

November 6, 2013

MEMORANDUM

TO: State Board of Regents  
FROM: David L. Buhler  
SUBJECT: USHE - 2020 Financial Forecast

Background

As directed by the Board of Regents at its July 2013 meeting, the Commissioner's Office has created a USHE 2020 financial forecast, its purpose being to demonstrate the resources needed to reach the goal of 66% of the adult population having some form of post-secondary education credential by the year 2020.

During the presentation of this item at the September Board of Regents meeting, recommendations were made to separate tuition revenue into rate and enrollment increase components, and clarify efficiency savings possibilities. These suggestions have been incorporated. Additionally, the commissioner's staff has incorporated updates as new enrollment information has become available. Updated items of significance since the September meeting are listed below for your reference and consideration.

Issue

Future Appropriated Expenditures: The original 66% of the adult population forecast amount of \$2.9B was lowered to \$2.8B based on estimated enrollment growth change from 9% to 8% (result of 2012-13 enrollment *actuals* replacing *estimates*).

Chart 2 - Total E&G Appropriations to Reach 66% by 2020: Total operating expenditures (chart 2) was separated into tax, tuition, and other funds, with capital development, improvement, and utilities infrastructure collapsed into one facilities category. All cumulative narrative and amounts were removed for simplicity.

Student FTE Enrollment and Degrees: Both FTE narrative and charts 7 & 8 were updated to reflect *actual* 2012-13 enrollment and degrees rather than *estimates*. Tuition rates would need to increase 6% annually, additional enrollment at 6% annually (total 12%), with annual tax funds increase of 11%.

More Efficiency: The 20% efficiency scenario was changed to 10% as recommended; along with chart 5 displaying baseline 2012-13 data, and total amount rather than reduction amount.

Current Tax and Tuition Mix: Additional enrollment and tuition rate increases were separated, with cumulative references removed. Chart 6 was changed to show increases over time for tax, tuition, and additional enrollment.

Commissioner's Recommendation

The Commissioner recommends the Regents review and discuss the *updated* version and approve the use of the *updated* version of the USHE 2020 Financial Forecast to demonstrate the resources needed to reach 66% by 2020.

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David L. Buhler  
Commissioner of Higher Education

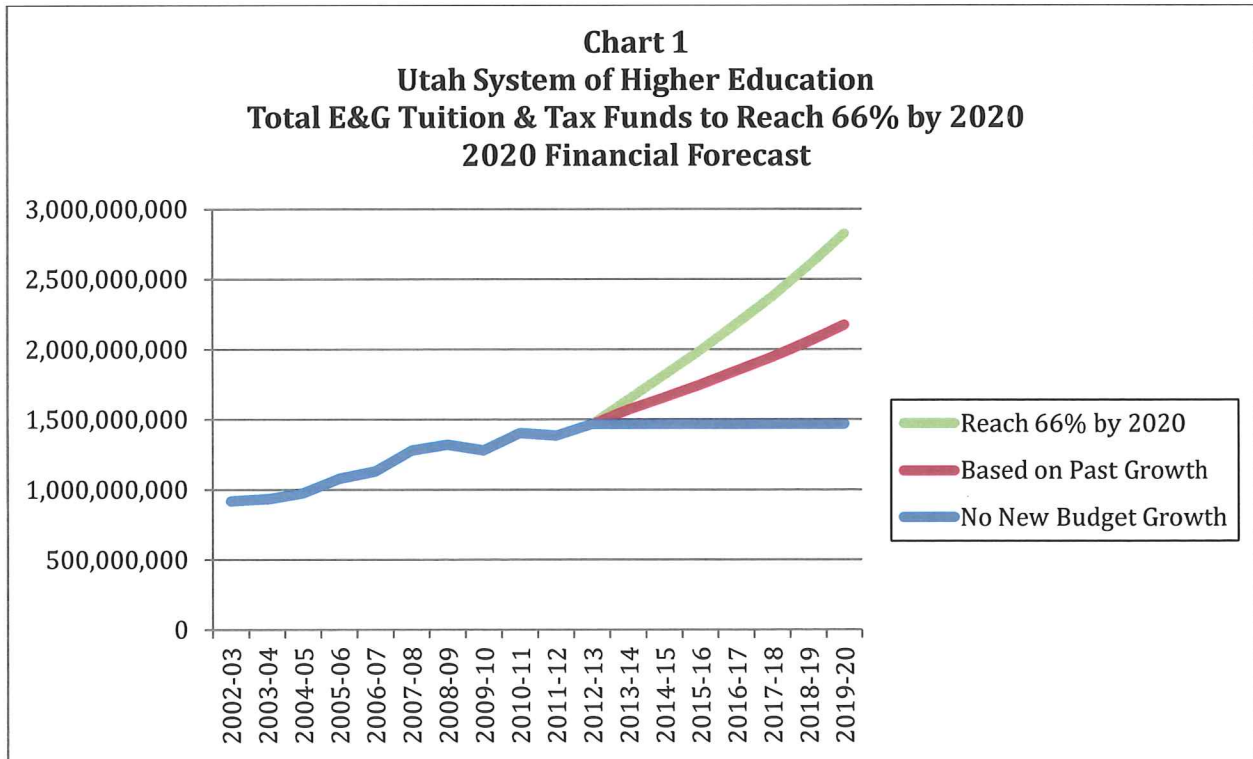
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**Utah System of Higher Education  
2020 Financial Forecast  
November 6, 2013**

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 having some form of post-secondary education credential by 2020.

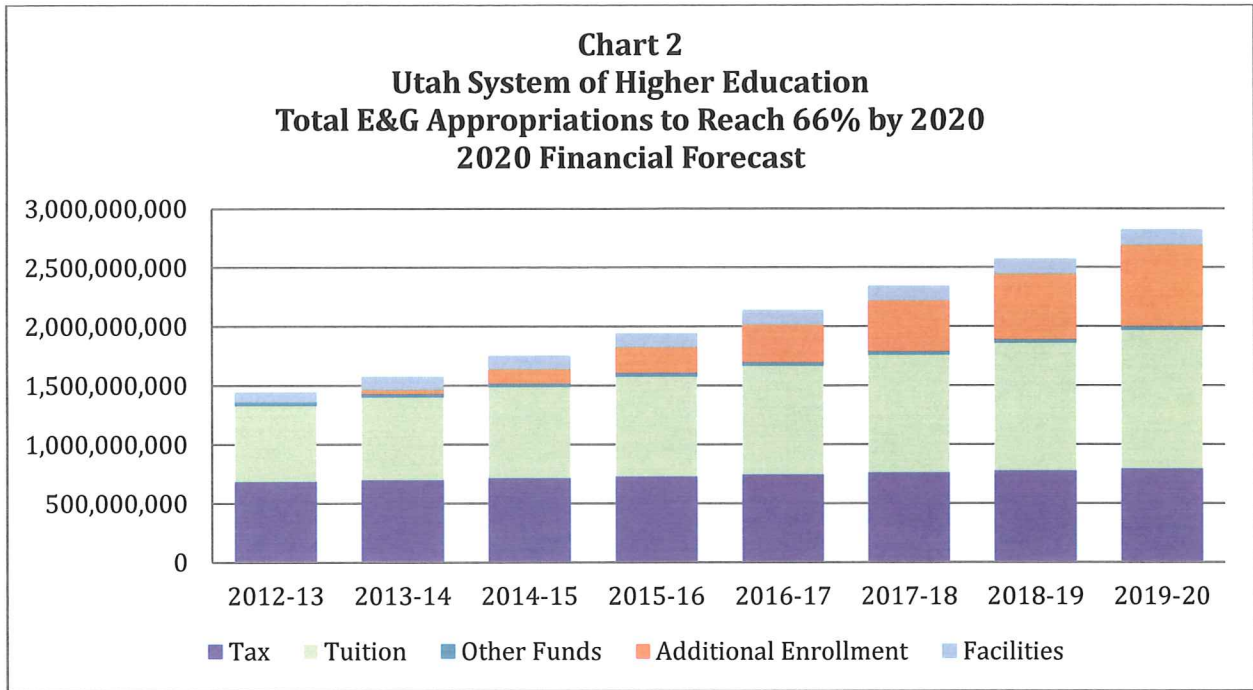
**USHE 2020 Financial Forecast (Chart 1):** Depicted are the estimated Education and General (E&G) enrollment expenditures of [primarily] tax and tuition funds needed to fund future growth. Displayed are, Actual Expenditures up to FY 2013 and then; a flat budget (**blue** line); estimates based on past 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 \$2.8B 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.



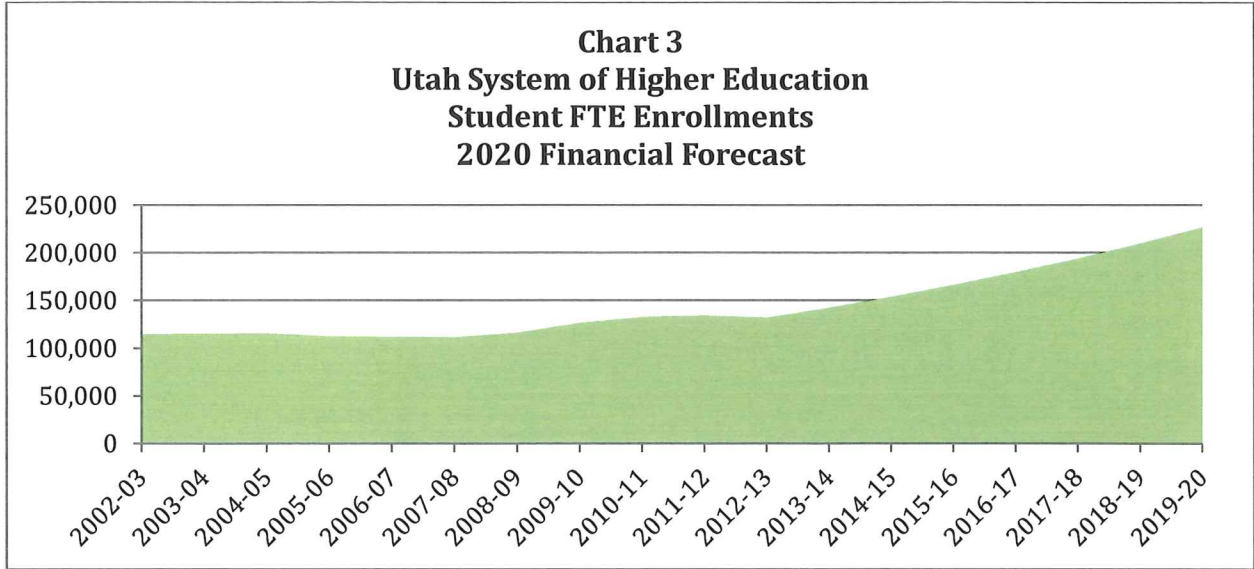
**Methodology** - Ratio analysis estimates and assumptions of future appropriated financial resources (primarily tax and tuition funds), are based on the needs of USHE to provide educational opportunities to students; based on (1) past growth and estimated inflation factors and (2) estimated additional 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 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 8% annually at current levels of completion.



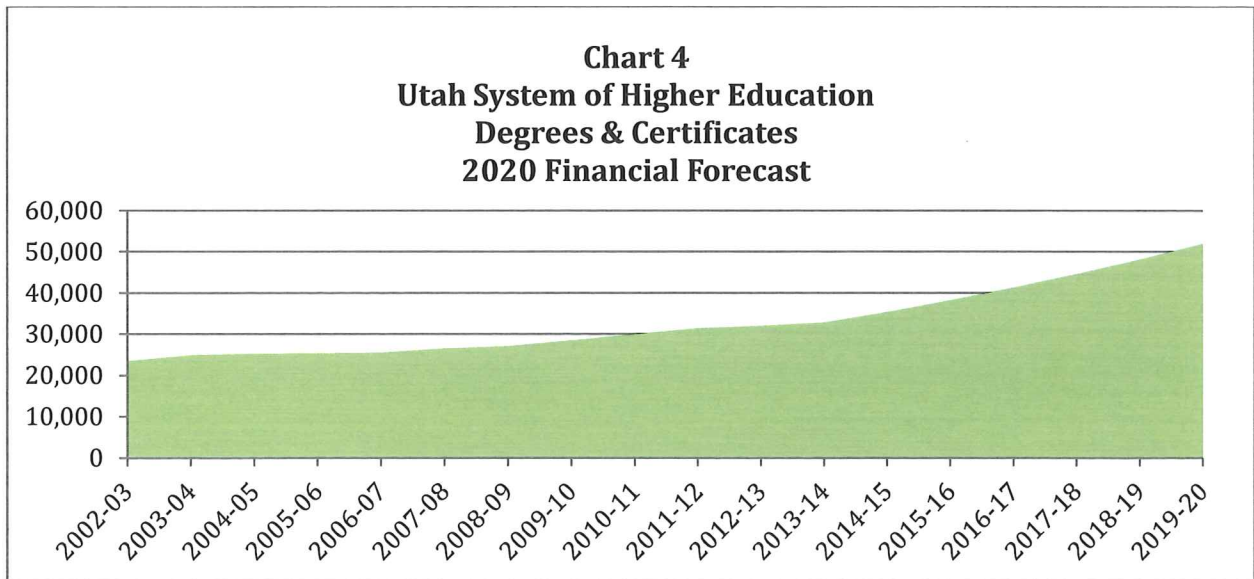
**Student Full Time Equivalent (FTE) Enrollments (Chart 3)**

Annual full time equivalent (FTE) enrollment growth to reach 66% would need to increase by approximately 8% each year, from 131,836 in 2012-13 to 226,439 in 2019-20. This would be an increase of 94,603 or 72%.



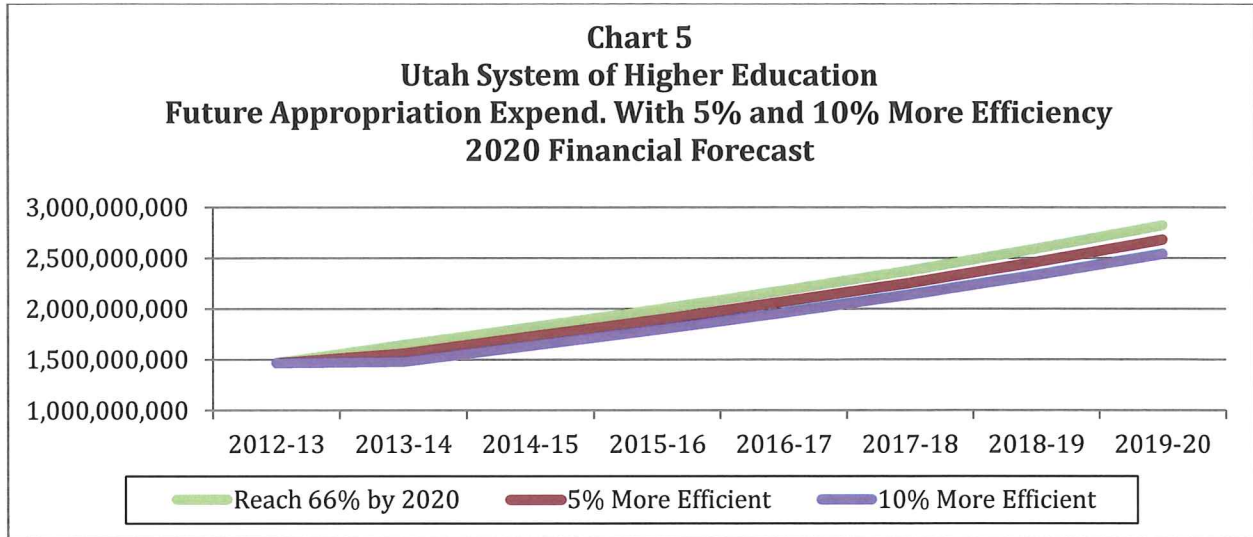
**Degrees and Certificates (Chart 4)**

Student degrees and certificates awarded would need to increase an average 8% per year, to reach 66% by 2020. This is an increase in annual awards from 31,970 in 2012-13 to 52,000 by 2019-20.



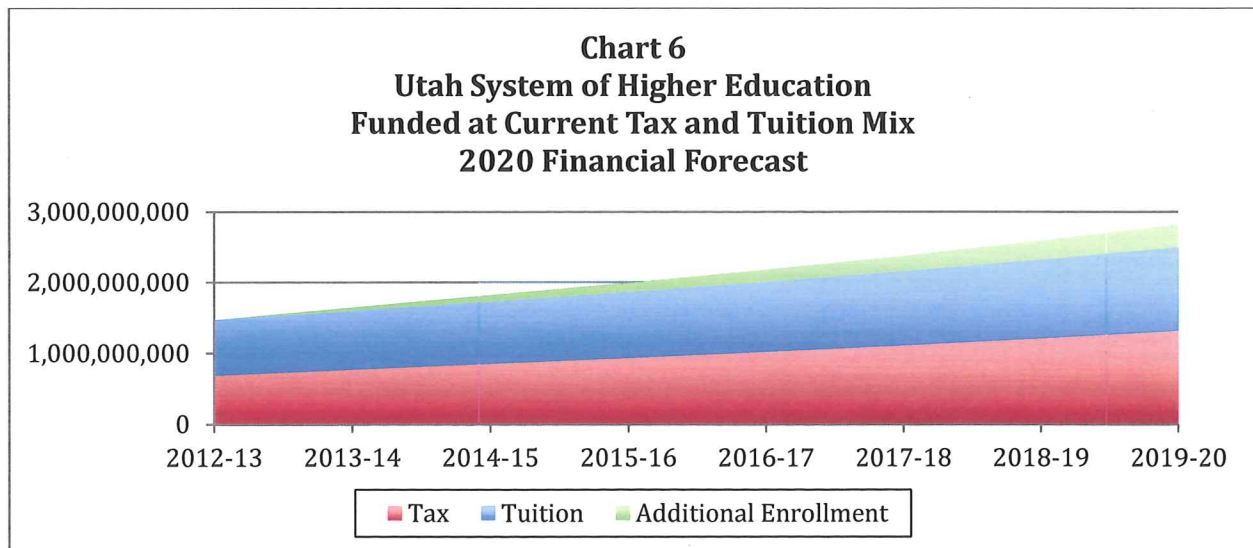
**Scenario 1: Future Appropriated Expend. With 5%, 10% More Efficiency (Chart 5)**

USHE appropriated expenditures with a 5% reduction in cost associated with achieving the 66% goal would see a reduction from \$2.8B to \$2.7B in fiscal year 2020. Likewise, a 10% reduction would decrease to \$2.5B. 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)**

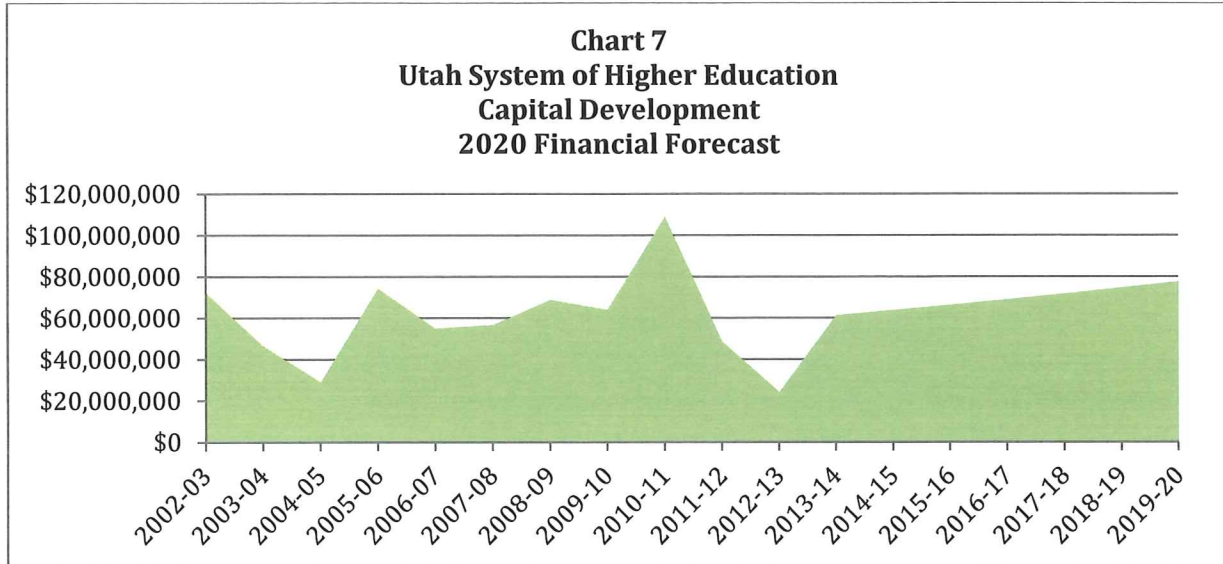
If future costs were funded by the current mix of state tax and tuition funds, overall tuition revenue from enrollment increases would average 6% and from rate increases of 6%, for a total revenue increase of 12% annually. Likewise, state tax fund revenue would increase an average of 11% annually.



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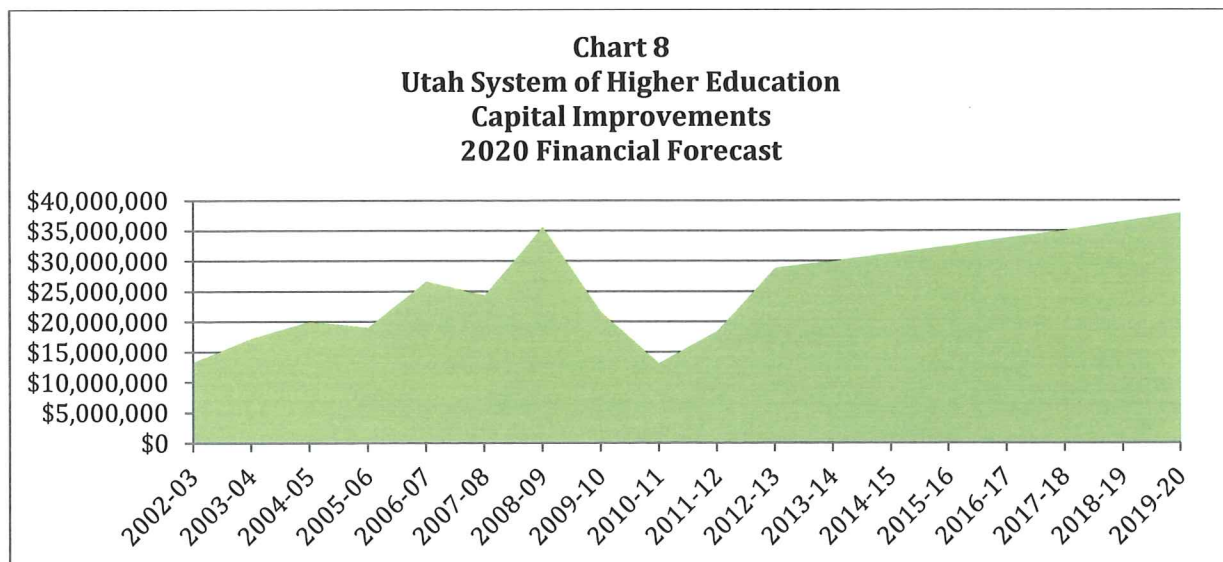
### Capital Development (Chart 7)

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 Utahns 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 nearly double from \$1.5B to \$2.8B. If future costs were funded 100% by the current mix of tuition and tax funds, tuition revenues from enrollment increases would average 6% with rate increases of 6% for a total increase of 12% annually and tax funds increase would average 11% per year.

With the same enrollment-to-completion yield, FTE enrollment would need to increase 8% each year to 226,439 students in 2019-20; an increase of 94,603 or 72% 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% by 2020. Specific line item funding requests such as mission-based, performance, enrollment, compensation, etc. may be used to further refine allocations.