

January 15, 2014

MEMORANDUM

TO: State Board of Regents

FROM: David L. Buhler

SUBJECT: USHE - 2020 Financial Forecast (25-35 Year Olds)

Background

Since July 2012, the Board of Regents and Utah System of Higher Education have focused on the cohort of ages 25-35 for the "Big Goal" of 66% by 2020. During the September 2013 Board of Regents meeting, the **USHE 2020 Financial Forecast** that demonstrates the resources needed to reach 66% of the adult population (up to age 65) having some form of post-secondary education credential by the year 2020, was approved. With a more focused effort towards reaching the goal for the 25-35 age cohort, another version of the 2020 Financial Forecast, more specifically targeting the 25-35 age group, has now also been created.

Issue

Focusing on student's ages 25-35 significantly changes the number of cumulative degrees and certificates required to meet the 66% goal, dropping the total from 371,400 to 336,950 (ten year period from 2010-11 through 2019-20). Other significant changes include:

- 1) Total funds in 2019-20 to reach 66% by 2020 changes from \$2.8B to \$2.4B.
- 2) Average annual FTE enrollment increase required goes from 8% to 3.9%.
- 3) Average annual increase of degrees and certificates required changes from 8% to 3.5%.
- 4) Increased efficiency and current tax and tuition mix charts adjust lower.

Commissioner's Recommendation

The Commissioner recommends the Regents approve the 25-35 year old version of the USHE 2020 Financial Forecast to demonstrate the resources needed to reach 66% by 2020 for this specific age cohort.

David L. Buhler
Commissioner of Higher Education

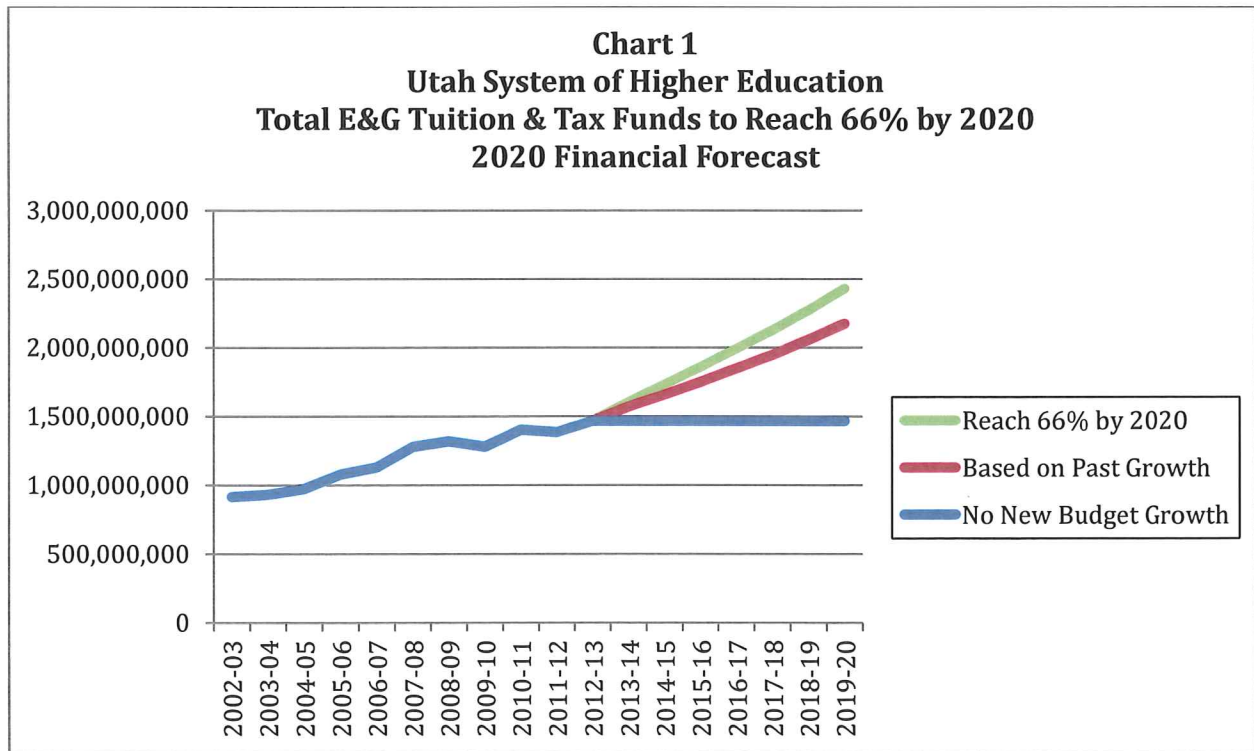
DLB/GLS/BLS
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**Utah System of Higher Education
2020 Financial Forecast: 25-35 year olds Model
January 15, 2014**

The Utah System of Higher Education (USHE) 2020 Financial Forecast is provided to facilitate understanding of and discussions regarding long-range financial plans. The following charts and narrative constitute forecasting models for attainment of the goal of 66% of Utah’s adult population ages 25-35 having some form of post-secondary education credential by 2020.

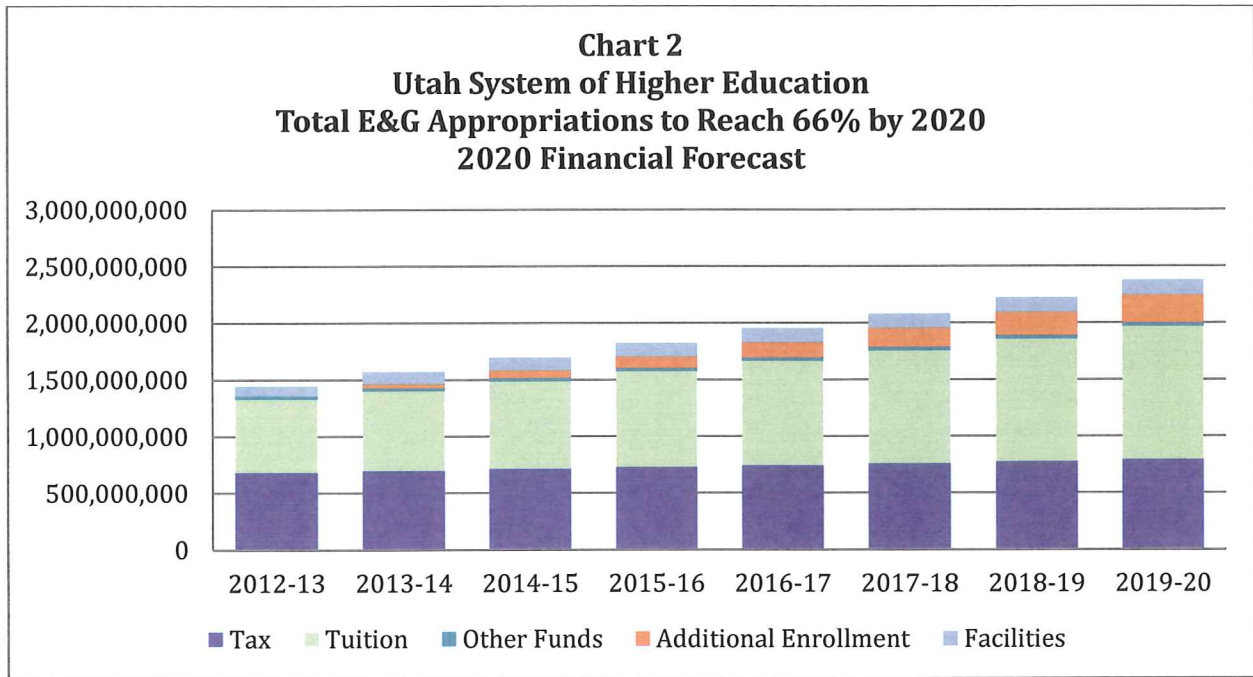
USHE 2020 Financial Forecast (Chart 1): Depicted are the estimated Education and General (E&G) enrollment expenditures of [primarily] tax and tuition funds needed to fund future growth. Displayed are, Actual Expenditures up to FY 2013 and then; a flat budget (**blue** line); estimates based on past growth (**red** line); and estimates to reach the goal of 66% by 2020 (**green** line). These lines serve to demonstrate the financial resources needed to serve current and additional number of students under various scenarios.



Future Appropriated Expenditure – If past trends continue, total USHE appropriated expenditures (state tax funds and tuition) will increase from \$1.5B in fiscal year 2013 to approximately \$2.2B in fiscal year 2020. In order to be able to increase capacity to reach the 66% goal, USHE appropriated expenditures (tax and tuition funds) will need to

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increase from \$1.5B in fiscal year 2013 to approximately \$2.4B in fiscal year 2020. Capacity increases are needed to expand the number of faculty and student support staff, expand technology resources, and provide additional capital facilities to accommodate more students. **Chart 2** provides detail by source. Tax and tuition funds demonstrate estimated increases based on past growth. Additional enrollment (shown in orange) would also include a mixture of tax and tuition funds.

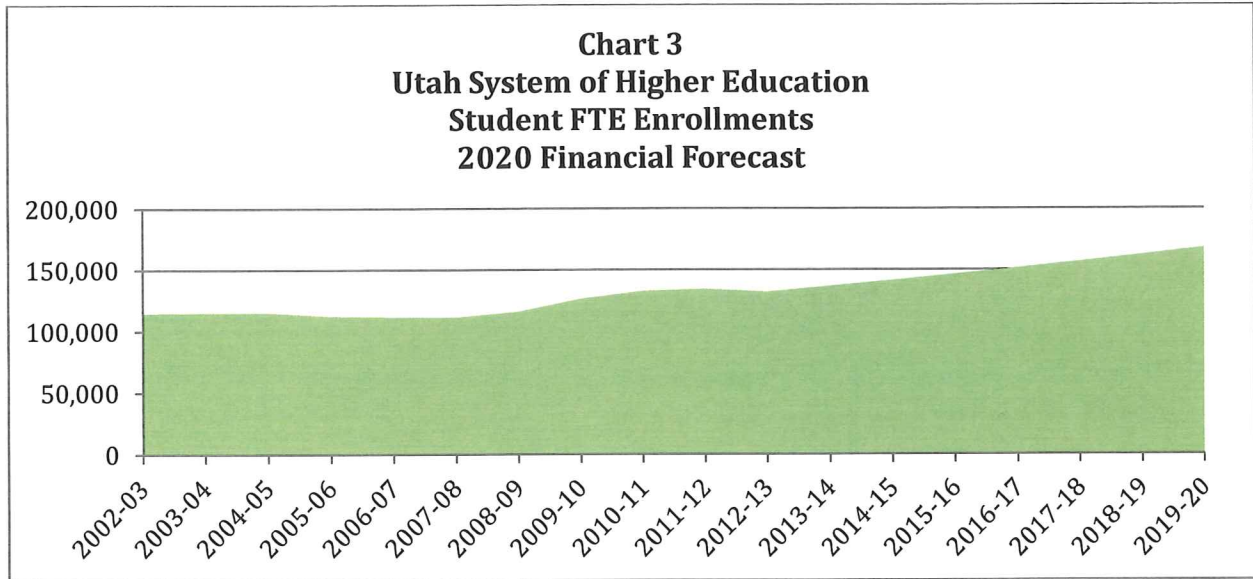


Methodology - Ratio analysis estimates and assumptions of future appropriated financial resources (primarily tax and tuition funds), are based on the needs of USHE to provide educational opportunities to students; based on (1) past growth and estimated inflation factors and (2) estimated additional student growth through increased participation & retention. All financial forecasts are compared to base line FY 2013 appropriated resources (held constant for future years).

Assumptions - Operating expenditure growth is based on average growth for the last 10 years (2% tax funds and 6% tuition fund increases, the amount needed in tuition increases could be decreased by additional increases in state tax funds). Capital development, improvement & infrastructure expenditures increase by 4% annual inflationary factor (DFCM). To reach 66% of the 25-35 year old adult population having some form of post-secondary education credential by 2020, student FTE Enrollment growth at USHE would need to increase an average of 3.9% annually at current levels of completion.

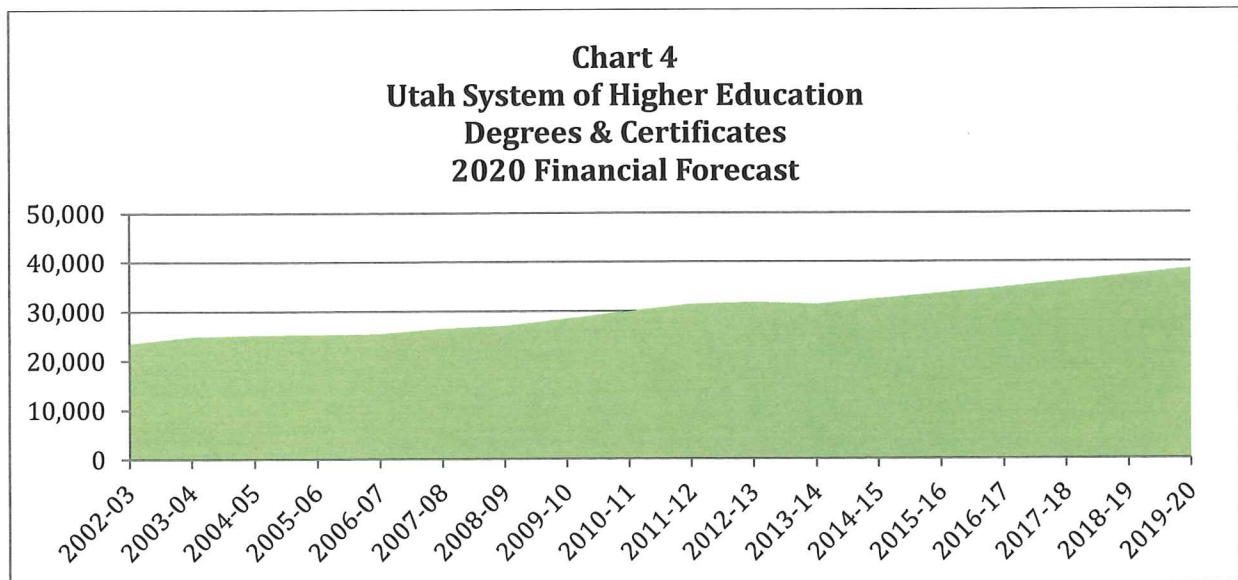
Student Full Time Equivalent (FTE) Enrollments (Chart 3)

Annual full time equivalent (FTE) enrollment growth to reach 66% would need to increase by approximately 3.9% each year, from 131,836 in 2012-13 to 167,848 in 2019-20. This would be an increase of 36,012 or 27%.



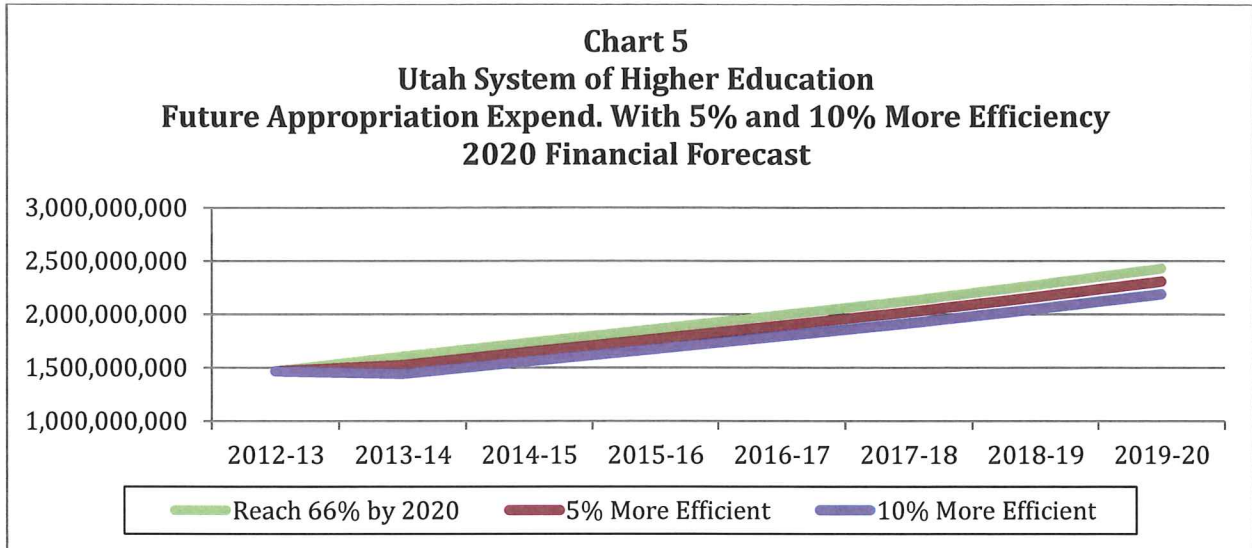
Degrees and Certificates (Chart 4)

Student degrees and certificates awarded would need to increase an average 3.5% per year, to reach 66% by 2020. This is an increase in annual awards from 31,741 in 2012-13 to 37,570 by 2019-20.



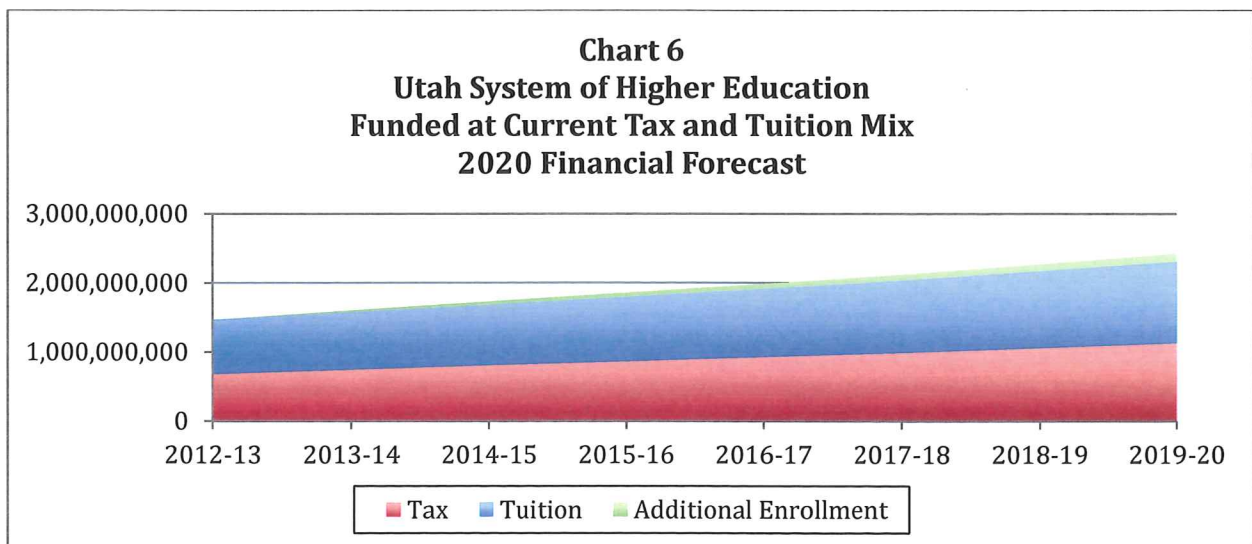
Scenario 1: Future Appropriated Expend. With 5%, 10% More Efficiency (Chart 5)

USHE appropriated expenditures with a 5% reduction in cost associated with achieving the 66% goal would see a reduction from \$2.4B to \$2.3B in fiscal year 2020. Likewise, a 10% reduction would decrease to \$2.2B. Efficiency may also be increased by improving the yield of graduates per FTE student through greater completion.



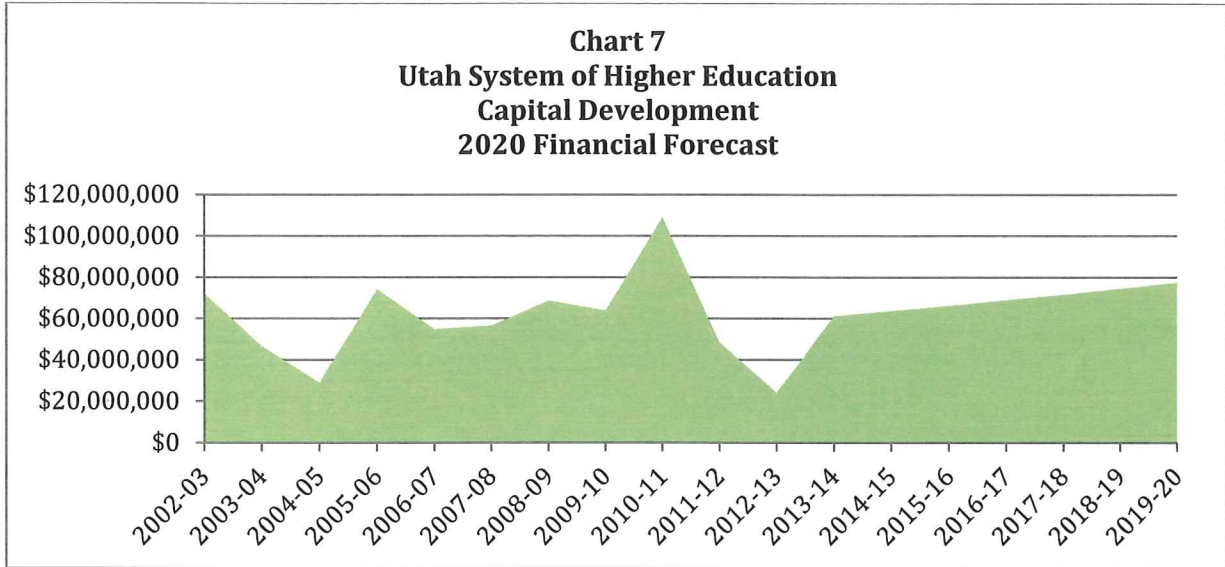
Scenario 2: Funded at Current Tax and Tuition Mix (Chart 6)

If future costs were funded by the current mix of state tax and tuition funds, overall tuition revenue from enrollment increases would average 3% and from rate increases of 6%, for a total revenue increase of 9% annually. Likewise, state tax fund revenue would increase an average of 9% annually.



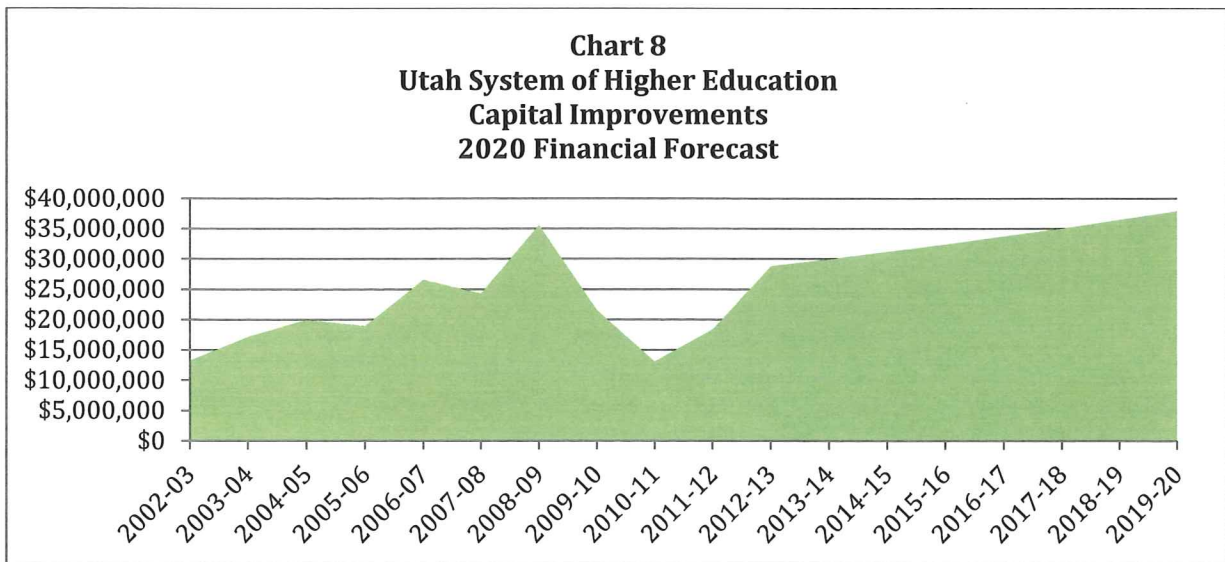
Capital Development (Chart 7)

Funding for Capital Development Projects: Included are new facilities with construction costs of \$500,000 or more; remodeling or utility projects costing of \$2.5M or more; or purchase of real property. Since 2002-03 allocations have varied widely with an average of \$58.9M. To reach 66% by 2020 the 7-year average would need to be \$69.1M (4% annual growth rate).



Capital Improvement (Chart 8)

Funding for facilities remodeling, replacement, site, and utility project costs less than \$2.5M; or new construction costs of less than \$500,000. Since 2002-03 allocations have averaged \$21.6M. To reach 66% by 2020 the 7-year average would need to be \$33.8M (4% annual growth rate).



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Summary

Increasing the number of 25-35 year olds with a college degree or certificate from 43% to 66% (23%) is significant and will require substantial resources. USHE appropriated expenditures (tax funds and tuition combined) would need to increase from \$1.5B to \$2.4B. If future costs were funded 100% by the current mix of tuition and tax funds, tuition revenues from enrollment increases would average 3% with rate increases of 6% for a total increase of 9% annually and tax funds increase would average 9% per year.

With the same enrollment-to-completion yield, FTE enrollment would need to increase 3.9% each year to 167,848 students in 2019-20; an increase of 36,012 or 27% above 2012-13. Institutions will continue to apply resources to target areas of retention, completion, and capacity that will increase efficiency of degree attainment. To the extent this combination of factors increases the completions yield, the number of required additional student enrollments might be reduced, and efficiency gains would lessen the cost increases.

Investment in facilities would need to increase to accommodate the additional students and keep pace with inflationary costs of 4% per year. Annual facility expenditures for capital development, capital improvement, and utilities infrastructure would increase to \$135.6M.

This forecast and its modeling assumptions are designed to be instructive in understanding the long-term needs and projected costs associated with increasing completions to 66% for 25-35 year olds by 2020. Specific line item funding requests such as mission-based, performance, enrollment, compensation, etc. may be used to further refine allocations.