

Financial Results for 2021-22 and Budget Decisions for 2022-23

Dear University of Portland Community:

We have just completed the budget development process for next fiscal year and are nearing the close of our current fiscal year (ending June 30, 2022). In keeping with commitment of University leadership to transparency and my past practice of sharing such information, I have created this report on the current year's financial results and the budget for fiscal year that follows. A shorter version was sent by e-mail that can also be found in the Executive Summary below.

Executive Summary

Fiscal Year 2021-22:

- Although we budgeted an operating loss in the current fiscal year (ending this June 30), this is a planned accounting loss with positive operating cash-flow. We are on-track to meet or even beat the budget.
- Due to higher levels of institutional scholarships, UP students are, on average, paying a lower net price for their education than at any time in the last five years.
- Our generous donors continue to play a critical role in supporting scholarships, programs, and capital investment with a \$12 million impact on current year operations.

Fiscal Year 2022-23:

- We made several revisions to our budget process to increase the inclusivity and transparency behind our financial decisions.
- The Board of Regents approved an appropriation of 6%, rather than 4.5%, from our endowments, resulting in an additional \$1.5 million in endowment spending.
- In the next fiscal year (2023), we are again budgeting a loss of approximately \$4.5 million, which still provides positive operating cash flow.
- As planned, faculty will be moving one step closer to the agreed-upon salary schedules and staff will generally be receiving a 3.5% salary increase effective July 1.
- Several new positions have been approved, including:
 - a Director of Diversity, Equity, and Inclusion,
 - a Survivor Advocate and Interpersonal Violence Prevention Program Coordinator, and
 - a Major Gift Officer.
- Other anticipated expenses and capital expenditures include:
 - the expansion of the Diversity Center in Buckley Center.
 - the creation of a new Center for Teaching and Learning,
 - a consulting study for staff compensation, and
 - support for the fund-raising campaign called "A Thousand Futures" – an initiative to support student scholarships.

There will be a financial town hall in the fall at which I will provide updates and entertain questions from our community. Information about the date, time, and location for this town hall meeting will be provided at a later date.

Fiscal Year 2021-2022 Projected Results

The current year financial results are on target with an *accounting* operating loss of between \$4.0MM and \$4.5MM, after counting the \$3.4 million net benefit from federal Higher Education Emergency Relief Fund (HEERF) grants. This was a planned loss, approved by the Board of Regents, resulting largely from the University's decision to keep tuition rates flat from the prior year. After adding back the non-cash expense of depreciation, however, cash-flows from operations are still positive. Below is a chart with projected operating and financial metrics for fiscal year 2021-2022 in comparison with budget:

Fiscal Year 2022 Budget vs. Actual (in \$,000s, except as noted)	2022 Budget	2022 Projected	Variance
Net Revenue from Students	119,283	117,464	(1,819)
HEERF Grant	6,800	6,827	27
Endowment Distribution	8,574	8,591	17
Other Revenue	12,658	11,957	(701)
Total Operating Revenue	147,315	144,839	(2,476)
Salaries and Benefits	90,023	88,954	(1,069)
HEERF Payments to Students	3,400	3,438	38
Other Expenses	57,953	56,653	(1,300)
Total Operating Expense	151,376	149,045	(2,331)
Net Gain (Loss)	(4,061)	(4,206)	(145)
Discount Rate on Tuition	50.4%	50.7%	0.3%
Net Tuition per Student FTE*	25,437	25,035	(402)
HEERF Payment per Student FTE*	906	916	10

* In dollars rather than in thousands of dollars

Our goal was, and is, to preserve our commitment to the University's mission and continue to enhance the student experience as we grow our way out of the financial challenges brought on by the COVID-19 pandemic. Note that revenues from students (including room and board) came in almost \$2 million lower than expected. Higher levels of institutional aid were a significant contributing factor to these lower levels of net revenues. In fact, the net tuition per student is the lowest it's been in the last five years – extending to six years if you reduce average net tuition by the average HEERF grant payment made to students. The revenue deficit had to be offset by expense reductions which were partially achieved by unfilled vacancies in staff positions.

Benefaction continues to play a critical role as donors provide scholarships, grow endowments, fund capital projects and support programs. Operating gifts for the current year are expected to total \$4.7 million, but past benefaction has also created \$7.3 million in endowment draw in the current year for a total current year *operating* impact of \$12 million – with many millions more supporting *non-operating* capital investment. The whole UP community is grateful for the generosity of our donors.

Fiscal Year 2022-2023 Operating Budget

The budget process for fiscal year 2022-2023 is nearly complete. Before outlining the outcome of the budgeting process, I first want to describe some changes we implemented to the process this year to increase participation and transparency. These changes include:

- Convening a President's Advisory Committee on Budgets.
- Budgeting expenses during the spring rather than fall to use more timely information.
- Conducting a preliminary budget planning meeting with the President's Leadership Cabinet (PLC) to allow each University division to share budget priorities.
- Including Dana Lopez, Vice President for Human Resources, in the individual meetings with division leaders to ensure consistency in decisions concerning personnel expenses and salary benchmarks, and to help foster equity in personnel decisions.
- Conducting a closing budget meeting with the PLC to ensure that all the University's senior leadership understood and supported the final budget decisions.
- Disclosing information to the community about budgetary decisions, both in this memo and during an in-person town-hall to be held in the fall of 2022.

To develop our 2022-2023 budget, we began by forecasting our revenue that included an enrollment target of 950 first-year students in the fall of 2022. That enrollment target is the most important factor in the budget, so we are monitoring our progress carefully. Presently we are on-track to meet that enrollment target. To our forecasted enrollment we applied a 3.9% tuition rate increase, a 2.6% increase for our standard room and board rate. This is the second straight year of rate increases below the rate of inflation. Next, we applied projected inflation rates to our operating expenses. Subtracting forecasted expenses from forecasted revenues we estimated a loss of about \$6.0 million. In the face of this forecast, the Board of Regents approved two important decisions:

- To draw an additional \$1.5 million from the University endowment in fiscal year 2022-23; and
- to budget an operating loss of about \$4.5 million.

While the first decision reduced our loss to the approved \$4.5 million target, the process was not yet complete. Members of the PLC requested approximately \$3.2 million dollars in new expenses. To make room for some of these new priorities, we made further adjustments to the bottom line including:

- Charging a fee for new student orientation (consistent with our peer institutions).
- Leaving the position of Vice President for University Operations vacant for the fiscal year.
- Creating a plan to encourage employees to use vacation accrued during the pandemic beyond the regular maximum bank of two-times annual accrual.

These decisions and other smaller changes freed up \$1.3 million in operating expenses. Given that the requests exceeded \$3 million, we could not approve them all. The PLC agreed that requests would be prioritized based on their ability to enhance the student experience; improve employee retention; address diversity, equity, and inclusion concerns; and/or generate new enrollment/revenue.

The following changes were approved for the final budget by the BWG and the Board of Regents:

NEW POSITIONS

- Director of Diversity, Equity, and Inclusion
- Survivor Advocate and Interpersonal Violence Prevention Program Coordinator
- Administrative Assistant in the Health and Counseling Center (part-time)
- Admissions Counselor to focus on transfer student recruitment
- Financial Aid Counselor to support the allocation of additional endowment funds
- Nursing Graduate Program Clinical Coordinator
- Nursing Data & Clinical Support Specialist
- Instructional Tech for the School of Engineering
- Athletic Trainer
- Major Gift Officer
- Administrative Assistant for the Office of Development

OPERATING EXPENSES

- The creation of a new Center for Teaching and Learning
- A consulting study for staff compensation
- Supporting the scholarship fund-raising campaign called “A Thousand Futures”
- The replacement of Hire Touch (employee recruiting system), due to system cessation

Below, find a table with our fiscal year 2022-2023 budget in aggregate. If, in August, we find that our enrollment or discount rate expectations fall significantly short, further adjustments may be necessary.

Comparison of Fiscal Year Projections (in \$,000s, except as noted)	2022 Projected	2023 Budget	Variance
Net Revenue from Students	117,464	126,091	8,627
HEERF Grant	6,827	-	(6,827)
Endowment Distribution	8,591	11,900	3,309
Other Revenue	11,957	12,789	832
Total Operating Revenue	144,839	150,780	5,941
Salaries and Benefits	88,954	94,868	5,914
HEERF Payments to Students	3,438	-	(3,438)
Other Expenses	56,653	60,419	3,766
Total Operating Expense	149,045	155,287	6,242
Net Gain (Loss)	(4,206)	(4,507)	(301)
Discount Rate on Tuition	50.7%	50.8%	0.1%
Net Tuition per Student FTE*	25,437	26,401	964
HEERF Payment per Student FTE*	916	-	(916)

* In dollars rather than in thousands of dollars

Fiscal Year 2022-2023 Capital Budget

Capital expenditures (the purchase of things that last multiple years like buildings and furniture) are not “expensed” when purchased, but are expensed over multiple future years as “depreciation” (for example, a \$50,000 truck might be expensed at \$5,000 per year over 10 years). The purchases listed below are not included in the expenses in the chart above, but were approved for expenditure in the current year. Some are funded with donor money, while others use funds from our reserves.

- The expansion of the Diversity Center in Buckley Center
- The conversion of classrooms in Buckley Center to create nine faculty offices
- The initiation of the Shiley-Marcos Center for Design and Innovation
- The initiation of the Patrick E. Becker, Sr. Track and Field Complex on the Franz Campus
- Upgrades to Mehling Hall (seismic and elevator)
- Replacement of the boiler in Kenna Hall
- New residence hall furniture
- New seating in Chiles Center
- The completion of the Franz Campus Boat House
- Remodeling in Orrico Hall
- Remodeling of floors 1 and 5 of Waldschmidt Hall for accessibility and expanded office space
- Some remodel work on the President’s House to accommodate a new president with a family

Closing Commentary

Once again, note that there will be a financial town hall in the fall during which I will provide updates available and entertain questions from our community. Information about the date, time, and location for this town hall meeting will be provided at a later date. I plan to invite members of the President’s Advisory Committee on Budgets to introduce themselves and share more about what they do.

Like any other budget, the fiscal year 2022-23 budget is about far more than just numbers. It is about our academic offerings, programs, employees, alumni, and, most of all, our students. It is the financial expression of what we can do this year. We couldn’t fund everything that was requested, but we did what we could in the face of limited resources. That said, those who participated in the process demonstrated creativity, honesty, and judgement to help us advance the mission of the University.

Ultimately, we want this unique UP experience – created and maintained by us as a community – to be available as affordably as possible both to our current students and to future generations of Pilots. Together, we are successfully managing our way out of the financial challenges created by the COVID-19 pandemic and building for the future.