over $364 million to OUS students between academic years 2004-05 and 2009-10. The program was expanded in the 2009-10 year, adding an additional $33 million and 5,653 OUS students. In 2009-10, $96 million was awarded to 25,612 OUS students for an average award of $3,760.

The Pell Grant award buys less today than it did three years ago. In the 2009-10 academic year, the maximum Pell Grant award, $5,550 (nominal dollars), covered 79% of the average OUS tuition and fees. The maximum award amount has remained unchanged, yet the cost of attendance for 2012-13 has increased. A maximum award covers 69% of average tuition and fees for 2012-13.

Federal loan programs provide the majority of financial aid to OUS students. The Federal Direct Stafford Loans, Direct PLUS Loans, and Perkin Loans provided a combined $2.3 billion in financing for OUS students between academic years 2004-05 and 2009-10 and accounted for 65% of all financial aid. The vast majority of funding, over 81%, went directly to students who bear the responsibility for repayment. Subsidized Federal Direct Stafford Loans and Federal Perkins Loans are awarded to students who demonstrate financial need. The Federal Government pays the interest on subsidized Direct Stafford Loans while the student is in school or in grace or deferment periods, thereby reducing the overall cost of the loan.

In addition, some parents borrow Direct PLUS Loans to finance their child's education. Parents must have a qualifying credit history and borrow for dependent undergraduate students to be applicable for the program. Parents of OUS students borrowed $77.8 million to finance their children's education in the 2009-10 academic year. Annual national studies by Sallie Mae found far fewer parents borrow to pay for college than use current income or savings; however, for parents who do borrow, the amounts are substantial. In 2009-10, 7% of parents nationally borrowed an average of $9,153 (nominal dollars) in Federal PLUS Loans.

Students and their families choose how much debt to incur. Federal student loans are cheaper, and offer greater protections than private loans or credit cards. Dependent undergraduate students can borrow a maximum of $58,500 from federal loan programs over the course of their college careers; independent undergraduates can borrow up to $85,000; graduate students up to $198,500 or $284,000 for some health profession programs. The amount of subsidized loans, those where the government pays the interest while enrolled, is limited. For example, dependent undergraduate students can borrow up to $31,000, but only $23,000 may be in subsidized loans.

In addition to loan programs, the federal government provides education tax credits to offset the cost of education, as well as tax incentives for families who are saving for, or already paying, higher education costs or are repaying student loans. The College Board reported undergraduate students in the 2010-11 academic year received an average of $1,009 in a combination of tax credits and deductions and Federal Work-Study. Education credits and deductions were increased from $6.6 billion to $14.7 billion in constant (2009) dollars between 2008 and 2009 after the introduction of the American Opportunity Tax Credit. Students or parents of dependents may also be eligible for tuition and educational expense deductions, as well as deductions for interest on student loans. While these tax credits and deductions benefit recipients across the income spectrum, those with higher incomes have a greater benefit. The College Board reported 26% of total tax savings went to recipients with incomes of $100,000 to $180,000 in 2009, while 17% went to those with incomes less than $25,000.

Student need exceeds state aid

Oregon's shared responsibility model, implemented in the 2008-09 academic year, prioritized who is responsible for the cost of college. It was developed with the assumption that the student, as primary beneficiary of education, has the most responsibility for paying for their education. In addition to the student share, families, the federal government, and the state government close the affordability gap for each student. Families with greater resources are expected to cover costs, middle income families to contribute some, and low income families to contribute less. The Shared Responsibility Model envisioned the State would fund costs not covered by the student, family, and federal government.

Figure 19: Oregon Shared Responsibility Model

Shared Responsibility Model	
Average Cost of Attendance	
–	Student share (work, loan, savings, scholarships, etc.)
–	Family share (Expected Family Contribution)
–	Federal share (Pell Grant and/or Tax Credit)
=	Remaining unmet need (envisioned to be the State share)

The Oregon Opportunity Grant (OOG) administered by the Oregon Student Assistance Commission (OSAC) is the state's largest need-based grant program. The OOG is for Oregon students attending eligible colleges and universities within the state. The legislature significantly increased funding for the OOG beginning in the 2007-09 biennium and the OOG has distributed about $100 million each biennium since.

Despite the funding increase, the number of eligible applicants significantly outnumbers those who actually receive state grants, with only 19% of eligible applicants estimated to receive grants in the 2011-13 academic year. The number of eligible students increased by about 100,000 students between the 2007-09 and 2009-11 biennia, and is estimated to increase another 100,000 for the 2011-13 biennium. Grants go to eligible students on a first-come, first-served basis until funds are depleted.

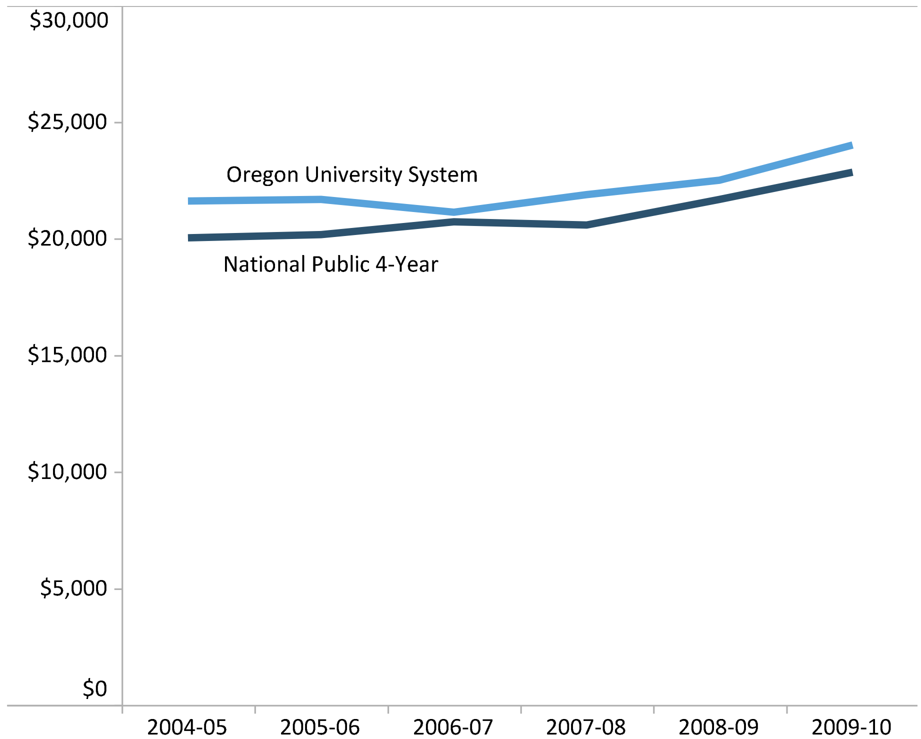
Furthermore, the maximum OOG award amount does not meet the need for the lowest income students. Under the shared responsibility model, the remaining unmet need for the lowest income students was calculated to be $5,276 for academic year 2012-13. The maximum OOG award amount was $1,950, about 24% of OUS average tuition and fees in 2012-13.

Student debt has increased slightly for graduates

Students and families can pay the net cost of attendance with income, savings and/or by borrowing. The OUS average debt per graduating senior borrower has increased slightly, about 6% or $1,315, between the class of 2005 and 2010.

OUS student debt was higher than the public institution national average for the classes of 2005 through 2010. It averaged $1,857 higher (9%) than the national average. Over this period, debt for OUS graduates ranged from a low of $21,663 to a high of $23,605. This is higher than the estimated cost of attendance for academic year 2009-10, approximately $20,233.

Figure 20: Average Student Debt at Graduation per Borrower for Bachelor's Degree Completers, 2004-05 to 2009-10



Source: OSU Factbook, the Institute for College Access & Success, College InSight. Only bachelor's degree completers who started at the institution as first-time students are included. Adjusted for constant (2012) dollars.

Across the campuses, 64% of bachelor's degree completers who started at OUS institutions as first-time students, graduated with an average of $23,512 in student debt in 2010. The average debt varied among the campuses ranging from $18,588 to $27,599. Graduates of PSU, SOU, and WOU in 2010 had the highest debt among the OUS universities. Far more students at EOU borrowed, 87%, but the average debt per student was lower than the OUS average by nearly $5,000. At PSU, the percentage of graduates who borrowed was the same as the OUS average (64%), but the graduates had over $4,000 more in debt.

Nationally, public university bachelor's degree recipients fare better than non-public institutions in terms of debt. The Education Trust reported the median, as opposed to average, debt at graduation for students at public universities was $7,960, compared with $17,040 at private nonprofit universities and $31,190 at for-profit universities in academic year 2007-08.

Benefits of a degree

One way to measure the value of an education is in terms of employment and wages. Young adults with higher educational attainment are employed at higher rates and with higher median earnings than their counterparts. In 2010, about 62% of all young adults ages 25-34 worked full time.

However, 71% of young adults with a bachelor's degree or higher worked full time that year, compared with only 57% with a high school diploma. In addition, in 2010, young adults with a bachelor's degree earned 51% more than high school graduates and 22% more than those with an associate's degree.

The higher wages bachelor's degree holders earn can make up for foregone wages during college and the debt incurred to obtain a degree. In 2010, the difference in median income between young adults with a bachelor's degree and those with only high school diploma was over $15,000. A graduate with $23,000 in federal loan debt and a standard repayment plan would pay an estimated $3,180 toward their debt annually. In addition, the federal government offers additional repayment plans that lower the annual payments to a more manageable amount based on the graduate's income.

Information on debt for non-graduates is incomplete

Generally, students enroll in college expecting that earning a degree will lead to higher wages and the means for paying off any debt incurred. However, OUS knows little about the debt burden of students who do not graduate.

OUS reports information on the debt of students who graduate. However, only 59% of OUS students graduate within six years. Another 35% stop out within six years, while 6% continue on. Stop outs are students who leave the OUS system for any reason, including enrolling in a non-OUS institution.

Studies show there is reason to be concerned about the debt of students who do not graduate. Nationally, about 63% of students who did not earn a degree borrowed some money. In addition, in 2011, the College Board reported "about 10% of dependent and 15% of independent students who last attended a public four-year institution, but did not earn a bachelor's degree, borrowed more than $28,000."

Most students who stop out do so during their freshman or sophomore year, about 20% of the 35% of students who stop out. While stop outs adversely affect a university's graduation rate, there can be a contradicting financial benefit to the university from the large number of students who stop out as underclassmen. Specifically, the lower division courses taken by these underclassmen are typically cheaper and can offset the cost of upper division courses.

Competing for Students Poses Difficulties

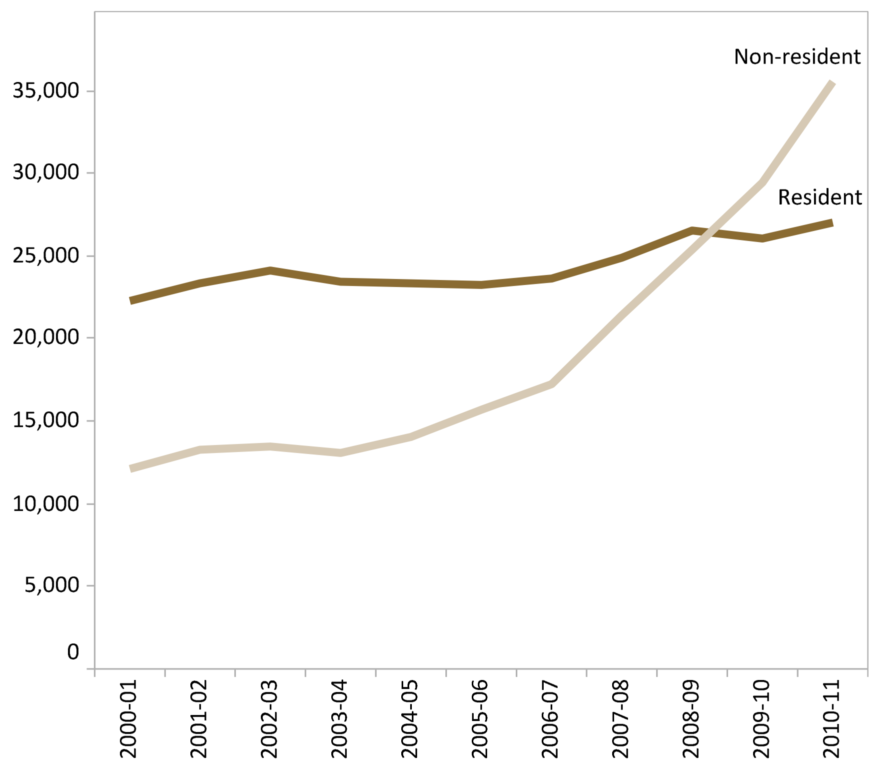
Universities compete for students, research funding, and faculty. OUS universities are at a competitive disadvantage when it comes to rankings, endowments, and research funding, all of which affect the ability to attract students and faculty.

OUS relies more on non-resident tuition

OUS has become increasingly reliant on tuition revenue, especially tuition from non-resident students. Currently, the cost to educate a resident student is more than the revenue the student brings in through tuition and state enrollment funding. As a result, all seven OUS universities are explicitly targeting non-resident students in their recruitment efforts, as the higher tuition they pay subsidizes resident students and helps universities meet gaps between revenues and expenditures. In interviews, university administrators identified increases in non-resident enrollment as a primary tactic to sustain long-term state funding cuts.

According to OUS, between the 2000 and 2012 fiscal years, revenue from non-resident students increased from 27% to 37% of all tuition revenue. OUS records show that from the 2001-02 to 2011-12 academic years, as shown in Figure 21, the total number of non-resident students applying to OUS, including international students, increased 195%, a total increase of 23,400 applications. For comparison, the number of resident applicants only increased 21%, or 4, 700 applications. Also, OUS universities admitted 3,900 more non-resident students in academic year 2011-12 than in 2001-02 versus only 380 more resident students during the same period.

Figure 21: Number of Applications to OUS Universities, 2001-02 to 2011-12



Source: OUS Institutional Research.

OUS's increasing focus on recruiting non-resident students is part of a national trend. Across the country, public universities facing declines in public funding are pursuing non-resident students who pay higher tuition and help balance university finances. In September 2011, half of the admissions officers surveyed told a higher education journal they were increasing recruitment of non-resident students. For example, the University of California at Berkeley, which has historically had low numbers of non-resident students, is admitting more non-resident students. Similarly, the University of Massachusetts is working to increase non-resident enrollment to 30% of all undergraduate enrollment.

OUS universities recognized for value but other rankings are lower than peers

The national focus on recruiting non-resident students has increased competition. Yet, despite offering diverse educational opportunities in a variety of settings, OUS universities are not well-positioned to compete with other public flagship schools for non-resident students. OUS universities tend to have smaller endowments and lower rankings than their peer institutions, both of which make it more difficult to compete for students.

University rankings by organizations such as U.S. News and World Report play a role in university competitiveness, because prospective applicants and their parents use such rankings to help guide their decisions about where to apply and attend. We reviewed OUS rankings using seven different university ranking tools. With the exception of OIT, which fared well compared to its peers, OUS universities are not well-ranked. OIT was ranked the 10th best regional college in the West by U.S. News and World Report and outranked most of its peer institutions. No other OUS universities ranked in the top 50 on either the U.S. News and World Report or the Forbes Best College Lists, and only UO and OSU were included in rankings of "Best Value" schools. UO and OSU were outranked by the majority of the institutions listed as their peers, although they outscored more peer institutions on the Forbes ranking, which places less emphasis on spending per student. EOU, SOU, and WOU were not listed on many ranking tools, so we did not compare them with their peers.

There is also a link between endowments and rankings. For example, U.S. News and World Report rankings place value on higher spending per student, higher faculty salaries and smaller classes, all of which require more spending on the part of a university. Therefore, schools with larger endowments have an advantage in rankings. OUS universities, with relatively small endowments and decreasing spending per student, may find it difficult to move up in rankings that emphasize spending per student.

OUS endowments limit student aid and affordability

University endowments also help schools offer tuition discounts and financial aid, and can be used to pay for buildings, faculty, and classrooms, relieving pressure to increase tuition to pay for these things. For this reason, universities with large endowments but higher listed tuition can sometimes offer students a lower net price and have lower average student debt than schools with lower tuition and lower endowments. In the 2011 fiscal year, the UO endowment, valued at $467 million, was ranked 155 out of over 800 U.S and Canadian institutions. OSU and PSU were ranked 165 and 621, respectively, and none of the regional universities were ranked at all. Although the ranking included private institutions, many public universities ranked higher than OUS universities.

Small endowments make it difficult for OUS to compete on affordability measures, regardless of tuition levels. In the 2011-12 academic year, nine out of the ten schools ranked as "most affordable" by Newsweek actually had a total cost of attendance that was either similar to or higher than OUS universities. However, all but two of these schools had larger endowments than OUS universities, and seven had lower average student debt. Lower endowments can also lessen a university's ability to offer amenities, attract top-ranked faculty, and fund research, which can help attract top students.

OUS schools are working to increase their endowments. The "Campaign for OSU" is attempting to raise $1 billion for the university, $300 million of which is intended for the college's endowment. Eastern Oregon University is currently engaged in an $11.5 million campaign to boost its endowment to support scholarships. The University of Oregon Foundation has received more than $100 million in gifts every year for the last five years, and hopes to use private funding to compete with the top-ranked public universities in the nation. However, it will be difficult, even for UO whose endowment and rankings are higher than the other OUS universities, to increase endowments and rankings enough to catch up to or surpass peer institutions, much less the highest-ranking institutions.

Difficult for universities to move up research rankings

Research productivity, and the amount of research funding that a university can attract, is another aspect of university competitiveness. Research productivity can attract prestigious faculty, high-achieving students, and can lead to more research funding. The importance of research to OUS and the state is reflected in the fact that OUS research universities report yearly external research funding as a performance measure to the State Board of Higher Education and the legislature. However, OUS universities are not ranked in the top echelons of public research institutions, and their ability to move up in these rankings is limited.

In each fiscal year from 2004 to 2009, UO, OSU, and PSU spent less than 1% of all research and development funds spent by public colleges and universities in the United States. In 2008, OSU, which performs the most research in the system, was ranked 64 out of 402 public universities for total research spending. UO was ranked 115 and PSU was ranked 170. Although the highest ranked of the Oregon institutions, OSU was outranked by twelve out of fifteen peer universities.

While the OUS research universities are increasing their external research funding, small endowments make it unlikely the three research universities will improve their standing in the research university hierarchy. The Center for Measuring University Performance found that the hierarchy of research universities is very stable, and significant movement in the rankings is rare. The Center also found that institutional wealth is a key indicator of competitive research performance, with the wealthiest universities performing the best on research rankings and maintaining a competitive edge over less-wealthy institutions.

OUS Needs to Better Understand the Impact of Enrollment Changes

OUS universities' increasing reliance on tuition revenues, including non-resident tuition, results in pressure to enroll more students. Understanding the relationship between applications, admittance, and enrollment can help universities understand enrollment patterns, competitiveness and factors behind student choice. However, OUS universities are not accounting for important enrollment patterns that affect student access and student outcomes, and they may not understand the full cost of increasing enrollment for each type of student.

Non-resident recruitment outpacing resident recruitment

Admitting non-resident students has benefits for universities. In addition to bringing in revenue, admitting students from different states and countries provides a more diverse learning environment. However, universities do not know if increases in non-resident students are negatively affecting resident access at their universities.

University officials said that non-resident students are not taking the spots of qualified resident students. However, since the 2004-05 academic year, OUS universities have increased admission standards, making it more difficult to gain admittance. According to OUS data, between 2001 and 2012 the acceptance rate into OUS has declined overall, but the rate for non-resident students has increased slightly. At the same time, the rate for resident student has decreased. OUS universities still admit many more resident than non-resident students each year, but the proportion of non-residents is growing.

Universities with additional capacity, such as the regional universities, can more easily accommodate more non-resident students without displacing resident students. However, some universities have acknowledged that they are increasing recruitment of non-resident students despite the fact that their campuses are currently at or over capacity.

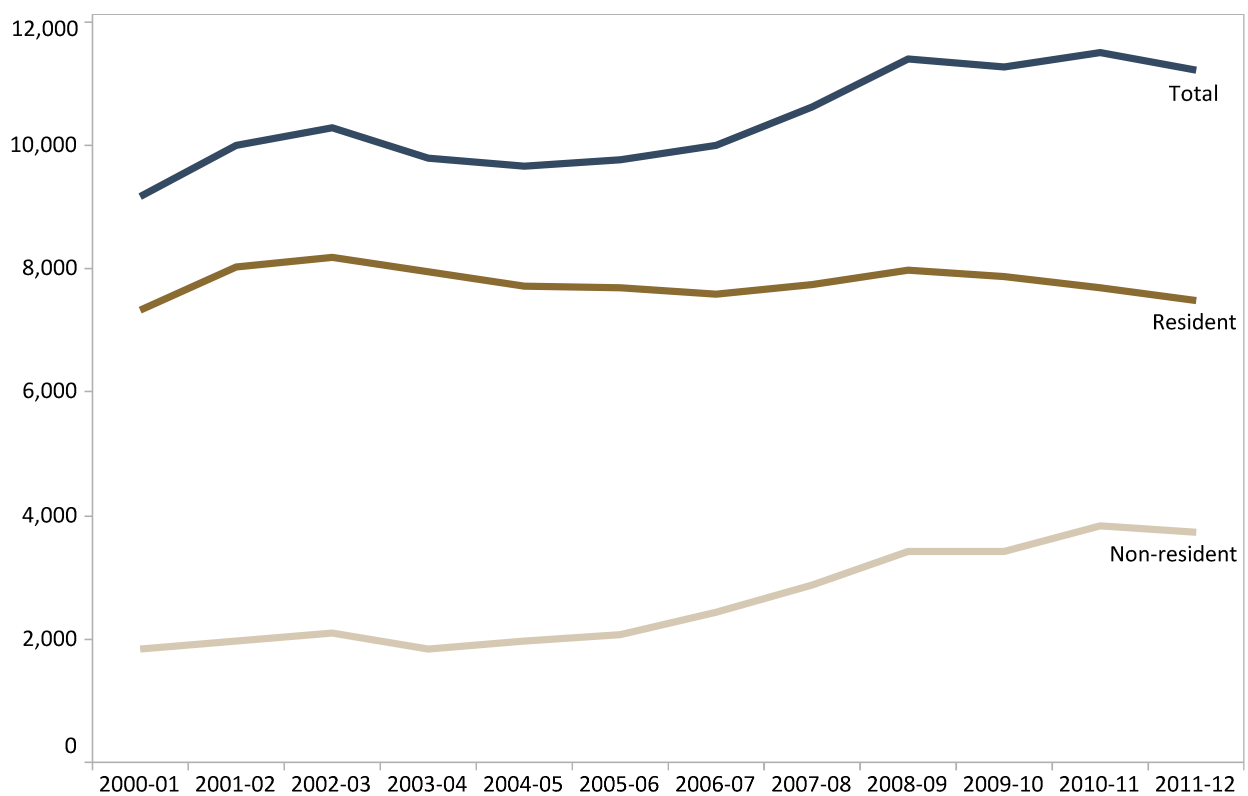
Both UO and OSU described themselves as at physical capacity. At UO, some classes are taught in local churches for lack of space on campus. However, both universities are purposefully increasing the number of non-resident students on campus. At UO, non-resident students made up 39% of the student body in academic year 2011-12. Although officials at both universities stated that non-resident students were not taking up resident student spots, neither university appeared to be analyzing data to verify this, nor were they able to demonstrate how they knew this to be true. We noted that between academic years 2001-02 and 2011-12, according to OUS data, OSU increased non-resident admittance 126% or by 895 students. During that same time period resident admittance decreased 2%, or 98 students. At UO, non-resident student admittance increased 128%, or 1,636 students, while resident admittance decreased 9%, or 308 students.

Some universities have particular program areas that are under capacity, where students can enroll with little or no added cost to the program. Although these universities try to recruit specifically for areas with available capacity, they cannot be sure that admitted students do not enroll in courses that are over capacity.

Enrollment at OUS is slowing

Despite increases in admittance of non-resident students, the overall rate of enrollment growth slowed in the 2012-13 academic year. Most enrollment growth in 2012 was associated with OSU, while enrollment actually decreased at SOU and PSU. Enrollment of resident first-time-freshman has decreased each year since 2008 (see Figure 22).

Figure 22: Residency Status of First-time Freshman, 2000-01 to 2011-12



Source: OUS Insitutional Research.

As shown in Figure 22, the enrollment of non-resident full-time, first-time freshman, although steadily increasing from academic years 2005-06 to 2008-09, has fluctuated in recent years and declined between 2010-11 and

2011-12. As a result, total enrollment of first-time, full-time freshman has remained relatively flat since 2008-09. Declines in enrollment growth, particularly in non-resident enrollment, are a potential threat to OUS's current strategy of increasing non-resident enrollment to help increase tuition revenues and balance university budgets.

The OUS Chancellor's Office receives summary reports on the number of applications, admittance, and enrollment from each campus for each year and tracks the percent of first-time freshman applicants who enroll at OUS institutions. However, the office does not report the number of applicants who are admitted, or the numbers of admitted students who actually enroll at an OUS institution. Universities report this information individually to the federal government, but based on our analysis the information does not appear to be reliable.

In addition, the Chancellor's Office only receives demographic information, including high school GPA or SAT score for the students who actually enroll at an OUS institution. The office does not monitor the demographics of non-admitted students or admitted students who choose not to enroll at an OUS institution. Without this information, the Chancellor's Office and policy makers do not fully understand admittance patterns, or the kinds of students who do and do not choose to attend OUS universities. This information could help OUS improve enrollment outcomes and better compete for desirable students. To better identify competitor schools and understand enrollment trends, other public universities, including Indiana State University and the University of Minnesota, have used publically-available data from the National Student Clearinghouse to determine what happened to admitted students who enrolled elsewhere.

Universities do not track the full cost of enrollment changes

OUS universities are relying on increased enrollment to help balance their budgets. However, they do not know the full costs of increasing enrollment, particularly costs associated with increased physical capacity. While OUS universities have an estimate of the personnel costs to add a group of students to a department, they generally do not know the overhead costs of additional physical space, and therefore do not know the full cost of enrolling more students.

Universities calculate the average cost to educate a student. This figure includes an estimate of the costs of maintaining physical infrastructure, but does not include any consideration of marginal costs associated with increased capacity, such as debt service or capital construction. Not knowing these costs makes it difficult for OUS to understand the full cost of enrolling more students in a class or department.

Universities do not track cost differences for non-traditional students

Declines in enrollment of first-time, full-time freshman may be partially offset by increased enrollment of part-time students and transfer students from Oregon community colleges. Between the 2002-03 and 2010-11 academic years, the percent of part-time students relative to total headcount enrollment at OUS has increased from 21% to 25%. In the same time period, headcount enrollment of transfers from Oregon community colleges has also increased. However, OUS universities do not account for the different enrollment costs of these students.

OUS's estimate of the cost to educate a student is based on total student FTE and does not account for any differences between full-time, part-time, or transfer students. Part-time students, who often have jobs, may take classes in specific periods of time, increasing demands on capacity during certain peak hours. Transfer students who enter at the junior or senior level have a different cost model than first-time freshman. Upper-level classes tend to be smaller, require more specialized faculty, and may be more resource-intensive. Transfer students entering as upper-classman take more of these expensive courses, and do not provide revenue to the school by attending the income-producing lower-level courses. Without comparing the costs to educate these different kinds of students, the universities may not fully understand the financial impacts of enrollment changes.

Universities are Not Connecting Enrollment Patterns With Outcomes

OUS universities have a limited understanding of how enrollment changes impact student access and university costs. This incomplete understanding of enrollment patterns also affects universities' ability to improve student outcomes.

OUS is not tracking or reporting outcomes for increasing numbers of non-traditional students

With the exception of graduation rates for some community college transfers, OUS only reports outcomes for students who started as first-time, full-time freshman. Studies have shown that part-time students are less likely to complete a degree, while community college transfers, particularly those who enter four-year universities with an associate's degree, have higher graduation rates than traditional students.

Performance measures that exclude non-traditional students are incomplete and potentially inaccurate. Without a better understanding of performance of all kinds of students, it will be difficult for university leaders and policy makers to implement changes that might lead to higher completion rates and more successful students. As the numbers of both part-time and community college students increase at universities, tracking and reporting their outcomes is important for transparency, accountability, and ensuring student success.

OUS institutions are admitting unprepared students without ensuring their success

National studies have shown that both high school GPA and SAT scores are valid predictors of a student's likelihood to remain in college and obtain a college degree. Results within OUS show a similar pattern; admitted students with higher GPAs and SAT scores have a higher likelihood of completing college, while students with lower GPAs and SAT scores are more likely to stop out or take longer to graduate. However, OUS institutions have continued to admit students whose GPA and SAT scores indicate that they are unlikely to graduate without improving outcomes for these students.

We analyzed the SAT scores, GPAs, and outcomes for all students enrolled as first-time, full-time freshmen in the 1998-99 and 2005-06 academic years. In both groups, more than 30% of the admitted students had a combined Math and Reading SAT score of less than 1000. These students were significantly more likely to stop out of school than students with higher SAT scores. OUS considers students who leave OUS as stop outs. For example, in 1998, 41% of students admitted to OUS with SAT scores between 700 and 999 had stopped out of school after four years, while 53% of students with a score of 400-699 had stopped out in the same time period. Conversely, only 32% with SAT scores of 1000 - 1299 and 25% of students with SAT scores over 1300 stopped out in the same time period. Some students listed as stopping out may be continuing their college education elsewhere. However, OUS does not routinely track how many of these students enroll in college after leaving OUS.

OUS universities showed similar patterns with GPA distribution. In 1998-99, 23% of the admitted students had a GPA below 3.0; in 2005-06 this percent had decreased to 16%. Students with a GPA lower than 3.0 are more likely to stop out and less likely to graduate. In fact, for both 1998 and 2005 freshmen, higher GPA meant a higher likelihood of graduating while lower GPA meant a lower likelihood of graduating and a higher likelihood of stopping out.

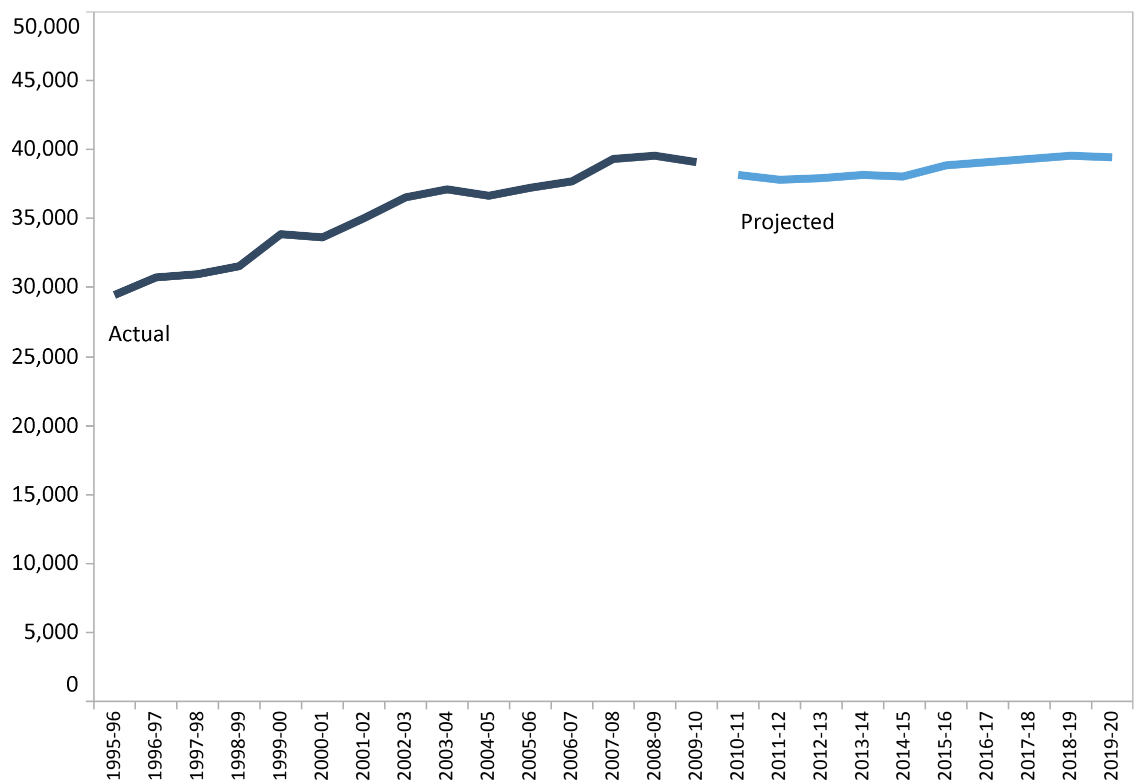
The OUS Chancellor's Office collects student outcome information linked to both GPA and SAT scores. As a result, they are aware of the connection between high school GPA, SAT scores, and the likelihood of either stopping out or graduating from college. Despite this information, from 1998-99 to 2005-06, OUS continued to admit significant numbers of students with low likelihoods of success, without improving their outcomes.

Based on current projections, OUS institutions are unlikely to meet 40-40-20 goals

The OEIB has estimated that OUS would need 434 additional bachelor degrees each year over the next 12 years in order to meet the state's 40-40-20 educational goals by 2025. Since 1999-00, OUS' bachelor's degree production has increased an average of 359 degrees each year. However, flattening numbers of high school graduates, decreasing levels of college preparedness and lower likelihood of college completion, make it unlikely that OUS institutions will produce the number of degrees needed to meet Oregon's 40-40-20 educational goals.

Demographic changes in Oregon may mean that fewer students enroll in college. Recently, Oregon was found to have the fourth-worst high school graduation rate in the country. As shown in Figure 23, the number of students graduating from high school is projected to slow, in part because the fastest-growing youth populations in Oregon currently have low high-school completion rates. For example, the proportion of Latino seniors in Oregon high schools is projected to grow from 14% in 2008 to 22% in 2020. In 2011, only 58% of Latino high school students graduated from high school, the fourth-worst graduation rate for Latinos in the nation and the second-worst rate for racial groups in Oregon. For comparison, 70% of White students, 78% of Asian students and 54% of African-American students graduated from high school in Oregon in 2010-11. Unless high-school completion rates for Latinos improve, Oregon high school graduation rates could decline further.

Figure 23: Annual Number of Oregon High School Graduates, 1995-96 to 2019-20



Source: OUS Institutional Research using data collected by the Oregon Department of Education and NCES Private School Universe Survey.

Those students who do graduate from an Oregon high school may be less-prepared for college. In the last few years, Oregon high schools have experienced declining results for students. Oregon seniors' SAT scores have been declining over the last decade; however there was some improvement in 2012. The average SAT score in 2011 at all OUS universities except UO, OSU, and PSU were lower than the Oregon average. For cohorts analyzed by OUS, students with an average Oregon SAT score have an approximate 33% four-year college graduation rate. Those OUS universities that admit students with lower than Oregon average SAT scores (EOU, WOU, SOU, and OIT), suggesting a lower level of college preparation, may struggle with timely college completion. Increases in part-time students, with historically lower graduation rates, might further lower the graduation rates for OUS universities.

Despite the challenges of declining college readiness and potentially flattening numbers, OUS universities are working to recruit Oregon high school graduates. Representatives from OUS universities visit Oregon high schools and advertise throughout the state. In some cases, universities are attempting to augment K-12 education by teaching summer programs for high school students, and helping Oregon students prepare for college. Some universities teach college preparatory courses in high schools or offer college credit for advanced high school courses.

OUS reliance on increasing tuition revenues is unsustainable

Currently, universities rely upon increases in tuition and enrollment to help balance budgets, but changes in enrollment patterns, competition and state demographic projections make reliance on tuition revenue unsustainable in the long term.

OUS universities can only raise their tuition to a certain level before the price becomes prohibitive. A national study estimated that an increase of $100 in tuition and fees would lead to a decline in enrollment of approximately 25 students. In Oregon, where the median income is less than the national average, this price sensitivity may be even greater. University leaders told the Audits Division that their strategy for long-term sustainability involved increasing recruitment of non-resident students. However, the tuition threshold for these students is relatively low due to increased national competition for students and OUS universities' relatively low rankings for quality and research compared to peer universities.

Greater Attention Needed to the Success of Admitted Students

Universities that admit students with a lower likelihood of success have a greater responsibility to help these students so that they do not attend for a period of time and then stop out. If these students stop out after taking out loans to attend school, they may have difficulty paying back the loans, particularly if they fail to earn a degree.

Student success can be defined in many ways, and there are many theories on how to increase student success. Identifying prescriptive, one-size-fits-all remedies to boost student outcomes is not always possible. However, multiple studies have identified practices shown to increase rates of student retention, engagement, and degree completion. These practices include first-year seminars or "learning communities" that bring small groups of students together with faculty on a regular basis, collaborative learning with other students, frequent feedback to students, early detection and intervention for students who are struggling, and intensive mentoring of students on topics ranging from study skills to time management. Some studies have found that the positive effects of these practices are even greater for students who begin college at a lower achievement level.

University efforts to boost outcomes

All OUS universities have initiated programs to boost student outcomes that match some of the recommended practices above. Western Oregon University offers a Diversity Commitment Scholarship to approximately 70 students whose communities are more likely to lack "college knowledge." The scholarship is accompanied by academic monitoring and planning. Oregon State University offers the Summer Bridge Program, a 3-week program for incoming students with weaker academic preparation that includes a traditional curriculum, living on campus, and academic support. The University of Oregon offers Freshman Interest Groups consisting of 25 freshman who are co-enrolled in two General Education courses and a one-credit seminar, all taught by the same faculty member. Oregon Institute of Technology has an Early Warning Program that assesses student success indicators upon entry to the school and throughout the term, and provides assistance if a student is identified as at risk of stopping out or not meeting education goals.

Most OUS universities also offer services to students under the federally funded TRiO program, which is designed to identify and provide services to college students from disadvantaged backgrounds. To be eligible, a student must either be a first generation college student, meet certain federal income guidelines, have a documented physical or developmental disability, or have a demonstrated academic deficiency such as low GPA or SAT scores. TRiO programs focus on academic advising, tutoring, student study groups, assistance with financial aid, and other services. However, neither TRiO services nor the other success initiatives are available to all students who may need them.

Universities should evaluate the effectiveness and efficiency of success strategies

Because students come to universities with a variety of backgrounds and needs, not all strategies will work for all students. For this reason, research on student success has recommended that universities routinely analyze their student success programs to understand what is working for whom. Importantly, national studies have found that universities should analyze cost effectiveness so they can determine which programs provide the greatest return on investment.

Information on the effectiveness of programs can be gathered and analyzed at many levels. Knowledge of individual student progress can help with specific interventions, for example to ensure that programs are actually helping students stay on a path to degree completion. Data on program performance can help universities understand if a program is effective in the aggregate, and whether it should be improved or dissolved. Finally, information about overall university performance can guide investment and ensures accountability. Performing all three analyses is particularly important when resources are constrained and student preparedness is low, necessitating success programs with benefits that outweigh their costs.

Some universities are already assessing the effectiveness of student support services. The University of Oregon Student Affairs division has an Assessment and Research department intended to help evaluate if programs are meeting the goal of advancing student learning. The department states that it performs both outcome and cost effectiveness assessments. Portland State University's Enrollment Management and Student Affairs Division, which encompasses student support services, created an Assessment Council in early 2011 and recently published a handbook on assessment practices. Further development of systematic assessments of student learning, particularly those practices aimed at supporting at-risk students, could increase the universities' ability to efficiently and effectively boost student outcomes.

Most OUS Outcomes for Students Need Attention

In its performance report to the State Board of Higher Education, OUS focuses upon the following goal areas:

- Access and Participation
- Student Progress and Completion
- Academic Quality and Student Success
- Educated Citizenry and Workforce Development
- Knowledge Creation and Resources

Within these goal areas, specific performance measures included freshmen retention, graduation rates, total degrees awarded, student-faculty ratio, and employment outcomes. Each university also has its own set of campus-specific performance measures, and reports time-to-degree to the Oregon Department of Administrative Services and the Oregon Legislature.

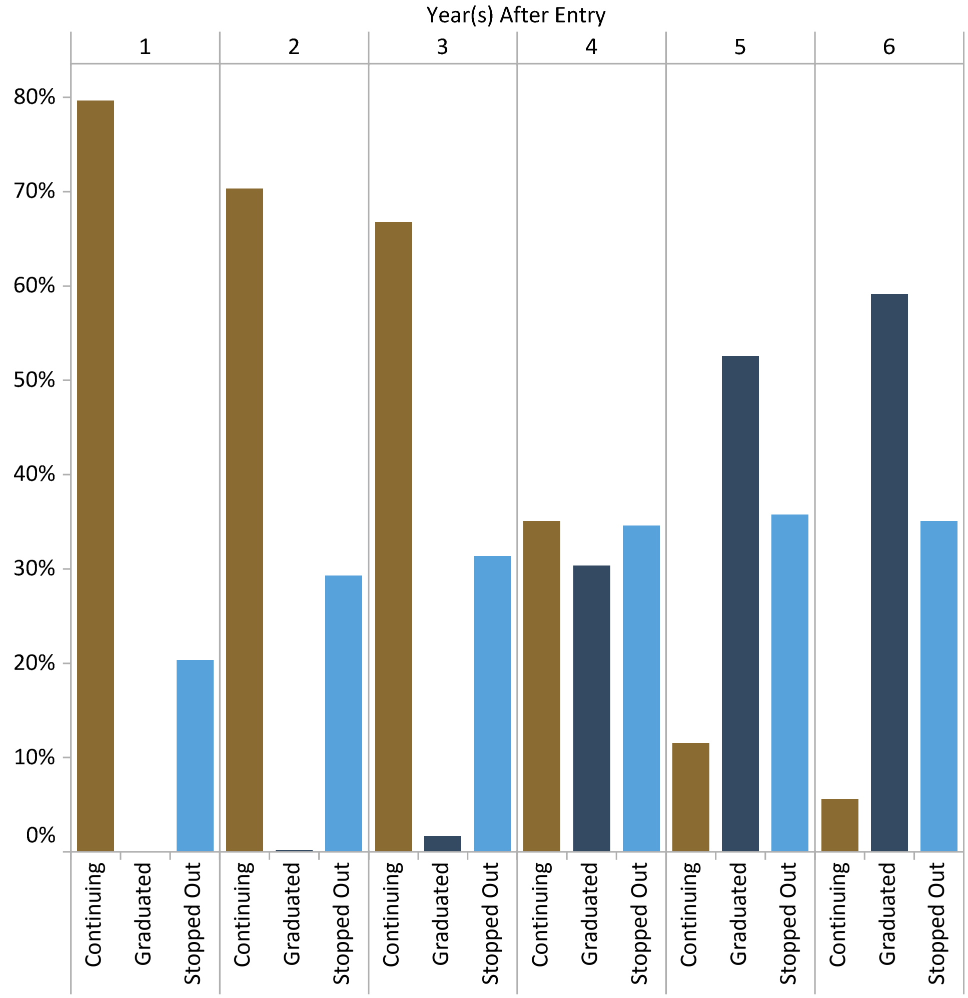
Graduation rates below national averages

OUS defines the graduation rate as the number of first-time, full-time freshman entering and graduating within six years, either within the same institution or within the OUS system. Overall, OUS six-year graduation rates are lower than average national graduation rates for similar institutions. Oregon's three largest public universities - UO, OSU, and PSU - had an average six-year graduation rate of 63% for students who entered as full-time freshman between 1998-99 and 2005-06, slightly higher than the OUS average but still below national averages for public research universities. Six-year graduation rates for students entering as first-time, full-time freshman during this period at UO and OSU were 69 and 65%, respectively, putting only UO over the national average for public research universities. The average graduation rate at Oregon's four regional universities for all students entering as first-time, full-time freshman between 1998 and 2005 was 48%. This is much lower than the overall average for public universities, and lower than the national average for public four-year colleges, which tends to be lower than public universities and was 49.5% for students entering as first-time, full-time freshman in 2004-05.

OUS institutions have increased their six-year graduation rate 4.6 % from 1999-00 to 2009-10, moving the percent of students graduating from 55.4% to 60%. This meets OUS's current performance target for graduation rates. However, the graduation rate changes for individual institutions varied greatly. UO and EOU increased their graduation rates by 9.7% and 7.5% respectively, but the other institution's graduation rates improved by smaller percents; 2.8% at PSU and less than 2% at all other institutions.

OUS institutions do not report four-year graduation rates, even though all of the institutions are set up to offer degrees in a four-year time period. For all institutions, the four-year graduation rate was much lower than the six-year graduation rate. OUS tracks graduation outcomes of first-time, full-time students using a cohort system where the number of students graduating, continuing on in their studies and stopping out is tracked each year for the first six years after entry into an OUS institution. OUS is able to track students who transfer between OUS universities and does not consider them as stop outs. When including intra-OUS transfers, the average four-year graduation rate for students entering in 1998 – 2005 was only 30%, although UO's four-year graduation rate was higher at 42%. These same student cohorts only averaged a 53% graduation rate after five years, see Figure 24.

Figure 24: Average Graduation Rate for Freshman Entering OUS from 1998-99 to 2005-06



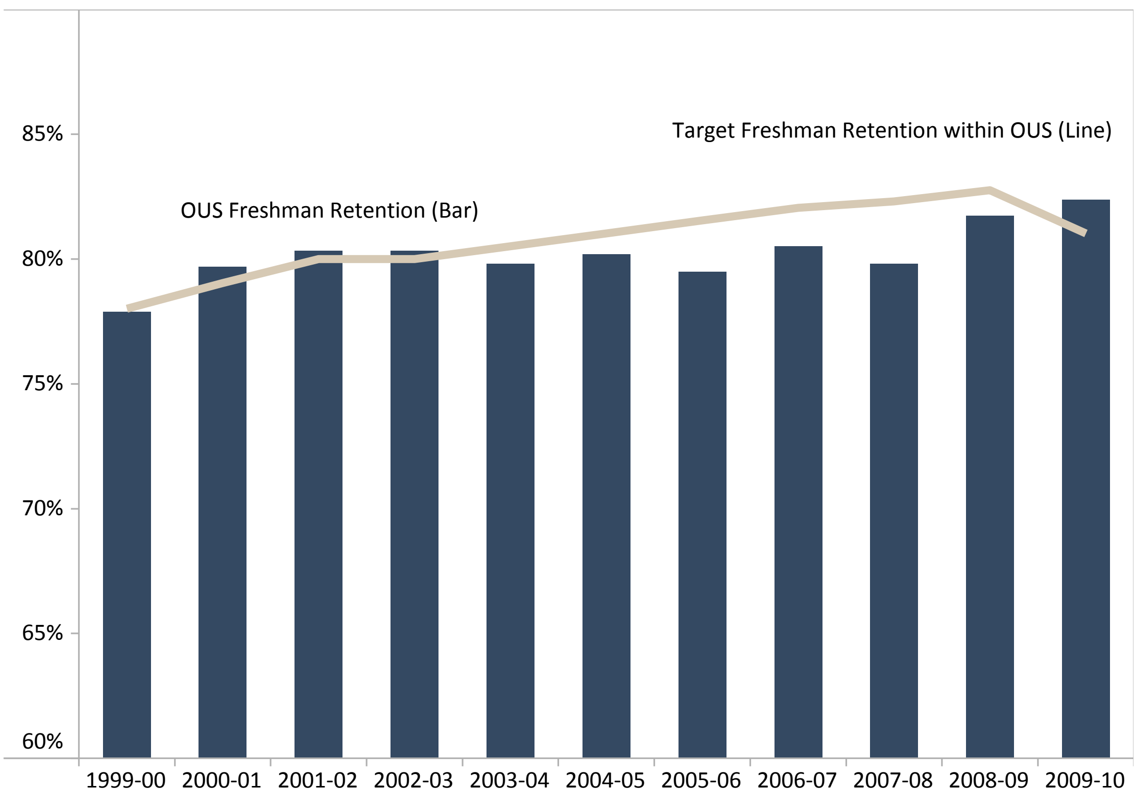
Source: OUS Institutional Research. Outcomes only reported for those students who entered OUS as first-time, full-time freshman.

Student retention improving slightly

Students who stop out of school before obtaining a degree will have incurred costs for attending school. If these students have taken out loans to pay for college, they will have acquired a debt burden without obtaining the degree that would increase their earning potential and ability to pay back the loan. Attrition can also be costly to states; a 2010 study estimated that Oregon spent $55 million between 2003 and 2008 on students at public universities who did not return for a second year of college.

OUS reports retention rates as the percent of first-time, full-time freshman who return to the same institution for a second year. OUS institutions also track retention within the entire OUS system. As shown in Figure 24, for the cohorts of students entering as full-time freshman from 1998-99 – 2005-06, an average of 20% of students stopped out of all OUS institutions after the first year, with the stop-out rating increasing to 35% after four years.

Figure 25: OUS Freshman Retention – Outcomes and Targets, 2001-02 to 2009-10

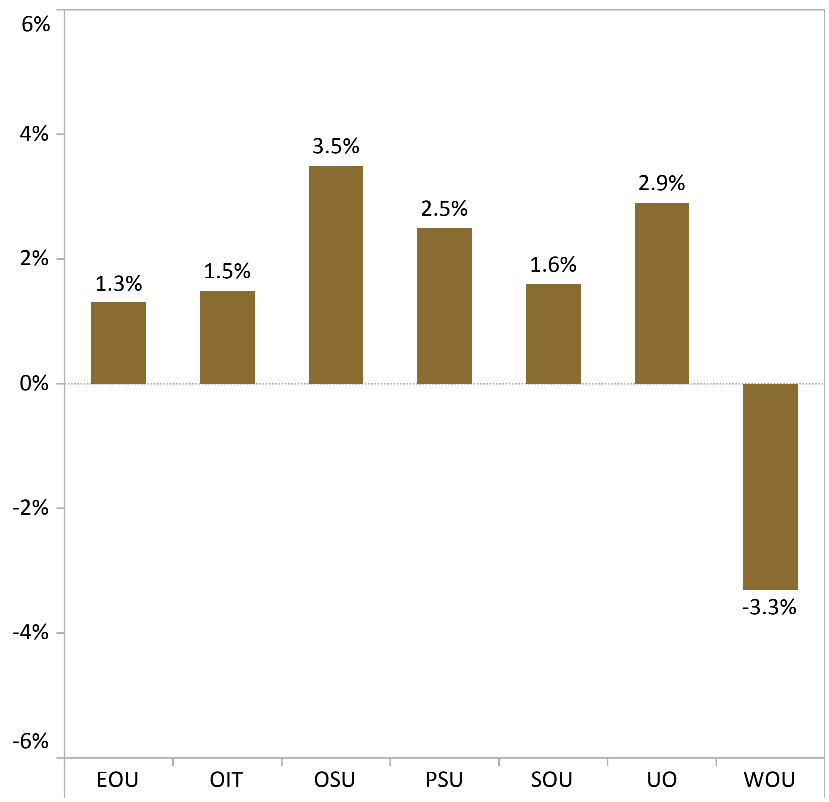


Source: OUS 2011 Performance Report to the State Board of Higher Education.
Non-zero axis used to highlight differences.

Figure 25 shows the overall OUS retention rate, which increased 4.5% between the 2001-02 and 2009-10 academic years. In the same time period, individual institution retention rates have improved between 1 and 3%, although retention rates at WOU fell 3% (see Figure 26).

Although universities have experienced slight improvements in their retention of first-time, full-time freshman for the first year of school, these improvements are small compared to the large percentages of students who stop out of school within four years of entry.

Figure 26: Change in Freshman Retention Rates between 2001-02 and 2009-10

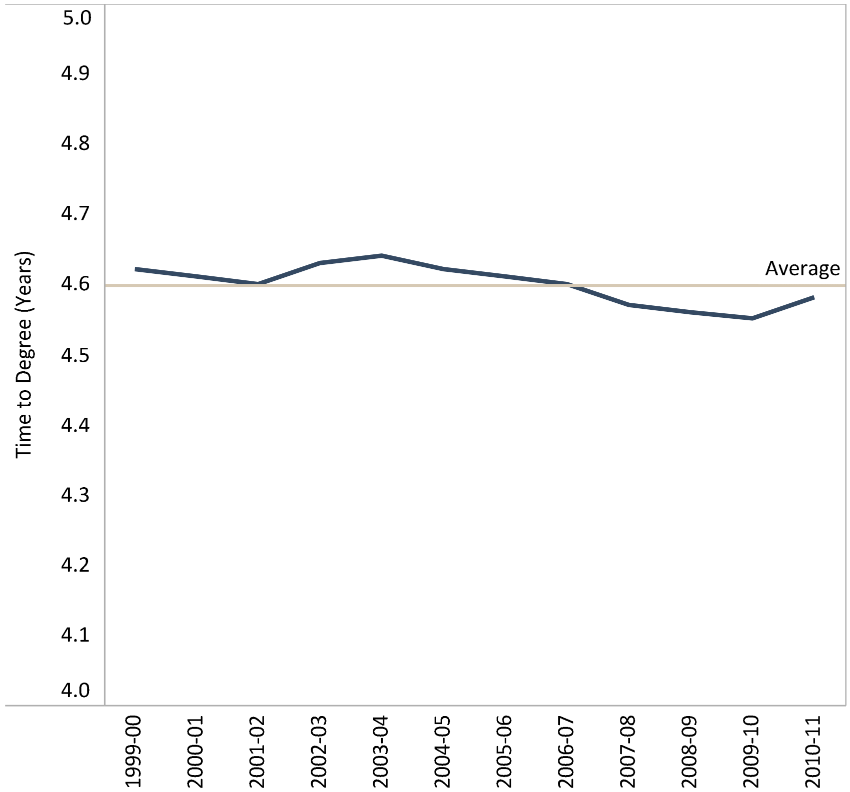


Source: OUS 2011 Performance Report to the State Board of Higher Education.

Time needed to graduate unchanged

Increasing the time taken to graduate can substantially increase the cost of college, and add to debt burdens for those students who borrow money to pay for school. Between the 2000-01 and 2010-11 academic years, the time to degree has remained fairly constant, averaging 4.6 years, with a slight decrease between 2001 and 2009 but an increase in 2010-11. Despite having a strong impact on student costs, this measure is only consistently reported in the Key Performance Measures to the Oregon Department of Administrative Services, and is not featured in either the achievement compacts or the Performance Report to the State Board of Higher Education.

Figure 27: Time to Degree, 1999-00 to 2007-08

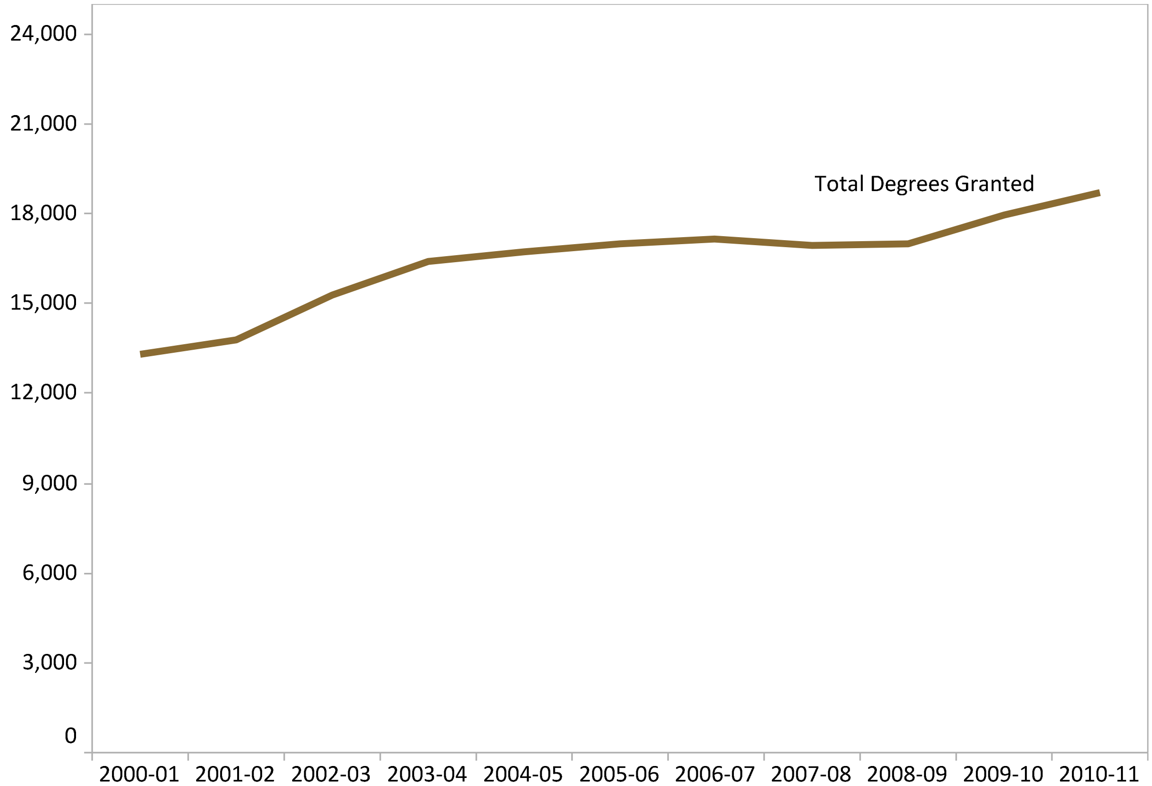


Source: OUS 2011-2012 Annual Performance Progress Report to the Legislature.

Universities are increasing the number of degrees granted

OUS universities have steadily improved the number of degrees granted each year, moving from 13,288 in 2000-01 to 18,694 in 2010-11, an increase of 40%. The number of degrees granted to resident students increased 38% while the number granted to non-resident students increased 50%. The proportion of degrees granted to residents decreased slightly to 75% in 2010-11, down from 77% in 2000-01. The overall increase in degrees awarded could be partially explained by increases in overall enrollment during the same time period.

Figure 28: Total OUS Degrees Granted, 2000-01 to 2010-11

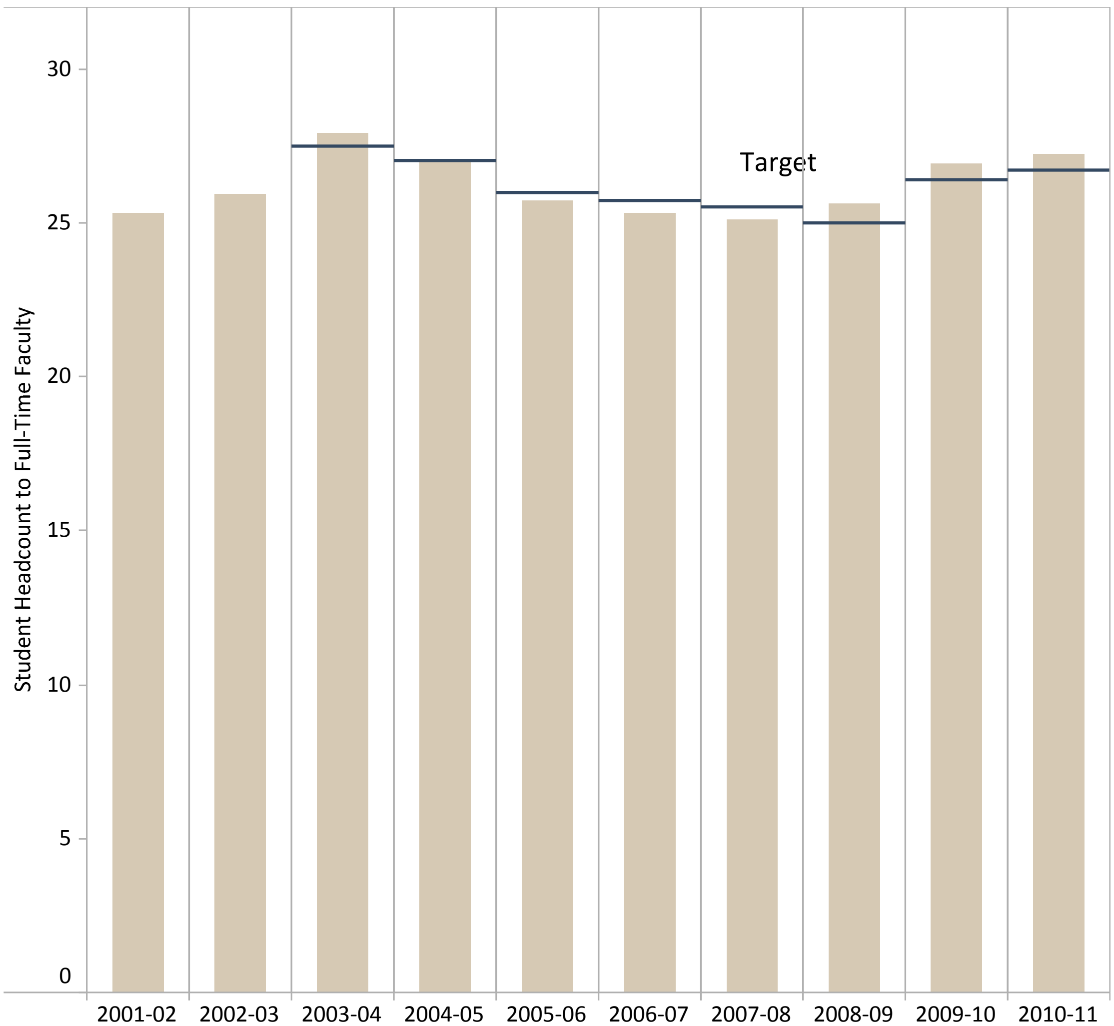


Source: OUS Institutional Research.

Student-faculty ratio increasing

As noted earlier, OUS reports student-faculty ratio as a performance measure to the State Board of Higher Education. This ratio is defined as the ratio of fall FTE enrollments to full-time instructional faculty headcount. This ratio reflects the extent to which faculty are able to provide student advising, mentoring, thesis guidance, or help with students' extracurricular projects. OUS's goal for student-faculty ratio in the 2010-11 academic year was 26.7. In 2010-11, the actual student-faculty ratio was 27.2, above the target. The student faculty ratio at OUS has fluctuated since 2001-02, increasing from 25.3 in 2001-02 to 27.9 in 2003-04, and then decreasing to 25.1 in 2007-08 before increasing each year from 2008-09 to 2010-11.

Figure 29: Students per Full-time Faculty, 2001-02 to 2010-11



Source: OUS 2011 Performance Report to the State Board of Higher Education.

OUS has inconsistently tracked graduates' employment outcomes

Although listed as a performance measure OUS has not tracked employment outcomes for graduates since 2007 due to staff and budget reductions in the Chancellor's Office.

OUS achievement compacts require that universities report on the unemployment rate of their graduates compared to the basic Oregon unemployment rate, and also include a measure of employer satisfaction with OUS alumni. However, OUS universities did not submit projections or targets for these measures in their recently approved achievement compact agreements for the 2011–12 and 2012-13 academic years. Establishing a target would help OUS universities gauge their progress on this measure.

Recommendations

As Oregon's entire education system is being restructured, the roles and responsibilities of entities involved in higher education should be clarified. In addition, OUS should identify and implement strategies to strengthen its financial decision-making and improve student outcomes. To accomplish this, OUS should improve its tracking and reporting of financial and performance data, which can aid in evaluation and help to identify areas for improvement.

Clarify governance structure

We recommend the following entities clarify their responsibilities regarding financial and performance outcomes within Oregon's higher education structure:

- Oregon Chief Education Officer
- Oregon Education Investment Board
- Oregon State Board of Higher Education
- Higher Education Coordinating Commission
- Chancellor of the Oregon University System
- OUS University Presidents
- Institutional Governing Boards
- Oregon Legislature

To create a transparent financial decision making system, we recommend:

- OUS and its universities track, report, and evaluate costs across all levels of higher education in order to prioritize spending and improve financial decision making. This should be done in a manner that allows policy makers and the public to understand university spending priorities and trends.
- OUS and its universities provide transparent accounting linking tuition revenue to educational spending, including operational and nonoperational costs. As a part of this effort, OUS and its universities should ensure they allocate resources, including faculty efforts, to improve student outcomes.
- OUS and its universities routinely determine and document the short-term and long-term impact on education costs when making financial decisions at all levels of higher education.
- OUS and its universities routinely evaluate their long-term financial plans to determine the feasibility and impact on higher education in Oregon, e.g. dependence on non-resident tuition.
- OUS and its universities closely monitor and routinely report on personnel costs, including faculty members, in order to track spending

trends, identify potential savings, and determine where resource and staffing adjustments can be made to improve student outcomes.

- OUS clearly, publically, and consistently demonstrate its reasons for increasing tuition, e.g. personnel cost increases, construction costs, etc.
- OUS work with the state to better control its PERS and PEBB costs.
- OUS and its universities account for all direct and indirect costs for both sponsored and non-sponsored research.
- OUS and its universities track, analyze, and report on costs and program needs for different students including non-resident, less prepared, part-time, and transfer students. Use this information to create a comprehensive enrollment and financial management strategy that includes enrollment impacts on outcomes, capacity, and course management.

To improve student outcomes, we recommend:

- OUS clarify lines of authority and responsibility for student outcomes, and tie achievement compacts to funding and/or other accountability measures.
- OUS identify academic needs for all students and implement proven practices to help meet these needs and boost outcomes.
- OUS consistently evaluate initiatives for improving student success and cost effectiveness, and alter or eradicate those programs whose benefits do not outweigh their costs.
- OUS track, analyze, and report on performance data for all students rather than first-time, full-time freshman, such as graduation rates, retention and degrees completed relative to all OUS students, including part-time and transfer students.

To control the cost of attendance and reduce student debt burden, we recommend:

- OUS determine the unmet financial need for all of its students and align its financial aid programs to provide access and reduce student debt for those most in need.
- OUS and its universities regularly evaluate the demographics of aid recipients to ensure intended populations are benefiting, and adjust award criteria for university aid where needed.
- OUS and its universities increase efforts to explain to prospective students the difference between net and published tuition rates to ensure all eligible students apply for admission.
- OUS and its universities develop strategies to increase timely graduation in order to reduce the financial burden and subsequent debt for students.
- OUS and its universities expand efforts to educate students and parents about living expense decisions, the seriousness of incurring debt, advantages and disadvantages of various student and family loan options, and solutions to reduce debt.

- OUS and its universities track and report costs associated with student populations who stop out, transfer, stop their education, or take more than four years to graduate. In addition, OUS and its universities inform each student about how these variables can impact their own debt.

Objectives, Scope, and Methodology

The objective of our audit was to identify opportunities to control cost of attendance and improve outcomes at Oregon's public universities.

To accomplish our objective, we analyzed trends in a variety of areas, including revenues and spending, tuition and fee rates, per-student expenditures, student living expenses and other costs of attendance, and student debt. We reviewed changes over time in enrollment patterns, student demographics, and student outcomes. We studied university and system-wide budgeting, cost analysis, and tuition-setting processes. We compared OUS systems to best practices in a variety of areas, including financial reporting, student information tracking, cost analysis and financial decision-making, and institutional governance. We also considered other trends affecting the OUS system, such as national university competition for non-resident students and trends in research spending.

As a part of our efforts, we reviewed numerous documents related to university activities such as their missions and goals, performance measures, the OUS Fact Book, annual Tuition and Fee Books, and annual financial reports. We also reviewed applicable state laws and administrative rules concerning Oregon universities, including changes in the law from recent legislation and Oregon's new goals for higher education attainment. To identify best practices for higher education spending and outcomes, we reviewed national studies as well as other state and university reports. Our calculations of spending per student are based upon measures recommended by The Delta Cost Project, a national group focused on improving productivity and accountability for performance in post-secondary education.

Our analysis primarily relied upon data from the Oregon University System. We analyzed the following datasets, which were either provided directly by OUS or compiled from published sources, such as OUS Fact Book reports and audited financial statements.

- Fall base headcount enrollment of full-time, first-time freshman from academic years 1997-98 to 2011-12;
- Total student FTE enrollment, broken down by resident fee-paying status and undergraduate/graduate level, from academic years 2000-01 to 2011-12;
- Number of Oregon high school graduates, actual and projected, from 1995-96 to 2019-2020;
- Resident and non-resident tuition and fee rates from academic years 2001-02 to 2011-12;
- Total number of Bachelor's, First Professional, Masters, and Doctoral Degrees produced, from academic years 1994-95 to 2010-11, broken down by residency status of recipient;

- Retention, graduation and stop-out rates, including intra-system transfers, for students entering as first-time freshman from academic years 1998-99 to 2005-06;
- OUS annual financial reports from FY 2003 – FY 2011;
- OUS Audited Financial Statements from FY 2003 – 2011;
- Total OUS spending on health and retirement programs from fiscal years 2004 – 2012;
- Total OUS spending on employee salaries from fiscal years 2003-2012;
- Total tuition revenue, broken down into types of tuition, from fiscal years 2000 – 2012;
- Total number of students who applied, were admitted and enrolled in OUS institutions, broken down by residency status and individual institution, from academic years 2000-01 to 2011-12;
- GPA scores and SAT average scores and percentiles for first-time, full-time freshman entering OUS universities, broken down by university, from academic years 2001 – 2011;
- Per-student graduation, retention, and stop-out rates, linked to high school GPA and SAT scores, for students entering OUS universities in academic years 1998-99 and 2005-06;
- Employee FTE totals and classifications for fiscal years 2003 – 2012;
- Headcount of instructional faculty and graduate Assistants for academic years 2002, 2004, 2006, 2008, 2009, 2010, and 2011;
- OUS share of Oregon General Fund dollars for 1987-89 through 2011-13 bienniums;
- State appropriation to OUS for fiscal years 2001 – 2011;
- Resident undergraduate student budgets, in academic years 1981-82 and 1984-85 to 2011-12;
- Average debt at graduation per borrower for bachelor's degree completers for academic years 2000-01 and 2003-04 to 2009-10;
- Housing and board rates and policies for 2011-12;
- OUS undergraduate enrollment in remedial math or writing courses from academic years 2001-02 to 2011-13;
- Oregon high school graduates enrolled in remedial courses from academic years 2001-02 to 2011-12;
- Student aid by program and students served from academic years 2003-04 to 2009-10.

We also analyzed data from a variety of national sources, including:

- OUS and national spending on research and development from 2005 – 2009, from the National Science Foundation Center for Statistics;
- Consumer price index from 1947 to 2012, from the U.S. Bureau of Labor Statistics;
- Median family income from 2005 to 2011, from the U.S. Census Bureau;

- Oregon minimum wage from 2009 to 2012, from U.S. Department of Labor;
- Net price of attendance by income level from 2009 to 2011, from U.S. Department of Education's Integrated Post Secondary Dataset;
- Average debt at graduation per borrower for bachelor's degree completers, for 2004-05 to 2009-10 from The Institute for College Access & Success, College InSight;
- Resident undergraduate student budgets for national public four-year and above institutions, for academic years 2000-01, 2003-04 to 2010-11, from The Institute for College Access & Success, College InSight;
- Median annual earnings and percentage of full-time full-year wage and salary workers by educational attainment for 1995, 2000, and 2005 to 2010.

All financial information was adjusted for the rate of inflation using constant (2012) dollars based on the Consumer Price Index for All Urban Consumers (CPI-U) U.S. city average, adjusted for the state fiscal year. For any data that was not a part of a published report, we took steps to verify the reasonableness of the data but did not verify its accuracy. These steps included corroborating data with other published sources and following up on any apparent anomalies in the data. Based on these steps, we believe the data is sufficient and appropriate for our audit purposes. Due to changes in Governmental Accounting Standards Board requirements, OUS was unable to corroborate health care cost amounts prior to 2007. We were also unable to corroborate OUS data on undergraduate and first-time freshman enrollment in remedial courses.

We conducted 73 interviews with 61 university and Chancellor's Office staff; including 17 financial administrators from all seven universities and the chancellor's office; institutional research staff from five universities and the chancellor's office; research staff from UO, OSU, and PSU; six enrollment and admissions staff members from five universities; four university provosts; and administrators from other areas, such as academic affairs. We also interviewed representatives from the Oregon Chief Financial Office, Legislative Fiscal Office, and the Office of the Governor.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence we obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

About the Secretary of State Audits Division

The Oregon Constitution provides that the Secretary of State shall be, by virtue of her office, Auditor of Public Accounts. The Audits Division exists to carry out this duty. The division reports to the elected Secretary of State and is independent of the Executive, Legislative, and Judicial branches of Oregon government. The division audits all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

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This report, a public record, is intended to promote the best possible management of public resources. Copies may be obtained from:

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The courtesies and cooperation extended by officials and employees of the Oregon University System during the course of this audit were commendable and sincerely appreciated.

Oregon University System

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April 9, 2013

Gary Blackmer
Oregon Audits Division
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Dear Mr. Blackmer:

The Oregon University System would like to extend our appreciation to the Secretary of State Audits Division for their detailed work and for highlighting the need to continually strengthen the higher education system in Oregon. We all agree higher education is a vital component to our state's future. We also wish to extend our overall agreement with the need to continually strive to control costs, seek new ways to improve student outcomes and clarify the governance structure in order to meet our statewide goals of 40-40-20. The OUS, state legislature and executive branch are currently working collaboratively to set these statewide goals in motion.

OUS has seen record enrollments, with increased numbers of resident and non-resident students each year. Oregon was recognized as having the highest five-year public postsecondary enrollment growth in the country last year. Record levels of research and sponsored project expenditures in the OUS, and the fact that our faculty, along with OHSU, rank seventh in the country in obtaining federal grants on a per faculty member basis, demonstrates that OUS is very competitive in these areas nationally. Record numbers of degrees being conferred, improved retention and better student success show the progress being made, and point out where we do need to do better to bring equity in access, affordability and completion to all Oregon students. Past success does not predict future success. The reality is the model of shifting costs from the state to the student is not a sustainable one for our future.

OUS institutions are among the most efficient and, as cited by the Delta Cost Study work, rank among the very lowest cost per degree of any public higher education system in the nation. Yet, OUS institutions have achieved this with state support per student that has consistently declined over the last twenty years, with extremely low levels of state financial aid for students -- despite the fact that Oregon's per capita income is 29th in the nation - and with many mandated programs and cost constraints, including pension and healthcare benefits, that lie outside of our control. OUS is currently 44th in state appropriation funding per student nationally, and 43rd nationally in state- provided financial aid per student. Over the last 16 years, OUS' instructional cost per student has tracked fairly closely to the change in the Consumer Price Index (CPI) even though the costs of participating in state mandated employee benefit and assessment programs have increased far in excess of these rates of inflation. This is the result of our hardworking employees who are more productive now than ever before. Given this, it is imperative that we all work together to build a new model of higher education funding that is more sustainable than the existing structure.

Over the last ten years, the vast majority of resident undergraduate tuition increase is the result of reductions in state investment per student. From 2003 to 2012 tuition increased by $2,380 in inflation adjusted dollars, while state appropriations per student declined by $2,344 also in inflation adjusted dollars. Thus, while it is always important to control costs, this has not been the primary driver of tuition increases in Oregon.

We appreciate your observations, and agree that there are a number of challenges that we need to work on collectively to continuously improve our operations. The purpose of this introduction is to provide important context to the OUS response to this audit and to note that we should all be concerned about the sustainability of the current model.

Recommendation Summary

Clarify governance structure

We recommend the following entities clarify their responsibilities regarding financial and performance outcomes within Oregon's higher education structure:

- **Oregon Chief Education Officer**
- **Oregon Education Investment Board**
- **Oregon State Board of Higher Education**
- **Higher Education Coordinating Commission**
- **Chancellor of the Oregon University System**
- **OUS University Presidents**
- **Institutional Governing Boards**
- **Oregon Legislature**

OUS Response:

OUS agrees with this recommendation. We are awaiting the work of the Legislature and the Governor during the 2013 Session in terms of the outcomes of legislation that may create institutional boards, a new education department for the state and that may change the mission and function of the State Board of Higher Education, the OUS System Office, and the Higher Education Coordinating Council. The OSBHE has weighed in on institutional boards through its recommendations to the Legislature last year, and are providing counsel and thought leadership to the Legislature, at their request, on these other areas as well.

Financial decision making systems

Recommendation: OUS and its universities track, report, and evaluate costs across all levels of higher education in order to prioritize spending and improve financial decision making. This should be done in a manner that allows policy makers and the public to understand university spending priorities and trends.

OUS Response: We disagree with the recommendation, but appreciate the premise on which it is based. OUS currently has several methods of tracking costs that provide us with information to aid in decision making. To meet the type of tracking recommended in this report, e.g., tracking costs across all levels of higher education, will be expensive. Thus, we are not sure that the benefit of doing this will outweigh these costs, especially given how financially challenged we are at present; or that it will gain us much ground on improving the cost ratios. Embarking on an endeavor of this type will require investments in systems and people that will take resources away from our primary mission-related, instructional, research and public service activities.

Recommendation: OUS and its universities provide transparent accounting linking tuition revenue to educational spending, including operational and nonoperational costs. As a part of this effort, OUS and its universities should ensure they allocate resources, including faculty efforts, to improve student outcomes.

OUS Response: We disagree with this specific recommendation, but again agree with the overall premise. Developing an expensive, new accounting system does not change the resource problem. We are not sure that the recommendation is really getting at the problem. OUS does need more student support services in order to retain more of our students. All of the OUS institutions allocate as many resources as possible to ensure student success. We agree that more needs to be done. We do believe that, at present, we are allocating resources, including faculty efforts, to improve student outcomes as evidenced by improved retention and graduation rates and improved student success generally measured by record levels of degrees being granted. For the record, OUS complies with all generally accepted accounting principles and practices and have received unqualified opinions from our external auditors in all of our financial statement audits.

Recommendation: OUS and its universities routinely determine and document the short-term and long-term impact on education costs when making financial decisions at all levels of higher education.

OUS Response: We agree with this recommendation and while we believe we are doing an adequate job of this at present, this is an area where we seek continuous improvement. We agree that the OUS institutions should continue in our efforts to find cost savings and new ways to extend resources in order to meet operational needs in a lean environment, and to ensure the lowest levels of tuition possible while still offering students a quality education that will serve them well in their careers and lives.

Recommendation: OUS and its universities routinely evaluate their long-term financial plans to determine the feasibility and impact on higher education in Oregon, e.g., dependence on non-resident tuition.

OUS Response: We agree with this recommendation and began implementation in December 2012. In December 2012, the Oregon State Board of Higher Education's Finance and Administration Committee had each university president develop and present a campus long-term financial model using predetermined assumptions regarding revenue increases, including tuition, and cost increases. This exercise was designed to determine the financial viability of the campus using certain hypothetical assumptions. Part of our challenge is that higher education functions in a marketplace that is ever changing, affected by many variables that are outside of our control and difficult to predict at times. We believe that our campuses have done a reasonable job in evaluating plans to determine the feasibility and impact on higher education in Oregon, yet this is an area that can be continuously improved.

Recommendation: OUS and its universities closely monitor and routinely report on personnel costs, including faculty members, in order to track spending trends, identify potential savings, and determine where resource and staffing adjustments can be made to improve student outcomes.

OUS Response: We agree with this recommendation and are currently evaluating the resource requirements to implement. The costs of making these changes must be justified by the benefits of doing so. In addition, while this data is not readily available to Chancellor's Office staff, we do believe that each of our universities does have this information and uses it on a regular basis to make informed decisions regarding staffing levels and to improve student outcomes. Before OUS commits to additional resources, governance changes will be considered.

Recommendation: OUS clearly, publically, and consistently demonstrate its reasons for increasing tuition, e.g., personnel cost increases, construction costs, etc.

OUS Response: We agree with this recommendation and have implemented it more fully with the passage of SB 242. As a result of the passage of SB 242 we now require much greater student participation in the tuition setting process and much more detailed information from campuses on the need for, and justification of, tuition increases each year.

Recommendation: OUS work with the state to better control its PERS and PEBB costs.

OUS Response: We agree with this recommendation and have been working with the state to better control these employee benefit costs for many years. As part of the passage of SB 242 in 2011-13, a labor-management group was formed to evaluate healthcare options. This group found that OUS was paying a disproportionate share of the pooled healthcare costs of state agencies, that the plans were not well suited to OUS employees, and that other changes were needed. We are working with the Governor's Office on a broader reform agenda and with the current provider to better control costs through employee engagement and other means.

We support the Governor's proposed PERS reforms, and again as a result of the passage of SB 242, recently completed a labor management study of changes needed in our optional retirement plan that resulted in legislative concepts to amend the statutes governing this plan in order to decouple this plan from PERS and better align future contribution rates with the academic marketplace and maintain the financial sustainability of our campuses.

Recommendation: OUS and its universities account for all direct and indirect costs for both sponsored and non-sponsored research.

OUS Response: We disagree with this recommendation because we believe that we are accounting for all the costs associated with sponsored research at present. All faculty engaged in research activities, both sponsored and non-sponsored, are accountable to their department chairpersons and deans who oversee their work. In addition, this work is critical to our instructional mission as there are numerous studies that link the benefits of research to effective teaching, student involvement/motivation and other student and institutional success factors.

Recommendation: OUS and its universities track, analyze, and report on costs and program needs for different students including non-resident, less prepared, part-time, and transfer students. Use this information to create a comprehensive enrollment and financial management strategy that includes enrollment impacts on outcomes, capacity, and course management.

OUS Response: We do not agree with this recommendation. In essence, this would require that we track, analyze and report on costs and program needs for every student, which is simply not possible with the current funding levels being provided to OUS. We believe that we are managing our enrollment and finances in a satisfactory manner and that further investment in this area would require resources being withdrawn from other mission critical functions, mainly student success efforts. Our faculty and staff professionals know what it takes to make students successful. If only there was capacity in the special programs offered at our campuses now so that all students have access to support services that significantly increase their chance to graduate with a degree, there would be more students retained and graduated in the OUS.

Student outcomes

Recommendation: we recommend OUS clarify lines of authority and responsibility for student outcomes, and tie achievement compacts to funding and/or other accountability measures.

OUS Response: We agree with this recommendation and believe the recommendation is currently being addressed. OUS institutions are engaged in a number of activities to improve student outcomes. OUS institutions regularly report to the State Board of Higher Education on a variety of measures related to student progress and completion and academic quality and graduate success.

We are engaged in a number of programs to improve student outcomes statewide. For instance, the Degree Qualifications Profile helps articulate degree outcomes for students to give them a clearer roadmap for their degree programs, facilitate transfer, and align programs with industry needs.

Achievement compacts are made with the OEIB, not the State Board of Higher Education, although the State Board of Higher Education approves the Achievement Compacts. The OEIB has not yet determined if and how they will tie achievement compacts to funding. As such, we do not feel it is appropriate for the State Board of Higher Education to overstep into the auspices of the OEIB on the matter of achievement compacts. We also note that student achievement is everyone's responsibility, from campus faculty to OUS staff.

Recommendation: we recommend OUS identify academic needs for all students and implement proven practices to help meet these needs and boost outcomes.

OUS Response: We agree with this recommendation, but we believe existing work addresses the recommendation. Currently there are existing course placement testing programs that occur at all campuses and for many incoming students. We agree that there are proven practices that can be implemented, and we further agree that we should resist a "one size fits all" approach. The report of the legislatively created Task Force on Higher Education Student & Institutional Success in October 2012 identified many of these proven practices, some of which are working quite effectively on OUS campuses and are featured as such in the Task Force report.

Recommendation: we recommend OUS consistently evaluate initiatives for improving student success and cost effectiveness, and alter or eradicate those programs whose benefits do not outweigh their costs.

OUS Response: We agree with this recommendation. The report acknowledges that some OUS campuses do this routinely, especially the larger universities. SOU has an Accelerated Baccalaureate program that enables students to graduate in three years (highlighted last year by the WSJ and other publications). SOU is in the midst of an extensive program prioritization process that will align resources with needs/demand/ mission and reduce programs that don't meet criteria. To a significant extent, complying with this recommendation would take an investment of resources that is currently not available at the smaller and regional universities, which typically do not have an office or staff devoted to student success program evaluation. System wide efforts exist to improve student outcomes and share best practices among campuses, which are outlined in subsequent responses.

Recommendation: we recommend OUS track, analyze, and report on performance data for all students rather than first-time, full-time freshman, such as graduation rates, retention and degrees completed relative to all OUS students, including part-time and transfer students.

OUS Response: We disagree with this recommendation. OUS does report graduation rates for Oregon community college transfers who arrive with an associate degree. OUS Board Performance Measures for some campuses capture the retention and graduation rates for transfer students. Graduation "rates" need a start and end date, and a cohort definition. The usefulness of the proposed data would be limited and expensive to collect. We are willing to report in more detail – and we do in some special cases such as reporting for Complete College America. However, the difficulty in determining a reasonable cohort definition and a length of tracking have led national leaders to rely on the first time full time student definition for evaluating student performance. We also provide breakouts within the first time freshmen cohorts that inform students such as Pell and Oregon Opportunity Grant recipients, plus breakouts by admission standards like SAT scores, high school GPA, race/ethnicity, residency, and program of study.

Cost of attendance and student debt burden

Recommendation: we recommend OUS determine the unmet financial need for all of its students and align its financial aid programs to provide access and reduce student debt for those most in need.

OUS Response: We disagree with the recommendation because we believe existing work addresses the recommendation. It is a standard practice at OUS universities to determine unmet student need and make every effort possible to bridge that gap. Two of our universities – University of Oregon with its PathwayOregon program and Oregon State University with its Bridge to Success program – provide significant need-based fee remission and thus reduce or eliminate the loan debt of their lowest-income students. The OUS Chancellor's Office has convened an inter-institutional group of enrollment managers and financial aid directors to develop a multi-faceted approach to managing and reducing student debt. The approach will include system-wide use of the federal financial aid shopping sheet, implementation of early warning systems for students in financial difficulty, and web-based resources that are aimed at reducing student dependence on loans to finance their higher education.

Recommendation: we recommend OUS and its universities regularly evaluate the demographics of aid recipients to ensure intended populations are benefiting, and adjust award criteria for university aid where needed.

OUS Response: We do not agree with this recommendation. Rather, we agree with the previous recommendation to determine the unmet financial needs for all of its students and align its financial aid programs to provide access and reduce student debt for those most in need.

Recommendation: we recommend OUS and its universities increase efforts to explain to prospective students the difference between net and published tuition rates to ensure all eligible students apply for admission.

OUS Response: We agree with this recommendation. We are aware that we need to reach students early – in their middle and high school years – and communicate about the affordability of higher education. Currently, OUS campuses and the Chancellor's Office operate more than 90 pre-college preparation programs serving more than 200,000 students annually in which college costs and attendance are generally part of the programming provided to students.

Recommendation: we recommend OUS and its universities develop strategies to increase timely graduation in order to reduce the financial burden and subsequent debt for students.

OUS Response: We agree with this recommendation. All of our campuses are engaged in efforts to reduce the time to degree for students. Some of these efforts include awarding credit for prior learning, dual credit, Advanced Placement and International Baccalaureate credit, expanding distance education offerings, degree mapping, and statewide and regional transfer degree articulation programs. We supported legislation in the 2013 session that carries forward work to develop discipline-specific transfer degrees. OUS has explored Excess Credit and is exploring Credit for Prior Learning policies. Internal studies have shown that very few students receive their degrees earning what might be considered credits in excess of degree requirements for graduation. An OUS Task Force was formed this year to develop a Credit for Prior Learning policy; the policy will be used to guide campuses in awarding credit for learning outside of the classroom and thus expedite student time to degree.

Recommendation: we recommend OUS and its universities expand efforts to educate students and parents about living expense decisions, the seriousness of incurring debt, advantages and disadvantages of various student and family loan options, and solutions to reduce debt.

OUS Response: We agree with this recommendation. As stated in a previous response, OUS now has a multi-faceted initiative aimed at managing and reducing student loan debt, including web-based information that will educate students and parents about student debt and ways to minimize it before, during, and after college. As noted above, we engage in a number of programs for pre-college students and their families that are targeted at educating students about living expense decisions, the seriousness of incurring debt, advantages and disadvantages of various student and family loan options, and solutions to reduce debt. A new policy on student loan debt management at the campuses will be going before the OSBHE this June; and OUS will be convening state leaders and practitioners in October of this year to further work on helping students understand and manage debt before, during and after college.

Recommendation: we recommend OUS and its universities track and report costs associated with student populations who stop out, transfer, stop their education, or take more than four years to graduate. In addition, OUS and its universities inform each student about how these variables can impact their own debt.

> OUS Response: We disagree with the specific recommendation, but agree with the premise. Other work is being done that we believe will provide useful outcomes. Debt and management of personal finances are issues OUS is addressing, and we are working with Representative Dembrow to implement a set of guidelines that will apply to all public and private postsecondary educational entities in the state. This will include a combination of providing important and relevant information on costs of attendance, cost of loans, institutional loan default rates, and costs by program choice, with links to earnings potential by degree level and major. We feel this approach will also add consistency throughout Oregon and will help students control their costs and debt wherever and whatever they decide to study.
>
> In addition, we would want to study the reasons why students choose to stop out. For example, sometimes stopping out decreases the eventual costs of the degree, if, for instance a student has a child and needs to focus on taking care of her/his child for a term.

In closing, we thank you for all your Division's work and insights, which will be considered careful as we work with the Governor and the legislature to strengthen the existing structure of education within the state of Oregon.

Sincerely,

Melody Rose

Melody Rose
Interim Chancellor
Oregon University System