

To: Budget Advisory Committees
From: John V. Lombardi, Chancellor
Date: May 1, 2003
Subject: Anticipating the Campus Response to FY04 Budgets

The dramatic reduction of support anticipated from the Commonwealth for all of higher education and particularly the share of that reduction to UMass Amherst compels a major examination of the structure of the campus.

Where We Stand

While on previous occasions the university has found ways to respond to budget reductions by cutting and trimming around the margins, by general across the board reductions, or by postponing expenditures for capital projects and other needs, these techniques will no longer serve us.

The previous reductions in state support have used nearly all our margin of flexibility, they have forced major improvements in efficiency, and they have postponed essential maintenance requirements longer than is prudent. Since July 1, 2001, the campus has absorbed an 11% reduction without any significant change in our ability to deliver educational and other academic and public services. This accomplishment required every efficiency, massive reductions in personnel (558 people lost in the reductions), and postponement of every possible expense. There is no longer any room in our operation to absorb additional budget reductions by such measures. We now must consider changing this campus to absorb the currently projected budget reductions.

The purpose of the process we are now initiating is to consider the scope of our work and our mission with the advice and expertise of our major constituencies. With that consideration and advice, we can then take the necessary actions to remain fiscally sound and continue the university's commitment to exceptional quality in its teaching and research mission.

The Budget Context

With this background, let me provide an overview of the university's budget circumstances to give the work of this advisory group some context.

At the beginning of the 2002 fiscal year, the university's base state appropriation including the library stood at \$240.3 million. During that year, we lost \$11.2 million from our general appropriation and another \$2.8 million from the library appropriation. Then, during the current 2003 fiscal year, we lost another \$10.6 million from the general appropriation and another \$1.2 million from the library. This combination of reductions over this and last year total \$25.8 million dollars and represents a greater than 10 % reduction over the appropriation base at the beginning of last fiscal year (FY 2002).

The proposed House budget just released anticipates a further reduction of about \$40 million, or another 17% relative to the FY 2002 starting base. Our current challenge is to understand what it will take to operate a first-rank flagship research university after absorbing a total reduction of close to 30%.

The university raised its fees during the past two years (FY 2002 and FY2003) by \$1,060 per student, generating an additional \$18.5 million in new revenue. However, during the same

period, a variety of unavoidable cost increases related to financial aid, restoring library purchases, minimal faculty hiring to replace the most critical losses, facility infrastructure and debt costs, increases in information systems and the university central assessment, essential costs of research support, and new faculty startup costs generated new obligations of about \$21.1 million. The attached tables summarize these changes.

As you know, the university has already increased its fees for the coming year, fiscal 2004, by an additional \$1,000 per student. That increase generates about \$16.7 million. However, the additional costs for fiscal 2004 of additional financial aid, a minimal addition of faculty in critical areas, the additional debt and critical deferred maintenance, increased utility costs, the cost of new space, and commitments to research programs total \$16 million. An attached table summarizes these changes as well.

Clearly, then, the new reductions proposed by the legislature present a major challenge. This summary, however, does not include some additional outstanding future obligations. Chief among these is the deferred faculty and staff salary issue. Last year the state failed to fund faculty and staff negotiated contracts that would have provided market competitive increases to our faculty and staff salaries. There is no indication that the state will address this problem this year, and given budget projections, it will be a struggle to get these obligations funded at any level in the following year. These obligations must be met at some level in the near term or the university will find its faculty and staff investment as under funded as is our current deferred maintenance. The university would then face severe problems maintaining its competitiveness in the national marketplace for quality faculty and staff. If we can persuade the state to reinvest in its universities in the future, one of the first items it will need to address is faculty and staff salaries. Thus, it is not likely in the near term that we can anticipate additional state funding for higher education other than for deferred salary support.

We also have a major facilities problem on the Amherst campus that we can no longer postpone. Some of the issues directly impact health and safety. Some reflect the inability of structurally sound buildings to serve the purposes for which the university built them (particularly in the sciences). Others address the replacement of failing infrastructure such as the steam plant. While we have made a commitment to borrow the funds necessary to build and renovate to solve some of the most critical of these problems, this borrowing will generate a significant increase in debt service payments over the next several years.

On the revenue side, we anticipate continued increase in the research funding earned by our faculty, staff, and students, and the university must support this increase with adequate facilities, services, and matching funds. While funded research does not generate a surplus of funds, it allows us to support a much expanded university portfolio of academic activities than we could otherwise achieve, and the indirect costs recovered help defray some of the institutional expenses required for maintaining a research enterprise.

If we receive legislative relief from a variety of constraints on our operations and construction processes, we can anticipate some improvement in revenue generation, reductions in costs, and the like, but again, these represent improvements that will impact the budget two to three years from now.

Our UMass Amherst Foundation will surely approve the launch of a major capital campaign in the next year or so, and the returns from that activity will enhance our endowment, provide funding for some new construction and renovation, and deliver current support to many critical

academic activities. This increased revenue, however, comes in over time and may take three to five years to reach significant levels.

Finally, the university maintains a variety of funds with balances that serve different purposes. For example, the university maintains a contingency fund to deal with issues related to weather, emergency maintenance, and other occasional one-time costs that normally come up during the year. The university also maintains balances in funds held by colleges, departments, and individual investigators derived from the returned indirect cost recovery from grants and contracts. The institution has designated funds for scholarships and other purposes that it must spend for those purposes. While some of these funds may appear available, in fact the university has only limited options to use them to support budget reduction plans because we cannot dedicate most of them to continuing expenses, although we may use some of these balances to cover the one-time costs of reducing or eliminating programs.

The Issues of Timing

Serious issues of timing will complicate our work:

- We do not know and probably will not know until mid summer at the earliest the actual amount of the budget reductions required of us. Given the fiscal year schedule, we cannot wait until mid summer to ask for advice on these critical issues because the budget reductions will take effect immediately. We must begin our consideration and review now, so that when we have a final number, we will already have had the benefit of the advice and counsel of many of our on-campus constituencies. We will also ask students and faculty in particular to provide us with appropriate groups with which we can continue to consult as the final numbers become clear.
- The timing of the state's budget appropriation process also means that we will not be able to implement many essential reductions in time to achieve the full year's savings. This will require us to develop bridging plans to cover the temporary costs of closing and phasing out activities for which we no longer have adequate state support.
- The timing also means that in considering any actions, we must always take into account the impact on currently enrolled students, and in this we will incur some significant continuing obligations for a short period.

Although we might make plans to restructure the university in anticipation of a final budget, we need to proceed with substantial caution. In universities, the announcement of a possible program reduction or elimination will cause almost as much damage as the actual reduction or elimination. Thus, we only want to announce what we must do and, as the budget picture becomes clearer, we will announce further reductions and eliminations as necessary.

All of this provides a context for the decisions we must make.

The Process

In proceeding to address the restructuring challenge posed by the legislatively mandated budget reductions, we expect to follow some general principles.

- We must maintain the academic core of the university in teaching and research at high, nationally competitive quality.

- We must maintain a program sufficiently broad and deep to continue our role as the Commonwealth's public flagship university.
- We must maintain a salary base for faculty and staff that keeps us competitive in the national marketplace.
- We must scale our student fees to keep the cost of higher education within national standards.
- We must maintain and renovate the campus facilities to support a safe, effective, and competitive environment for faculty, staff, students, and visitors.
- We must maintain the support services for the teaching and research missions and enhance the quality of student life outside the classroom.

As we consider alternatives for consolidation, reduction, or elimination of programs, enhancements to the efficiency of operations, and the like, we need to measure our advice against the above criteria. At the same time, no one should imagine that we could achieve our objective by implementing simple measures to save money, simple elimination of weak programs, and simple reduction of unnecessary activities. Given the context described above, almost all that we could accomplish with simple measures we have done.

The decisions we now face are hard. The programs we must look at will all be good and essential to some important constituency of the university; the reductions we must make will all damage some important group or deny an opportunity to critical constituencies. The state's withdrawal of support from higher education has forced these draconian choices on us and while we may not like the choices we have to make, we surely need wise advice to choose the best from among a set of not very attractive alternatives.

Our approach to this process is to work inward towards the center of the university's academic mission of teaching and research. We will look first at those programs that serve important constituencies, receive state budget support, but do not contribute directly to teaching and research. In this *Category I*, we also include a review of campus and central administrative services and support. We will look second at activities that, while desirable in support of students or research, we can nonetheless suspend, postpone, or reduce without major damage to the university's teaching and research mission. In this *Category II*, we include among other activities intercollegiate athletics. After we have achieved this reduction in expenses from Category I and Category II, we may have to confront the most difficult consideration of all: *Category III*, the reduction or elimination of academic programs that serve our students and that support our faculty.

Many considerations go into this kind of review. We care about quality, we care about the number of students and faculty affected, we care about the centrality of programs to the core academic curriculum and mission, and we must pay close attention to both the budget reductions possible and the student fee revenue and external funding lost by reducing or eliminating a program.

Our process will be to bring information to the advisory groups and ask them to discuss whatever alternatives seem of interest, however dramatic or innovative they may appear, understanding the consequences that any proposed solutions might bring, and to offer whatever advice seems appropriate or useful to the Chancellor.

As the budget picture becomes clearer and as the consultations progress, the Chancellor, based on the advice and considerations of all the advisory groups, the deans, the vice chancellors, and in consultation with the President, will take action as action appears necessary. Once the Chancellor takes an action, we can update the information we provide to the advisory groups and continue the consultation until the budget is final and the university's response is complete.

If the legislative process results in budget reductions that force us to reach Category III, the Chancellor will follow all appropriate procedures and consultations required by applicable collective bargaining agreements and statutes.

Throughout we will operate with a five-year plan that displays our anticipated revenues and expenses for the entire UMass Amherst campus in one place so that we can see clearly the immediate and longer-term impact of every decision or proposal.

While this process is very time consuming and places a tremendous burden on the participants in the advisory groups, we believe that a restructuring of the University of Massachusetts Amherst requires a full understanding and the benefit of the advice and expertise of as many of our constituencies as possible.

The Schedule

We anticipate the following approximate schedule for the state budget deliberations which will in turn drive the campus schedule:

April 30	House debate begins
May 9	House debate completed
May 21	Senate Ways and Means budget
May 27	Senate debate begins
June 10	Senate debate ends
June 16	House/Senate Conference Committee submits final budget to Governor

We hope to begin our conversation with the advisory groups during the week of May 5 and at that time we will outline a possible schedule for future meetings for consideration.

I greatly appreciate your willingness to help with this unusually important process. The academic future of this campus will depend on the advice and expertise you can lend us in making the decisions we must make.