



August 4, 2003

To: President William M. Bulger
From: John V. Lombardi, Chancellor
Subject: University of Massachusetts Amherst Budget Process

Over the last several months as all of us have struggled with the consequences of the Commonwealth's dire fiscal conditions, the University of Massachusetts Amherst has carried out its portion of the university's overall budget reduction requirements. This memo outlines the key issues the campus confronted and contains relevant materials that provide background for understanding the results.

In anticipation of the budget reductions, I created a number of Ad Hoc Budget Advisory Committees that meet to discuss the actions the campus would be required to take. These committees reflected faculty, student, staff, and alumni perspectives. In addition, we met with established on campus committees such as the Faculty Senate Rules Committee and with our UMass Amherst Foundation Board. The general perspective discussed in those meetings is summarized in Document I included with this memo: *Anticipating the Campus Response to FY04 Budgets* (May 1, 2003).

The principal methodology used to meet the requirements for a budget reduction (outlined in the May 1, 2003, memo) involved a progressive review of programs and activities that began with activities farthest from the university's academic core and moved inward towards the academic teaching and research core. We focused in turn on three categories of activities plus other adjustments. The full list of budget reductions achieved through this process appears in Document IX accompanying this memo.

- Category I included those activities of the university receiving funding from the state budget that serve valuable constituencies on and off campus but do not directly impact the teaching and research mission of the institution. This category also included a review of campus and central administrative services and support
- Category II included activities that while desirable in support of students or research we could suspend, postpone, or reduce without major damage to the university's teaching and research mission, and within this category we included intercollegiate athletics.
- Category III included the reduction or elimination of academic programs that serve our students and support our faculty.
- Other is a category that included the reductions from reducing some elements of our capital plan and the savings from the loss of faculty talent through the state's early retirement program.

We established a schedule for *Budget Reduction Proposals, Comments, and Decisions*, published on line and updated as the process continued. The final version of this schedule appeared online on July 2nd and is included here as Document II.

As this schedule indicates, the Chancellor proposed a series of budget reductions by posting them on line. Then the Chancellor received comments from campus and external constituencies about the likely damage that the reduction in campus services would cause to important university programs and their beneficiaries. No reduction proposed avoided damaging an important mission of the university since the campus had already eliminated many programs, services, and faculty and staff positions in prior reductions.

After receiving and responding to the comments, the Chancellor posted his final reductions on line and then moved to propose the reductions in the next category. The campus followed this process with some modifications when it became clear that the final requirements for this campus would reach the truly catastrophic level of \$41 million. At that point we returned for a second review of Categories I, II, and part of III which we labeled IIIa to reach the final targets required.

At the end of each category reduction process the Chancellor posted on line a letter to the campus community summarizing the state of the process. These appear in this packet as follows:

- Document III: *Category I Final Budget Reductions*, June 3, 2003
- Document IV: *Category II Final Budget Reductions*, June 10, 2003
- Document V: *Final Legislative Budget*, June 20, 2003
- Document VI: *Final Category IIIa and Additional Category I and II Budget Reductions*, June 27, 2003
- Document VII: *FY04 Status Report*, July 2, 2003 (after Governor's Vetoes)
- Document VIII: *FY04 Budget Update*, July 10, 2003 (Final report after Veto Overrides)

The UMass Amherst Budget website contains a variety of other documents and data of interest for those following the budget process on this campus at:

<http://www.umass.edu/budget>

Among the information shared with the campus, three tables may be of particular interest to the Trustees.

The first is the summary of the final *Budget Planning Actions* that identify the specific program reductions implemented in each of the categories. See Document IX.

The second provides a view of the adjustments made to the FY04 General Operating Budget as a result of the loss of approximately \$41 million in state funding to UMass Amherst. See Document X.

The third is a standard budget form that outlines the actual campus budget for FY03 and the projected budgets for the years FY04 through FY08. See *General Operations Budget FY03 to FY08*, Document XI.

A few comments may help put these documents into perspective. In the case of the budget reductions outlined in Documents IX and X, these reductions will take between one and three years to implement depending on contract requirements and other issues associated with winding down the activities involved. In some cases, the activities can generate sufficient revenue to continue operations on a self-supporting basis, in others the activity must be reconstituted or dismantled. Although the continuing budgets for these activities have been reduced as identified in the documents for the 2003-2004 fiscal year, the campus will provide one-time bridging support of various amounts to transition these programs as efficiently and effectively as possible to the new funding levels. Each unit provided the campus with a budget plan that clearly indicates how the unit will implement the required reductions and requests whatever budgeting may be appropriate. The Chancellor reviewed these plans and approved, with significant revisions in many cases, the plans and the bridging funds required. Consequently, as of July 31st, the campus had approved plans for almost all units and had identified the necessary one-time funds to accomplish the bridging necessary to implement the reductions.

In the case of the budget pro forma, Document XI identifies the major changes in the campus' budget circumstances between the actual results of FY03 and the projected results for the ensuing five years. We will update this pro forma at least semi-annually as we meet or exceed our targets. Of particular importance for the projections, thanks to legislative action, the Amherst campus can now retain the out-of-state tuition of tuition collected from its enrolled students. This is an amount of about \$28 million and is reported separately for the years from 2004 through 2008. We expect to grow the Amherst student population by about 1000 students over this period from out of state and the increased revenue they represent is included in the pro forma.

We also have included an estimated additional student fee increase of 3.5% in FY07 and in FY08. This reflects the realistic assumption of unavoidable cost increases in a wide range of services such as utilities and the like that must be captured in the fee rate. The large increases in fees required last year and this year reflect in large part the absence of regular ordinary fee increases in prior years.

The pro forma also includes, below the line, an estimate of the minimal salary increases for faculty and staff that must be funded if the institution is to maintain its national competitiveness. These estimates are minimums needed to stay at the current, barely competitive salary ranges existing today. If these increases cannot be funded, the university will, by FY06 need to begin planning for a major change in mission, as a flagship university cannot be maintained at the current level of salary funding without increases to the salary base. As a result of the budget reductions, the university has no further economies it can implement that will not change the character of the institution.

A final document included in this package (Document XII) provides a summary of the university's *Current Capital Plan* from FY03 through FY07. This captures all of the

currently approved projects. Note that the campus is responsible for 86% of the cost of this capital plan. This represents a major obligation for the institution, and seriously inhibits its ability to enhance its academic programs as the campus must devote such a substantial part of its revenue to paying for essential capital projects. Other institutions with which UMass Amherst competes have many of these capital expenses funded through state appropriations in addition to operating expenses and through state funded matching programs in support of private fundraising. UMass Amherst is at a significant competitive disadvantage compared to other nationally competitive public research universities as a result of the Commonwealth's difficulty in finding resources to fund capital expenses including deferred maintenance.

This, in summary, provides a view of the campus response to the fiscal challenges presented by the current budget circumstances of the Commonwealth, the inadequate faculty and staff salary support, and the accumulated deficits associated with deferred capital investment.

The campus has embarked on an aggressive program to enhance its revenue from non-state sources. These efforts include a restructuring of the budget system to create incentives for colleges and programs to generate additional non-state revenue from grants, contracts, intellectual property, private fundraising, distance and continuing education, and other similar revenue generating activities. We are reviewing our administrative operations to identify inefficiencies or ineffective operations that inhibit revenue generation. We will recruit a larger student population including substantial numbers of out of state students over the next several years to generate additional revenue. We will also expand our summer offerings and activities to enhance revenue and expand the use of fixed cost facilities.

These and other programs may require assistance in revised regulations, enhanced capital project management to reduce time and cost, and similar support from the central UMass system leadership as well as strong support from our legislators and other government officials.

UMass Amherst believes it is positioned to succeed as a nationally competitive public research university, but it also recognizes that it currently operates in an environment in which we have very little margin for error. If we do everything right and if we can identify sufficient support, we will succeed.

Please let me know if I can provide you any further information.