



August 30, 2012

Colleagues,

We have concluded our first full fiscal year under our Mission Fulfillment and Financial Sustainability Plan. As such, I would like to offer my thoughts on where we stand, with respect to both our financial and strategic planning achievements.

You will recall the dual objectives of our plan focused on increasing revenues in the areas that we can influence and reducing costs in those areas that we can control. In 2009-10, 51.8 percent of our revenues came from the state of Oregon and net-tuition represented 43.3 percent of our revenues. In this past fiscal year, less than 40 percent of our revenues came from the state, and tuition now accounts for 59.9 percent of our revenue mix (or 53.6 percent after meeting the state mandated fee remission policy). Therefore, over the space of a very brief period our students and their families have replaced our largest investor, the state of Oregon, as the primary source of our revenues. This shift continues the long-standing trend of students and their families increasingly bearing the lion's share of the costs for public higher education.

In terms of our financial performance, we ended the fiscal year in a strong position relative to our projections in the Sustainability Plan. We achieved two significant benchmarks. First, we succeeded in meeting the State Board of Higher Education's mandate of maintaining a minimum fund balance of 5 percent of total revenues—we ended the year with a 7.5 percent fund balance. Second, we met our goal in the first year of the Sustainability Plan of reducing our on-going expenses by at least \$1.1 million and achieved a reduction in on-going expenses of \$1.225 million.

We were able to decrease expenditures in nearly every category as we worked through our plan. We strategically reduced expenditures in areas that would least impact the success of our students and the quality of education we provide them. There is no question that this was a difficult task and painful to implement in all of its dimensions. These reductions included cuts in our staffing levels, shifting of personnel and other expenses to auxiliary accounts when feasible, streamlining of operations and processes, and the elimination of certain services. The staff and faculty in the areas that were directly affected rose to the occasion and performed diligently in maintaining the commitment to our goals and vision, as is our pattern at EOU. In this process, I personally observed the deep dedication of our staff and faculty members and their spirit to serve our university community. Through this process, too, we learned a great deal about our operations and made significant changes that will serve us well into the future.

While we were able to decrease most expenses, we did not achieve these savings across the board, and in fact, saw increased expenses in some areas. The most notable and significant

increase in expenditures was in retirement and healthcare benefits—especially as a percentage of our revenues. In 2009-10, retirement and healthcare benefits represented a combined 18.4 percent of our revenues. In this last fiscal year, they represented 24.3 percent and retirement costs alone rose 37 percent from the previous year, representing an actual dollar increase of \$888,000. While we were able to decrease total salaries, these extra costs had (and will continue to have) an enormous impact on our financial modeling. At the most recent State Board of Higher Education and OUS Presidents' Council meetings, these spiraling costs were a main topic of discussion, illustrating that we are obviously not alone in this situation. Based on the work of several task forces at the system level, over the course of the next several months OUS will be exploring various options that will account for the unique nature of higher education as it relates to these two benefit categories. We have many options that are not available to all state agencies, and as we are no longer a state agency, we may be able to better control our healthcare and retirement costs. At the same time, we may also be able to provide better, or at least comparable, services and packages. A multitude of East-Talk posts have illustrated and I myself have experienced an increase in out-of-pocket expenses, which should motivate us to keep these efforts on track. As these discussions unfold, I will be sure to keep you informed.

Though we have achieved several of our significant overall financial goals and have succeeded in lowering our average total cost per student FTE below our goal of \$11,200 (we have achieved an average of \$11,017), our increased personnel costs continue to feed a very high expense-to-revenue ratio. Originally, our plan called for lowering this ratio to the national average of 78 percent. However, given our high benefit costs, I believe we need to adjust upward to reflect our specific circumstances. This past year, while we did reduce our expenditures and increase our own self-generated revenues (our tuition revenue increased by 5.4 percent, for instance), because of the continuing acceleration of disinvestment by the state, our expenditures exceeded our revenues. While we anticipated the gap would occur this year and we did narrow it more than we anticipated, nonetheless it clearly shows us that we must continue to be diligent over the coming year in the next phase of our plan.

Our focus should be on continuing to drive our revenues and controlling our expenses. Student enrollment for the upcoming year is challenging to predict, but in many respects, we are seeing encouraging numbers. We have continued to increase our applicant pool, and at the time I am writing this, the number of our first-time freshman who have enrolled is higher than last year, as is the number of housing reservations. However, we also graduated one of our largest classes last year and we need to replace those students. While we believe these numbers are trending well, the number of transfers from community colleges is currently equal to or slightly lower than last year, a trend that is evident at all of Oregon's colleges and universities, as well as nationally.

Additionally, our freshman-to-sophomore retention numbers do not look as robust as they should at this time; however, we are being proactive and have initiated multiple action steps to register students who have not already done so, and we will continue to be very aggressive in this endeavor. I must report that after the first two weeks of these intensive efforts, we have seen a noticeable increase in both transfer and returning freshman student registrations. I know that the Provost and our Deans are maintaining detailed attention to many aspects of our enrollment plans, not only for new students, but also for returning students. They are

continually analyzing course availability and determining when and where to add sections, as well as how and when to make other necessary changes. All of this work is crucial as we serve our students and maintain our focus on financial stability.

As we begin the second year of our plan, we are entering it from the financial position that we aimed for, but that does not mean we have “passed the financial crisis.” It means we are managing the situation, and more importantly, that we must continue to do so. We must remain diligent in our efforts to ensure that our precious resources and capacities are allocated in a manner that will assist us in reaching our overarching goals and objectives as detailed under our four core themes that guide our strategic plan. Over the course of the next year, we will continue implementing the second phase of the plan as it is currently articulated. While this should not require additional reductions in force, many aspects of our plan as it relates to instructional and administrative costs will be put into action. As part of this effort, the Provost and Deans are diligently accomplishing many of the recommendations that came from the College Task Force, as well as key aspects of our Sustainability Plan. Be assured that we will monitor the plan carefully to ensure the financial stability of our university. As part of this effort, the Vice President of Finance and Administration and I will work with the Budget and Planning Committee in the implementation of the budgeting process that began last year. This, in many respects, is a complete validation of our budgets and the allocation of our resources, which may result in budget resets in several areas. The assistance of the Budget and Planning Committee will be essential in this process, and I look forward to their leadership in providing key advice to me throughout the year.

As we make resource allocation decisions, our guiding principles remain focused on how particular investments will fulfill our institutional mission and positively impact the goals under our four core themes, including the financial sustainability of EOU. Our goals continue to center on providing high-quality educational experiences for our students that are affordable, and serving our region economically, culturally and civically. We strive to serve our students where they are by providing unequalled access to opportunities, and we remain student-centered by providing exceptional personal attention through our faculty and staff in meeting the needs of our students. These are the traditions of EOU, which we are all very proud to be a part of.

Thank you for all of your support and dedication and I hope you are having an enjoyable summer! I, for one, am looking forward to September 17 and the Opening Session activities. While we do have challenges that are before us, we also have amazing opportunities to make significant differences in the lives of our students and our colleagues across the university and larger communities. I am truly energized for the upcoming year.

Very Respectfully,



Bob Davies
President