

Jan. 2004 Budget Update

January 26, 2004

Colleagues,

The next few months will be among the most critical in Oakland's 47-year history. The state's economic downturn and resulting cuts to higher education appropriations - four in the past 12 months - have challenged our ability to deliver educational services to our students and the region.

To neutralize the effects of these cuts to maintain quality and some measure of momentum, we have stripped ourselves of strategic funds and reserves, and thereby rendered ourselves less flexible in managing our business. We have made difficult cuts to expenses and have increased tuition, asking our students and their families to absorb more of the cost of a public education at this university. In fact, the cost of attending Oakland, like the cost of attending our sister institutions in Michigan, is increasingly being shifted from taxpayer support to institutional resources and student tuition. In 1992, state appropriations contributed 56 percent of the cost of an Oakland education. Today, that number has shrunk to 38 percent.

HARD DECISIONS - FISCAL 2004-05 BASE CUTS

Unfortunately, we are not out of the woods. To that end, I hope you can take a few minutes out of your busy day to read and digest this message.

Executive Order 2003-23, issued on December 10, 2003, cut state appropriations to higher education by 5 percent - the fourth of the four cuts I mentioned earlier. **Assuming a modest tuition increase and continued overall enrollment growth, we are now faced with cutting at least \$2 million more from our permanent base budget, effective July 1, 2004.**

The likelihood of additional cuts over the next 12 months is high. No sooner had the state cut expenses in December to balance a \$900-million shortfall this current fiscal year, than the January 14 state revenue estimating conference revealed a projected \$900-million or higher revenue shortfall for FY 2004-05 as well. So, our forecast of a \$2-million cut may not be enough. We will know more when Governor Granholm releases her 2004-05 budget recommendations on February 12.

BASE-CUT PROCESS UNDER WAY

As we have done for the past two years, we will continue to anticipate, plan and execute measures to keep us on track as revenues decline. We initiated a budget planning process last fall. Consistent with the values we established together when these cuts began, we reconfirmed our commitment to protect first and foremost our academic core. As evidence of this, even as we are planning cuts, we have approved the hiring of 28 new and replacement faculty for fall 2004.

The vice presidents' suggestions for Fiscal Year 2004-05 cuts are due to the Budget Office by the end of this week. At that point, we will take a hard look at those suggestions and what those reductions might mean to both the fiscal management of our educational mission and to our plans for 2010.

Our actions will likely include personnel cuts, reorganizations, program cuts and service reductions. And, we also will be looking for any other means to cut while protecting our core mission. I cannot emphasize enough that these cuts will be difficult and critical to staying on course for a stable, yet vibrant institution in the coming years.

PLANNING WORKS - 2003-04 ONE-TIME CUTS

As we plan for the cut in state appropriations to our base budget for the next fiscal year and beyond, we also have to cover the loss of \$2,454,400 this year - in our budgets that run to June 30, 2004 - since the state's 5-percent cut to higher education took effect in December.

I am pleased to report that through effective, responsible and sound fiscal forecasting and planning efforts, we were able to cover the cuts for the remainder of Fiscal Year 2003-04 from central, not individual department, sources.

We anticipated and paid attention to the worsening economy and its effect on us. We strategically planned our approaches to these challenges. We carefully conserved critical resources. We cut expenses, including positions, to gain short-term breathing room.

Specifically, from central university sources:

- We were able to apply \$1 million in tuition revenue to our \$2,454,400 loss through continued growth and aggressive enrollment management strategies.
- Our hiring freeze resulted in one-time personnel savings of \$200,000.
- Active loss-control practices saved \$100,000 in insurance costs.
- We trimmed \$200,000 from contingency, strategic plan and technology improvement funds (thereby lessening available reserve funds for emergencies).
- We drew \$437,500 from our "rainy day" fund, which we created some years ago as a hedge against the impending budget crisis.

The vice presidents were able to cover the remainder of the revenue shortfall through the following one-time cost-saving measures:

- Academic Affairs - two major reorganizations (IT and Research and Graduate Studies), postponing necessary travel and tightening other administrative expenses (\$382,838 in savings).
- Student Affairs - Filling vacant positions at lower salaries (\$23,575 in savings).
- Finance and Administration - Deferring projects and reducing spending in numerous program areas (\$74,313 in savings).

- Development, Alumni and Community Engagement - Reducing travel and general program expenses (\$7,688 in savings).
- President's Division - Trimming program and personnel expenses (\$24,088 in savings).

We have placed a chart summarizing these latest one-time cuts for 2003-04 on the Budget Development Process Web page, found on the Administration page of the university's website. I encourage you to consult this page for other timely and helpful information, including suggestions on how you can help, and links to several recent newspaper articles that put our challenges into both state and national perspectives.

MOVING FORWARD

All our cuts to date, and those to come for 2004-05 and beyond, create enormous stress on our ability to provide a quality education to our students. Further, the cuts reduce our ability to respond to crises. Once again, I am calling on our faculty and staff for both your ideas and your resolve to protect and, where possible, enhance the value of an Oakland education. On my part, I will continue to periodically share thoughts and developments related to resource management as we prepare our budget for 2004-05.

The past year has clearly shown that together we can make this work. I have every reason to believe that this year will be no different. Thank you for your contributions, your hard work, your sacrifices. Because of it, the value of the Oakland experience has arguably even increased over the past two years - an impressive statement, and one in which we should all take a measure of pride.

Gary