



To: EOU Finance and Administration Committee Members

Re: Proposed 2019-20 Tuition Adjustments

The Tuition Advisory Committee (TAC) met several times from November 2018 to March 2019 to discuss potential tuition adjustments for the 2019 – 2020 academic year. The TAC has members representing EOU Finance, ASEOU, EOU Admissions, EOU Regional Outreach & Innovation, students, and faculty.

The topic was clouded by the fact that the state is still working through its budgeting process and the final amount of state funding the university will receive is still in flux. Based on the latest Co-Chairs' budget, the university now feels that they have numbers that are solid enough to work with, although the numbers will almost certainly change again before the academic year begins.

Working Assumptions:

The university needs to provide high quality and affordable programs for the communities we serve.

The university needs to serve as a great place to work and learn.

The university needs to remain competitive in the marketplace.

The university needs to assure financial health and stability.

Analysis:

In order to assure financial health and stability the university should establish a balanced budget and maintain an adequate level of reserves for unexpected expenses and emergencies. In a 2014 research report presented by University of Illinois at Chicago, Parker (2004) found that it is common to use three months cash flow across all public entities. This is arbitrary, no benchmarks have been established; however, education institutions typically require more. The average level of cash reserves across all Big Ten universities is more than 5 months – two institutions had a year or more. In private industry the (healthy) level of reserves can be much higher than this.

Operating at a deficit is inherently unsustainable and **not** prudent financial policy.

As a public university, EOU has two primary sources of funds: state funding and tuition/fees. In order to have a balanced budget, revenue must cover university expenses. The level of state funding is (mostly) beyond the control of the university. Thus, in cases where expenses exceed revenue, the university needs to increase tuition/fees, reduce expenses, or some combination of the two.

If the university does not have a reserve balance that is consistent with prudent financial policy, or the university has drawn down on the funds, then it may need to run a surplus until the reserve balance is replenished. However, since the reserve balance is for "unexpected" expenses and emergencies, this should happen only rarely. We can/should not count on reserves to fund general university operations.

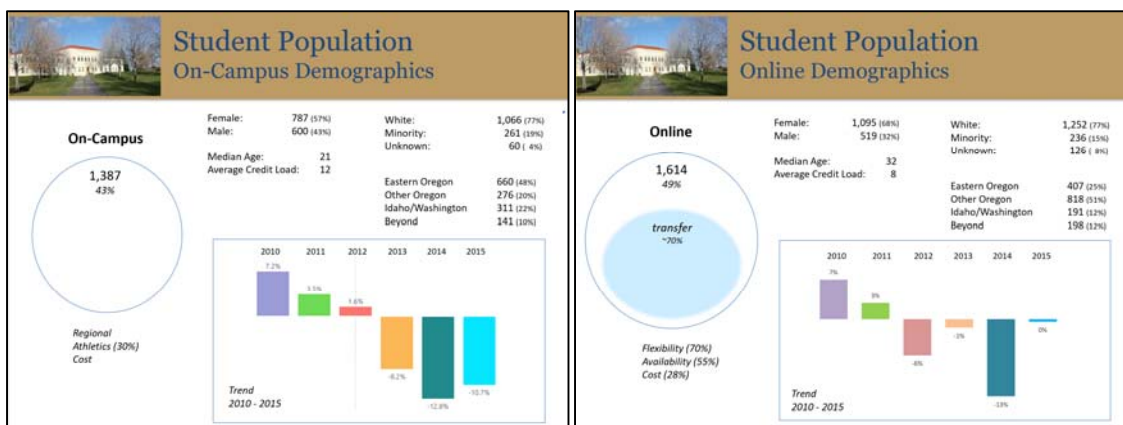
Based on the state budget, as we currently understand it, the university will generate less in revenues than the current level of expenditures planned for 2019 – 2020. One way to compensate for this shortfall is to consider increases in tuition/fees – as long as we can stay consistent with the principle of providing high quality and affordable education for the communities that we serve.

The leadership team at EOU would like to avoid any more than a 5% tuition increase. An increase larger than 5% that would require administrative approval from the Higher Education Coordinating Committee and may not ultimately be approved.

We serve two different market segments at EOU: traditional on campus students and online students. There is a natural overlap between the two audiences. On campus students often take advantage of online classes for reasons of scheduling and convenience. These students may not even discern the difference between online and on campus – it is all just “school”.

On the other hand, online-only students may not even visit the La Grande campus over the course of their entire degree program. This creates additional challenges with establishing a durable (lasting) university connection with these students – they are just “taking classes”. **This latter issue will need to be addressed over time to assure a strong alumni base, especially as this audience becomes a growing percentage of our student body.**

Our research shows that the demographics of these two populations varies significantly. Student profiles are captured in the two graphics below.



Our on campus students mirror the more traditional undergraduate profile. The median age is 21, they are taking 12 credits (on average), and the majority are from eastern Oregon, and surrounding areas. There is a higher percentage of female students, yet the split is closer to even. A significant percentage (30%) of these students participate in collegiate athletics.

In contrast, our online-only students have a median age of 32 and take 8 credits/term (on average). This population is 70% female and far less likely to be from eastern Oregon. We don't have detailed research that supports this; however, from anecdotal evidence, we can think of this base as degree completion and working Mom's. The majority of this population (70%) are also transfer students, so we have them for only two years. This exacerbates the issue of creating a lasting connection with the university. This profile also shortens the time required for degree completion (increases churn) and the underscores the importance of having effective and repeatable online marketing programs in place.

The traditional approach to pricing at state universities is to examine costs, and then increase tuition and fees to the level required to cover costs. However, students today have many more choices: on campus, online, hybrid... They are more informed consumers and the Internet provides easy access to information on all programs. We are likely entering a period where students will not just blindly attend their regional school because that is the path of least resistance. We will have to build a value proposition for them.

When creating offerings in the marketplace, it often useful to use a tool like the strategic marketing model (below). This helps to define our offering and assure that all the elements of the mix are in alignment. This type of analysis can also help us better understand our value proposition. We usually start by defining the product and people elements and then establishing the rest of the mix to match; starting with price, then place, followed by promotion (last).

In this case, we understand that we have two target audiences. Within each audience we will have product subsets (segments) based on degree programs. This should be slightly different between traditional on campus students and online students – on campus students are buying into a “school”, online students are buying into a “program”. We might be able to overcome this with a stronger brand; however, the strength of our brand, especially outside eastern Oregon, is weak at best.



Source: Zehr (2016)

There are usually three primary variables that play into setting price: cost of goods sold (COGS), customer perceived value, and competitors. The reasoning here is pretty straight-forward. In general, unless we are pursuing a market penetration strategy, supported with marketing funds, if we sell products for less than COGS sold, we won't be around for long. In our case, because the state supplements our funding, there is a slightly different dynamic, but the basic principles are the same. The customer perceived value sets the maximum price the customer is likely to pay. We would like to capture as much of that value as possible and avoid leaving “money on the table”. Of course, if competitors are willing to provide the same level of value for less, then that erodes our ability to price higher.

In general, increasing prices is not consistent with a strategy of growing volume.

Our strategic plan calls for ~230% growth in online enrollment by 2029. It also calls for a ~60% growth in enrollment on campus over the same time period. However, the university “currently” does not have capacity (housing) for a 60% increase in on campus enrollment. In order to align with our strategic plan, we will need to grow online in the short-term, and leverage that growth to finance on campus expansion. In order to achieve these growth rates, we will need to expand outside our region (nationally/globally).

Our online prices are comparable with other state universities in our region (table below). We “believe” that some of these schools have fees, beyond tuition, that are higher than ours. However, our research in this area seems to be incomplete. A quick scan of public university websites in our state showed that some had additional fees, and some did not. **The university should perform detailed research no less than quarterly to assure that we understand the latest competitive pressures that we face.**

Our internal research shows that online students choose our program based on (a) flexibility (70%), (b) program availability (55%), and (c) cost (28%). We also know that competition online, if it does not already, will extend well beyond the borders of our region and our state. Our prices will have to remain competitive with this expanded set of competitors.

Our Regional Outreach & Innovation team does not feel they are experiencing competitive price pressure for our online programs currently. However, as we expand outside our immediate region, and our competitive landscape evolves, we **will** face additional price pressure. In the near-term we can support, but not recommend, a price increase of 4.9%. **Once again, a price increase is generally inconsistent with the goal of driving volume, unless we can show that price is inelastic. This would usually be associated with a very strong value proposition and/or a dominant brand.**


If the university establishes a relationship with an external partner to assist with recruiting students or program management, then this analysis will need to be re-visited. The university will need to assure that any increase in online tuition/fees creates net positive revenue, considering all the costs associated with compensating the partner and delivering educational programs (COGS).

EOU		SOU	WOU	OSU	PSU
Undergraduate Rates	\$240.00	\$172.00	\$226.00	\$297.00	\$152-\$259
Graduate Rates	\$444.50	\$421.00	\$493-\$519	\$538.00	\$356-\$663
Fees	\$0	\$65/SCH	\$0	\$80/SCH	\$35/SCH
Comments	One rate	Regular resident tuition + \$65/credit fee	Limited courses	20+ UG Degrees and 25+ Graduate programs Tuition may vary with program	Rates vary by program and by residency

EASTERN OREGON UNIVERSITY

Source: Eastern Oregon University, Finance

Comparative tuition/fee numbers also show that EOU is less expensive than other public universities in the state for **on campus** enrollment.

 Competitive Landscape
2018-19 Basic Tuition Per Credit Hour Comparison

	EOU	OIT	SOU	WOU	OSU	PSU	UO
UG Resident Tuition	\$159.00	\$183.93	\$172.00	\$172.00	\$203.00	\$171.00	\$217.00
UG Non Resident	\$427.00	\$585.45	\$526.00	\$547.00	\$608.00	\$570.00	\$741.00
Graduate Resident	\$359.00	\$427.08	\$430.00	\$411.00	\$465.00	\$414.00	\$538.00
Graduate Non Resident	\$452.50	\$716.93	\$538.00	\$671.00	\$881.00	\$630.00	\$964.00

EASTERN OREGON UNIVERSITY

 Competitive Landscape
2018-19 Mandatory Fees Overview

2018-19 Undergraduate Mandatory Fees Per Term @ full load							
	EOU	OIT	SOU	WOU	OSU	PSU	UO
Building Fee	\$ 45	\$ 45	\$ 45	\$ 45	\$ 45	\$ 37	\$ 45
Special Building Fee	\$ 28	-	\$ 95	\$ 53	-	\$ 44	\$ 167.50
Incidental Fee	\$ 270	\$ 360	\$ 345	\$ 363	\$ 381.23	\$ 240	\$ 250.50
Health Service Fee	\$ 165	\$ 165	\$ 140	\$ 139	\$ 165.74	\$ 149	\$ 198
Technology Fee							\$ 50
Total Mandatory Fees	\$ 508	\$ 570	\$ 625	\$ 600	\$ 591.97	\$ 470	\$ 711

2018-19 Matriculation Fee (One Time)							
	EOU	OIT	SOU	WOU	OSU	PSU	UO
Matriculation Fee	\$ 350	\$ 300	\$ 300	\$ 350	\$ 350	\$ 325	\$ 430

EASTERN OREGON UNIV

Source: Eastern Oregon University, Finance

The university has experienced a decline in enrollment for the last six years and enrollment is now 30% below its 2013 – 2018 peak of 4,298 (2011). Since the university has been experiencing enrollment declines, even though it is the low price offering in the market, we would have to conclude that on campus tuition is relatively price insensitive (within a narrow range). **The university must address and correct this systematic decline in enrollment.**

	EOU	OIT	OSU - Co	OSU - Ca	PSU	SOU	UO	WOU
2003	3,287	3,236	18,974	372	23,117	5,505	20,034	5,032
2004	3,338	3,373	19,159	438	23,486	5,161	20,339	4,772
2005	3,533	3,351	19,236	491	24,015	4,989	20,394	4,879
2006	3,425	3,157	19,362	495	24,284	5,002	20,388	4,889
2007	3,433	3,318	19,753	497	24,999	4,836	20,376	5,037
2008	3,666	3,525	20,320	510	26,587	5,082	21,507	5,349
2009	3,957	3,927	21,969	611	27,972	5,104	22,386	5,654
2010	4,137	3,797	23,761	678	28,522	6,443	23,389	6,233
2011	4,298	3,911	24,977	764	28,958	6,744	24,447	6,217
2012	4,208	4,001	26,393	801	28,731	6,481	24,591	6,187
2013	4,157	4,414	27,925	936	28,766	6,140	24,548	6,188
2014	3,653	4,273	28,886	980	28,241	6,203	24,181	6,058
2015	3,488	4,786	29,576	1,016	28,076	6,215	24,125	5,445
2016	3,176	5,232	30,354	1,122	27,229	6,088	23,634	5,382
2017	3,016	5,490	30,896	1,204	27,305	6,139	22,980	5,285
2018	2,978	5,341	30,986	1,259	26,379	6,119	22,760	5,093

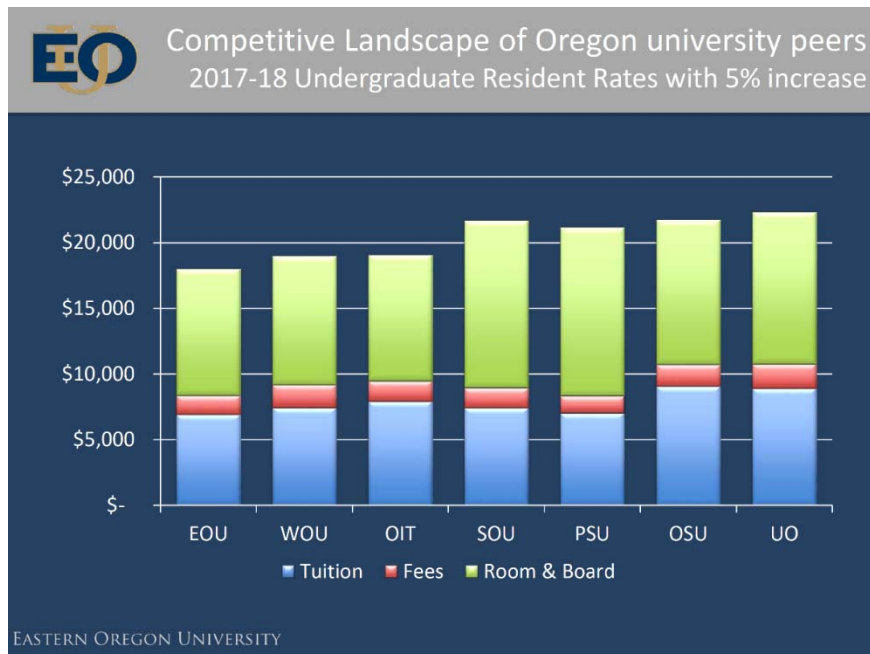
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source: <https://www.oregon.gov/highered/research/Pages/student-data-univ.aspx>
fourth week, by university, resident + non-resident

	EOU	OIT	OSU - Co	OSU - Ca	PSU	SOU	UO	WOU
2004	1.6%	4.2%	1.0%	17.7%	1.6%	(6.2%)	1.5%	(5.2%)
2005	5.8%	(0.7%)	0.4%	12.1%	2.3%	(3.3%)	0.3%	2.2%
2006	(3.1%)	(5.8%)	0.7%	0.8%	1.1%	0.3%	(0.0%)	0.2%
2007	0.2%	5.1%	2.0%	0.4%	2.9%	(3.3%)	(0.1%)	3.0%
2008	6.8%	6.2%	2.9%	2.6%	6.4%	5.1%	5.6%	6.2%
2009	7.9%	11.4%	8.1%	19.8%	5.2%	0.4%	4.1%	5.7%
2010	4.5%	(3.3%)	8.2%	11.0%	2.0%	26.2%	4.5%	10.2%
2011	3.9%	3.0%	5.1%	12.7%	1.5%	4.7%	4.5%	(0.3%)
2012	(2.1%)	2.3%	5.7%	4.8%	(0.8%)	(3.9%)	0.6%	(0.5%)
2013	(1.2%)	10.3%	5.8%	16.9%	0.1%	(5.3%)	(0.2%)	0.0%
2014	(12.1%)	(3.2%)	3.4%	4.7%	(1.8%)	1.0%	(1.5%)	(2.1%)
2015	(4.5%)	12.0%	2.4%	3.7%	(0.6%)	0.2%	(0.2%)	(10.1%)
2016	(8.9%)	9.3%	2.6%	10.4%	(3.0%)	(2.0%)	(2.0%)	(1.2%)
2017	(5.0%)	4.9%	1.8%	7.3%	0.3%	0.8%	(2.8%)	(1.8%)
2018	(1.3%)	(2.7%)	0.3%	4.6%	(3.4%)	(0.3%)	(1.0%)	(3.6%)

source: growth (decline) calculated from above
https://www.federalreservehistory.org/essays/great_recession_of_200709

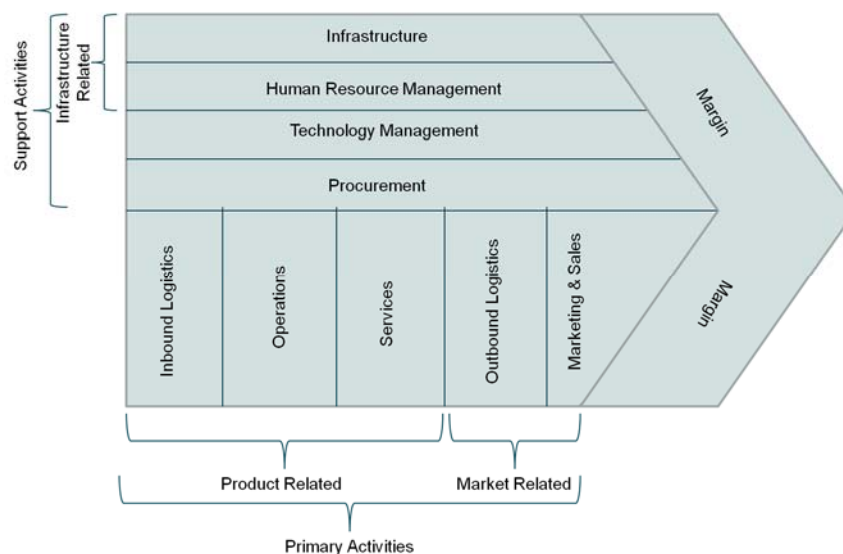
Based on the guidance (desire) of leadership the university should adopt a 4.9% increase for **on campus** programs. This maintains affordability for students, maintains price leadership in the market, and avoids a lengthy HECC review and approval process.



Source: Eastern Oregon University, Finance

Once we determine the gap between (expected) tuition/fee revenues, based on a 4.9% increase in on campus tuition; and the expected revenue based on (final) state budgets; then we should identify operational efficiencies that will help close the gap and lead to a balanced budget. We should **not** draw down on reserves unless we have expenses that are exceptional (non-recurring) in nature. Cash reserves should not be used as an extension of our normal operating budget.

When looking for efficiencies, in order to be consistent with the goals outlined above, we need to seek operational elements that do not impact the primary function of the university. The **primary** functions of an educational institution are to recruit students, educate students, and graduate students – everything else is secondary from an operational standpoint.



Source: Porter (1980)

The TAC, after careful consideration, believes that these steps will allow us to achieve the goals below.

The university needs to provide high quality and affordable programs for the communities we serve.

The university needs to serve as a great place to work and learn.

The university needs to remain competitive in the marketplace.

The university needs to assure financial health and stability.

Thank you for the opportunity to review the relevant facts and advise. Please let us know if there is anything further, we can do to assist with the planning process.

Tuition Advisory Committee

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