

President Russi

Budget Briefing

*February 17, 2004*

Thank you for your efforts over the past two years. We have more challenges to come, but I am confident we will weather them. In fact, with your commitment and energy, we will continue to defy the odds and move our initiatives forward with creativity and purpose – and come out in a stronger position than when this all started.

Gathered here today are roughly 200 faculty chairs, front-line managers, members of the Senate Planning and Budget Review Committees and critical administrators.

We plan to meet with this group periodically on institutional issues, probably twice a year, to improve communication back-and-forth and thus enhance our flexibility and responsiveness to both external and internal factors.

We would like your feedback: during the Q&A session at the end of the program and by e-mail in the days ahead.

I strongly encourage you to share what you hear today with your staffs. Communication is vital if we are going to effectively manage our resources and achieve our goals.

In the interest of time, I will move through the financial charts quickly, so we have prepared the handouts for your reference.

## **Overview**

Our purpose today is to answer what I think should be your basic question – “As a manager, what do I want and need to know about the budget situation so I can better lead the department or program for which I am responsible?”

Let me just say at the outset that our budget management work and strategic resource planning has been a primary focus of the team sitting at this table. The deans have also played a key role and, at times, many of you have helped tremendously with ideas and suggestions.

I would like to commend my colleagues for their dedication and perseverance. They are Virinder Moudgil, vice president for Academic Affairs and provost; Lynne Schaefer, vice president for Finance and Administration; Mary Beth Snyder, vice president for Student Affairs; and Sue Goepp, vice president for Development, Alumni and Community Engagement.

Again, I would encourage you to ask questions at the end of the presentation. We have wireless microphones for that purpose in the very capable hands of the President’s Office team – Kawaini

English, Jo Hairston and Vernita Long. If you have a question, just raise your hand and ask for the nearest mike.

### [Program Outline](#)

Okay, let's get to the heart of the matter:

- We will be discussing our guiding principles and values;
- a history of the state cuts to date;
- a look at our efficiency and cost-cutting actions over the past several years;
- our budget allocations over the past two years;
- how we distributed the extra funds from OU's one differential cut;
- the current state budget situation and long-term expectations;
- the governor's February 12 budget recommendation;
- the tuition pledge;
- the impact of the deal on the OU budget;
- fiscal year 05 base budget reduction strategies;
- and initiatives to move us forward.

### **Guiding Principles and Values**

In a retreat in September 2002, the division vice presidents, deans and I agreed on a prioritized list of values that would guide financial management decisions during the anticipated difficult budget times ahead.

In parallel, we have also been guided by the University Senate's statement on core functions, issued last March, which suggests:

- provision of [high-quality education](#);
- provision of specific [student support services](#);
- attention to the [campus environment](#);
- and, development of [community and professional partnerships and service](#)

### **State Appropriations**

Let's look at the recent [history of state appropriations](#).

First, we are pleased with the progress Oakland has been making in relation to our sister institutions in Michigan – note the years 99-00 and 00-01.

In the last five years, whenever the state appropriation increase was greater for OU, or the decrease less than projected by the administration, the BOT approved reducing the planned increase in tuition and mandatory fees by an appropriate amount.

Our cuts over the past two years total 11.4 percent, before the tuition pledge deal the board agreed to, and which we will discuss shortly.

Note that OU received less of a cut than most other state universities going into this year – our cut was 2.9 percent versus the 6.7 percent most others took.

Also, the university's current state appropriation per full-time student, based on 31 credits per year, is down to \$3,695, less than the \$3,840 we received 10 years ago in fiscal year 93-94.

I might point out that while this is a statewide problem – the average per student state appropriation has dropped from \$7,002 in 2000 to \$5,646 this year – we still have to work harder than most to maintain quality at \$3,695 per student.

Looked at another way, you will see how [support from the state has dropped](#) significantly since 1992, and as a result, tuition and fees have taken on a larger share of our revenue.

### **Efficiency and Cost Containment**

Of course, as we have battled to maintain our revenues (through increased state support and enrollment growth), we have worked extremely hard to [contain costs](#) wherever and whenever possible.

Lynne and her staff have collected information on our efforts over the past several years. These are being added to almost daily, primarily through the efforts of you and your staffs.

You can see that the total to date has been a [savings of more than \\$3.6 million](#).

And, as we headed into this current fiscal year, we have either initiated or are looking at a number of [other areas to contain costs](#). We will touch on at least a couple of these in a few minutes. Or, you can ask questions about them during the Q and A.

### **FY03 and FY04 Budget Allocations**

Let's take a look at how we have distributed our budget dollars over the past two years.

First, as we entered 2002-03, our [appropriations funding](#) was to be flat, no increase over the previous fiscal year. Based on that budget bill from the state, we were able to increase base budgets through strategic planning and financial management. There is no question that our enrollment growth made this possible.

However, we subsequently received cuts of 2 percent from then-Governor Engler and 1.5 percent from new Governor Granholm. With input from many of you, we trimmed our budgets by more than \$2 million to balance the 3.5 percent cut in state appropriations for fiscal year 2002-03.

As we entered the 2003-04 fiscal year, we were anticipating a 6.5 percent cut in state appropriations. Thanks to legislative support, we were able to successfully reduce that cut to 2.9 percent.

You may recall that when our 2003-04 appropriation was reduced only 2.9 percent instead of 6.5 percent, we received the difference of \$1.9 million back from the state. We essentially passed all those savings along to our students, as [this chart summarizes](#).

We then balanced our budget, protecting as best we could instruction, even though as you know Academic Affairs represents nearly three quarters of our budget.

Note that [this chart](#) also shows how our 8.5 percent tuition increase made up the balance of the shortfall for FY04.

The next two slides show how our goal of protecting instruction translates to numbers in our budget.

The percentage of the [budget devoted to Academic Affairs](#) has steadily increased over time, and we have over time been able to [add faculty](#) to keep up with enrollment growth.

Executive Order 2003-23, issued on December 10, 2003, [cut state appropriations](#) to higher education by 5 percent.

As I reported to the campus a few weeks ago, through effective, responsible and sound fiscal forecasting and planning efforts, we were able to cover nearly [\\$2.5 million in one-time 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).

## **State Budget Situation and Outlook**

The January 14 state revenue estimating conference revealed a projected \$900-million or higher revenue shortfall for FY 2004-05 as well.

Last week, the governor released her FY05 budget, which of course now goes to the Legislature for discussion, changes and ultimately a vote.

Rochelle, would you like to comment on the [outlook for state revenues](#) over the next year? Perhaps explaining both revenue sources and state general fund expense commitments? And, what the governor's budget means to higher ed and OU?

## **Governor's Tuition Pledge**

In response to the governor's proposal, our Board of Trustees two weeks ago agreed to hold [next year's tuition increase](#) to no more than 2.4 percent.

Under the tuition restraint agreement approved by the governor and Legislature last December, the state would restore three-fifths of the 5 percent budget cut made last December. The governor further proposes to maintain current funding levels in 2004-05 for those universities whose tuition increase is at 2.4 percent or below.

If the state's commitment to the pledge changes for any reason, it would be unlikely that Oakland could limit future tuition increases to 2.4 percent.

Even if passed by the Legislature, the pledge we have adopted will still leave Oakland University with a budget shortfall of nearly \$2.5 million for FY 2004-2005.

## **Impact of the pledge on OU budget**

So, let's take a look at where we are today. With non-discretionary cost increases that we must cover, we are looking at a [budget shortfall](#) beginning this July of \$3.1 million.

This picture would have been far worse had we had to absorb the full impact of the latest 5 percent base appropriations cut. However, by agreeing to holding next year's tuition increase to 2.4 percent, you will see that with only a 2 percent state reduction, and a 2.4 percent tuition increase, we are able to project a deficit of only \$2.5 million.

Now let's talk about how we plan to balance this shortfall.

### **FY05 Base Budget Reduction Strategies**

For the [FY05 base budget](#), as we have done for the past two years, the vice presidents and deans 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. Virinder will talk more about this in a few minutes.

We also decided to protect instruction by first limiting cuts to faculty salaries and fringes to half a percent.

We also limited cuts to other areas of Academic Affairs only 2.1 percent. The other divisions were each cut 2.7 percent.

And, central sources were cut 11 percent, which continues to eat away at our flexibility and responsiveness.

The vice presidents' suggestions for fiscal year 2004-05 base budget cuts are now in, and we are analyzing the 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 reorganizations, program and personnel cuts, and service reductions. 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.

And, you can see that we still have to come up with plans for roughly \$500,000 more to cut from base.

### **Initiatives to Move Us Forward**

Now, let's take a look ahead.

With your leadership, commitment and creativity, OU has – and will – thrive as we work together to address the current budget challenges.

OU is – and will remain – strong and will indeed prosper.

OU is committed to quality – a value that must be protected.

It is likely in the years to come that the state will not fund higher education at previous levels. In fact, it is possible that higher education will experience additional reductions in state funding in the next few years.

Thus, OU must work hard to bolster revenue streams and continue our efforts to be cost efficient and to preserve what we value most.

I remain optimistic about our future.

Let's discuss the strategies that will move us down the road of quality and prosperity.

- First and foremost, we are blessed with **talented faculty and staff**. With your dedication and the fine work of our colleagues, OU will continue to thrive.
- We must ensure that OU is well represented in Lansing to maximize **state appropriations**. We have had success and will continue the effort.
- We must continue our emphasis on **enrollment management**, specifically student recruitment and retention.

You can see that this is going to be a fairly flat fall for [new freshman enrollment](#) as our feeder counties' graduation rates are lower than previous years. And that in a few years, the [demographics](#) are not in our favor.

We are already working on both short- and long-term recruitment strategies to address the years 2009 to 2012.

We have enjoyed a solid student recruitment program at the undergraduate level and are expanding graduate student recruitment.

Student enrollment cannot outstrip our ability to deliver quality education and support services. Therefore, it is important to add as much resources as possible to critical areas to preserve quality in times of budget stress.

That is why the provost, vice presidents and I have released 28 faculty positions for hiring for fall 04.

Virinder, maybe you could comment on that.

Furthermore, with agreement of the provost and VPs, for fall 2004, I have asked to slow the rate of growth at OU. I have asked that we hold new freshman enrollment at the same level as fall 2003.

Once the class reaches the 2003 level, admitted applicants will be placed on a waiting list. This has been shared with admitted students and their parents, who have been encouraged to sign up for orientation, and high school counselors and principals.

I want to emphasize that this is intended to slow the rate of growth, and that the university will continue to grow overall.

We will assess the success of this tactic on a year-to-year basis.

We have not been successful in advancing retention initiatives. We must commit to do a better job.

Mary Beth, maybe you can comment on retention efforts.

- We must focus our energies on **extramural funding**, including generating grants and contracts.

Not only is the money enriching to the researcher and/or program, it provides expanded credibility to the faculty, staff member, to the department/college/school and OU.

Furthermore, indirect cost recovery dollars will help us operate OU.

Virinder, perhaps you could comment on our recent history with [grants funding](#).

- Our **fund-raising efforts** are an essential activity to create support for programs and units and to establish a legacy through endowments.

Sue, maybe you could expand a little on the progress of the [capital campaign](#) to date, including next steps.

- A key strategy for us will be to continue to **streamline operations**.

Lynne, could you comment on a couple of examples that illustrate the benefits of this approach?

Virinder, maybe you could comment on program review in light of streamlining operations.

I can tell you that you do not transform an organization through cuts.

The only way to meet these challenges and succeed is by acquiring resources and getting stronger. Because once you lose a program, in this environment it is virtually impossible to recover it.

- Sources of support we are beginning to pursue more aggressively are **partnerships and strategic alliances**.

Virinder, could you share with the group a few of our recent initiatives?

- Oakland, of course, has a clear advantage over other universities in the state and throughout the country – and that is our **prime location** in Oakland County and Southeastern Michigan.

Our location offers tremendous opportunities for student recruitment, partnerships,



extramural funding and so on.

As a group, we need to continue to look for ways to capitalize on this asset.

- Oakland has a **history of success** and the remarkable ability to succeed in challenging times.

And the reason is sitting in front of me today.

You have been flexible and adaptable.

And, most importantly, you are committed to educating our students.

In [summary](#), I am optimistic because of our:

- Talented Faculty and Staff
- State Appropriations Advocacy
- Enrollment Management
- Extramural Funding
- Fund Raising
- Streamlining Operations
- Partnerships/Strategic Alliances
- Location
- History of Success

We have made hard choices.

We have solid strategies to move this institution forward.

And, we have great people to get it done.

## **Feedback Mechanisms**

In closing, I strongly suggest that as managers you become familiar with key communication tools – the [Budget Development](#) Web page, the [News @ OU](#) website for general OU news, the weekly broadcast e-mails from the News @ OU and my periodic campus e-mails.

The [Budget Development](#) Web page collects a variety of pertinent information, including e-mail messages, BOT budget presentations, budget talking points developed by Rochelle Black, and timely newspaper articles related to educational budget issues.

I would like to announce that our new [Employee Suggestion Program](#) is now launched. The website will go live first thing tomorrow morning.

I would like to thank the committee which has worked hard to develop what I think is an excellent program. And, I would ask that you encourage employees to look at the site and participate.

Please be sure to pick up an employee suggestion announcement flier on the way out to share with your staffs.

We have also included the university's ranking sheet and highlights sheet for the same purpose.

Thank you all for coming, and be sure to let your vice presidents and me know how we might improve future meetings such as this one.

Have a good day.