Preliminary draft

*This Self-Study is in the form of a preliminary draft, leading toward a final draft in late August. This material will continue to undergo editing; editing might be extensive in some sections. Comments and feedback are welcome.*

**Standard Nine: Financial Resources**

**Description**
UMass Amherst relies primarily on a combination of state support and student fee revenue for its General Funds budget. General Funds provide the primary source of revenue for the base budget that sustains the faculty and staff and provides the primary support for teaching and some of the support for the institution’s research enterprise. Student fees have increased beyond the rate of inflation in years when the state appropriation has declined and increases have been held at or below inflation in those years when the state appropriation has increased.

In fiscal year 2004 the Legislature granted UMass Amherst the ability to retain its out-of-state tuition. At that time, tuition from out-of-state students was generating revenue of approximately $28 million annually. The state appropriation to the campus was then reduced by that amount. Tuition rates have remained unchanged since 2004 yet, because of increased out-of-state enrollments, the campus is now earning approximately $33 million per year from that source. UMass Amherst has also become a leader in on-line education, and net revenue from this initiative directly benefits schools and colleges and the General Funds budget.

### Tuition Retention, Fiscal Year 2004 - 2010 (Projected)

<table>
<thead>
<tr>
<th>Year</th>
<th>Waivers</th>
<th>Net Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004 Actual</td>
<td>$15.4</td>
<td></td>
</tr>
<tr>
<td>2005 Actual</td>
<td>$14.7</td>
<td></td>
</tr>
<tr>
<td>2006 Actual</td>
<td>$15.0</td>
<td></td>
</tr>
<tr>
<td>2007 Actual</td>
<td>$14.7</td>
<td></td>
</tr>
<tr>
<td>2008 Actual</td>
<td>$14.6</td>
<td></td>
</tr>
<tr>
<td>2009 Actual</td>
<td>$14.9</td>
<td></td>
</tr>
<tr>
<td>2010 Projected</td>
<td>$14.2</td>
<td></td>
</tr>
</tbody>
</table>

During the budget downturn in FY2004 the campus was forced to cut $20 million from its General Funds budget. Although all parts of the campus budget incurred reductions, the
academic core budgets were shielded from the deepest cuts. When the state budget recovered two years later, the incremental allocations of state monies received over three fiscal cycles were devoted almost entirely to increasing the number of tenure track faculty.

The campus maintains a reasonable level of reserves to ensure it can sustain its operations in the face of mid-year budget rescissions. In FY09 the campus had 6 percent of its state appropriation reduced mid-year, but was able to draw on its reserves, thus avoiding having to make damaging mid-year budget cuts.

UMass Amherst is financially stable. External auditors review the campus’ financial statements annually. The University Board of Trustees requires each campus to submit a series of financial performance indicators each spring. These indicators measure the long-term financial health of the institution and assess its ability to cushion itself against negative downturns. These indicators are compared against the ratios at peer institutions as a further measure of financial stability.

Enrollment has increased in recent years and the campus has been successful in broadening its revenue base by attracting more out-of-state students. The UMass Amherst enrollment strategy includes significant outlays for need-based and merit-based financial aid to compete for the best students and ensure access for families across the economic spectrum.

The University Board of Trustees has the sole authority to set mandatory fees for UMass Amherst. Tuition is determined by the state Board of Higher Education and that figure has remained unchanged for many years. Since tuition revenue from in-state students is remitted to the state, fee revenue on the Amherst campus is comparable to tuition revenue on other campuses. By an annual vote of the Board of Trustees the President is responsible for deciding how the state appropriation is allocated among the five campuses in the University of Massachusetts System. The percentage distributed to each campus has remained unchanged over many years, with the Amherst campus receiving approximately 49%.

The University Board of Trustees votes on the University budget each spring. The operating budgets for each of the campuses is broken out in the budget document presented to the Board. The submitted budget for the next fiscal year is part of a package which includes the past two years of actual results, a projection of the current fiscal year and a projection for each of the four years beyond the upcoming fiscal year. In addition, a set of financial and facility performance indicators covering the same period is submitted in the same package. Because the state appropriation is such an integral component of the campus’ financial budget, and because this revenue source is difficult to predict from year to year, the multi-year projections can be challenging. However, other revenue sources are more predictable and the budget includes solid multi-year forecasts for these income streams.

All revenue received at UMass Amherst either directly or indirectly supports the teaching and research mission of the campus. In recent years, additional state funds have been dedicated to new tenure-track faculty hires and a substantial portion of new student fee revenue has addressed annual debt service payments on capital investments for new and refurbished buildings (see

---

**Feedback**

Become involved in the accreditation process. Please lend your voice to this important work.

Visit: [http://www.umass.edu/neasc/feedback.html](http://www.umass.edu/neasc/feedback.html)
Standard Eight). The campus commitment to preserving access to qualified students is evidenced by its steady annual increases in financial aid. To support learning outside of the classroom, substantial funds are dedicated to the library, to intercollegiate athletics, and to a variety of student support programs.

UMass Amherst has an enrollment management group that meets regularly throughout the year to evaluate enrollment patterns and financial aid practices so that its enrollment process advances its goal of recruiting high caliber students, maintaining access for all qualified students, and deriving sufficient net revenue to support campus operations. The committee consists of representatives from Admissions, Financial Aid, Academic Affairs, Finance, Student Affairs, and University Relations. It was deeply involved in the recent decision to expand the allocation of institutional need-based grants to middle class families. Further changes may occur as the campus has contracted with a national consulting firm to provide recommendations about how best to allocate its financial aid resources to achieve its enrollment goals. The consulting contract will continue for the rest of 2009 and the first half of 2010.

The University annually presents a financial aid Report to the University Board of Trustees. Included in it are a series of tables on how financial aid funds are distributed, the financial profile of aid recipients, and the range of student indebtedness at graduation.

**The University Budget Process**: the request for state funds begins in September of the year prior to the beginning of the next fiscal year, July 1st. The President’s Office coordinates the five-campus request process and establishes parameters based on the outcome of a University-wide funding formula. The budget requests from each of the five campuses are consolidated into one University request that is submitted to the Board of Higher Education for approval. The BHE submits budgets to the Governor for the three sectors of higher education: the community colleges, state colleges, and the University.

In January the campus begins formulating tentative funding allocations based on the anticipated level of state appropriations, student fee and tuition revenue, interest earnings, and sponsored research overhead. These allocations are re-worked throughout the spring as the budget outlook becomes clearer. Once the state appropriation is finalized, final budget allocations are made.

The campus budget process for auxiliary and other sales and service operations, including those funded by student fees, (other than tuition and curriculum fee) begins in November. New fee requests and/or increases to current fees must be approved—depending on the fund—by either the President or the Chancellor.

**Financial Management**: the campus has an extensive system of internal controls that ensures sound stewardship of its funds. Accounting and purchasing policies are continually updated and maintained on-line; employee administrative training is offered throughout the year. Expenditures are controlled by the budgets established at the beginning of the fiscal year or project period. Purchases of supplies, equipment and services are encumbered to ensure that funds are set aside before any purchase orders are issued. The campus competitively bids all contracts for goods and services in accordance with state and university purchasing regulations.

---

*Feedback*

Become involved in the accreditation process. Please lend your voice to this important work.

Visit: [http://www.umass.edu/neasc/feedback.html](http://www.umass.edu/neasc/feedback.html)
The campus participates in group purchasing organizations, such as the Massachusetts Higher Education Consortium (MHEC) and others, to achieve significant volume discounts on common goods and services.

**Financial Reporting:** UMass Amherst has an integrated financial system that supports timely and accurate transaction processing and financial reporting. Each system has secure workflow processes that allow electronic routing and approval of transactions. The major systems are:

- PeopleSoft Financial Systems – Accounting and Budgeting;
- PeopleSoft Student Systems – Student Billing and Receivables, Registrar, Housing and Financial Aid;
- PeopleSoft HR – Payroll, Time and Attendance;

Monthly financial statements are prepared and distributed to departments for each budgeted account and provide budget-to-actual information for the month and fiscal year periods. In addition, the finance systems allow for on-line, real-time inquiry of transactions and balances. Lastly, various queries and budget reports are available for departments to evaluate summarized financial activity for their units.

All fees and rates charged by the revenue operation must have campus Budget Office recommendation, approval of the Chancellor and the President or Board of Trustee approval. Once established, fees and rates cannot be changed without Budget Office recommendation, approval of the Chancellor and, in certain cases, the President or Board of Trustee. Revenue operation activities must be consistent with the University mission and must be appropriate to the normal activities of the department or unit. All financial activity must comply with both the University’s policy for the management of university funds and campus policy. All income must be expended for the purpose for which the operation was established and the operation must be fiscally sound. Finally, the campus financial system of record (PeopleSoft) strictly limits where revenue can be deposited. This assists the campus in tracking any unapproved revenue deposits. The Budget Office works with the campus Controller’s Office to identify any irregularities.

The campus employs a rigorous hiring process to recruit qualified personnel to manage the important financial structures of the institution. Through separation of duties and practices, external and internal audit oversight, and system security measures, the campus takes all reasonable steps to ensure that financial resources are managed effectively and appropriately. Each year, the campus includes in employee paychecks a copy of its whistleblower and fraud policies. Trustee policies concerning financial management and personnel are all available at the Board of Trustees website.^^

http://www.massachusetts.edu/policy/fiscalgeneraladmin.html
http://www.massachusetts.edu/policy/personnelpolicies.html

Annual financial statements are prepared by the campus, audited by an independent audit firm, and presented to the Board of Trustees for review. The Trustees also approve annual operating budgets for the University.

---

**Feedback**

*Become involved in the accreditation process. Please lend your voice to this important work.*

Visit: [http://www.umass.edu/neasc/feedback.html](http://www.umass.edu/neasc/feedback.html)
UMass Amherst is subject to financial audit from a variety of entities:

- University independent auditing firm: currently Price Waterhouse Coopers performs the annual General Purpose Financial Audit in accordance with generally accepted auditing standards (GAAS). In addition, PWC performs the annual audit of federal awards in accordance with OMB A-133 guidelines.
- Other programmatic audits may be required by sponsoring entities in addition to the general purpose financial audit; these are performed by various auditing firms under the review of the university internal audit director.
- Office of the State Auditor: as a state agency, the University is subject to periodic audits by the state auditor;
- University Auditor: internal audits are conducted periodically by the University System office and cover a variety of issues including cash handling and accounting procedures. The Auditor reports directly to the President;
- University Trustees: the Board of Trustees has an audit subcommittee that reviews audits performed by the University Auditor.
- Federal Government: as a recipient of federal grants and contracts, the University is subject to audit from relevant government agencies, such as the Department of Health and Human Services.

All audit reports are submitted to the audit committee of the Board of Trustees. Management letter comments and other recommendations are presented to the Board with corrective action plans as necessary.

The campus has developed clear written policies for each of its major financial activities. These policies and instructions are distributed to interested parties; many are available on the campus web site.

The campus relies on the financial tools and practices described above to ensure the integrity of its financial management. The campus currently faces a liability because of the critical state of our facilities (see Standard Eight). Therefore, any evaluation of its financial condition must include a full assessment of its capital assets. For many years, the Trustees’ annual review of financial indicators excluded any meaningful ratios to show the full extent of the deferred maintenance liability. As a result, there was an emphasis on financial practices that accrued balances and limited debt in deference to the health of the financial ratios. Several years ago ratios shared with the Board of Trustees were expanded to include a set of facility indicators. By including these indicators, Trustees were given a broader context upon which to evaluate how each campus in the System was managing its assets. This has helped to enhance sound financial stewardship.

**Appraisal**
The story of UMass Amherst over the past two decades—like those of many other state institutions—depicts a steady decline of state support, a rapid growth in student fees, and a need to broaden the revenue base. In the current fiscal crisis the campus has lost $50 million in state support. Federal stimulus money and student fees will make up this difference in FY10 but the campus will face a very difficult time in FY11 when these federal funds expire and state funding has not yet recovered. Even when state revenues do rebound, funding levels will likely be at a lower level than before the crisis. The campus will, therefore, have to adjust to these new fiscal constraints.

Emerging from the state’s fiscal crisis in the early part of this decade, the Chancellor reached out to the campus community for help in identifying and affirming the institution’s highest priorities. Three were established: 1) add new tenure-track faculty positions; 2) reduce the deferred maintenance backlog; and 3) keep UMass Amherst accessible to all qualified students by providing need-based financial aid. For three years, from FY 2006 to FY 2008, the campus received incremental state and student fee revenue increases that were used to fund these priorities. Now the campus is embroiled in a new budget crisis and is again working in a consultative way to determine the best way to proceed. One agreed upon strategy is to develop new revenue producing activities so that the campus is less dependent on the state appropriation. Specifically, the campus wants to generate more research, increase the number of out-of-state students, expand its on-line and executive education course offerings, and raise more money from private sources. Some members of the budget task force strongly recommend that these goals are attainable only if the institution can continue to add faculty.

The campus maintains a long range projection model which it uses to monitor its financial situation and react to changes in major revenue or expenditure categories. The model has been useful in anticipating future O&M costs from new buildings, increased utility costs as a result of converting from coal to oil and natural gas, and increased expenditures on emergency preparedness and campus safety to keep abreast of changing world circumstances. When revenues fall short of projections, the model distinguishes between mandated and optional future costs and helps determine whether budget cuts to the core budget will be necessary. Other financial tools also feed into this projection model: The campus closely monitors student enrollment and models future year enrollment patterns. The Budget Office works with the Office of Grants and Contracts to project indirect cost recovery revenue based on a model which looks at recent award data. The campus maintains debt repayment schedules going out thirty years and has identified periods over that span where the campus would have the capacity to take on additional debt. This data is used to develop the capital plan. Separate from this long range projection model, the Provost’s Office maintains an allocation model for determining how best to allocate monies for new-tenure track positions to address teaching deficits and invest in promising research sectors.

Fiscal Year 2009 began positively for UMass Amherst. The state appropriation rose for the fourth consecutive year, providing more money to add faculty positions. Enrollment reached peak levels. Other revenue sources, particularly interest income, were up over the previous year and the President’s Office pledged additional interest payouts during the year.

Feedback
Become involved in the accreditation process. Please lend your voice to this important work.
Visit: http://www.umass.edu/neasc/feedback.html
It soon became clear, however, that state revenues were off dramatically and rescissions to the state appropriation were quite likely. With the new academic year underway and undergraduate enrollment up over 19,000, the campus was focused on taking steps to balance its budget without disrupting current operations. Even before the state announced any appropriation cutbacks, the Chancellor cancelled any planned new discretionary spending this year, including funding for new faculty positions. Spending on mandatory items such as debt service, utilities, and financial aid continued as planned.

The campus, therefore, had a plan to get through FY09. As the grim economic news continued, however, it became clear that these mid-year cuts would become permanent and that even more state cutbacks would occur the following year. Base budget cuts would be required for FY10. In past years the campus has responded to drops in state appropriation with spending cuts and increased student fees. Because of the depth of the economic recession, increased fees would not be an option this time unless the campus changed its financial aid policies to provide grant aid not only to the lowest income groups that had traditionally received such aid, but further up the income ladder to struggling middle class families.

On the expenditure side, significant new spending would be required in FY10 to operate the new $50 million student recreation center, and the Chancellor was determined to add more fundraisers to bolster private support to the campus. Good news came from a surprising source: energy prices. The campus took advantage of drops in the market to lock in natural gas and oil prices at reduced levels. The net effect on the budget was that the campus faced a $46 million deficit in FY10 before factoring in any fee increases.

Other sources of campus revenue are thriving. Undergraduate enrollment increased by over 500 students during the last two years. Grants and contract award revenue has increased by 24% in the last five years. Demand for on-campus housing exceeds capacity and there has been a rapid growth in board payers as commuters and off-campus students have been attracted by the improved dining program. While the size of the endowment is small for a flagship public institution, the endowment grew by 105% in the last five years, due mainly to new gifts and the introduction of new policies designed to increase the quasi-endowment. Private giving has been affected by the economic recession but a new Vice Chancellor for Development and Alumni Affairs was appointed and additional development personnel are scheduled to be hired.

**Projection**

Given the seriousness of the immediate budget problem, the Chancellor created a task force of faculty, students and staff to consult with him during this crisis. Their immediate task was to deliberate on the balance between fee increases and base budget cuts to address the deficit. After much deliberation among task force members, the group forwarded their recommendations to the Chancellor who then presented to the campus community his initial plan for closing the $46 million deficit:

**Feedback**

*Become involved in the accreditation process. Please lend your voice to this important work.*

*Visit: [http://www.umass.edu/neasc/feedback.html](http://www.umass.edu/neasc/feedback.html)*
• **Increase undergraduate student fees by $1,500.** This steep fee increase was accompanied by a large increase in financial aid funding, reflecting a sharp change in practice about how need-based financial aid is awarded. UMass Amherst has a long tradition of providing generous grant aid to students with very limited means. This new direction bolstered the level of aid provided to these students and extended this grant aid to more affluent families now struggling with the cost of education. The Chancellor argued that this high fee/high aid model was more equitable than a model that kept fees low but restricted financial aid to the lowest income groups. The Trustees approved the fee increase with the caveat that the fee increase would be rebated if federal stimulus funds brought campus funding back to the FY09 level.

• **Base Budget Cuts:** The Chancellor’s plan included budget cuts that left academic departments bearing a smaller percentage of the cuts relative to other areas of the campus.

At the same time the campus was deliberating about consolidating some schools and colleges to save administrative costs and to position the campus to create greater opportunities for new and interdisciplinary programs. A separate task force was established to study potential reorganization options and in April the Faculty Senate endorsed the Chancellor’s proposal to close the College of Natural Resources and the Environment and move most of its departments into a new College of Natural Sciences (formed from the previous College of Natural Sciences and Mathematics). Further college reorganizations remain under study.

The welcome — but complicating — news that the campus would receive one-time federal stimulus funding in FY2010 led to another round of planning. The Chancellor set four priorities for the use of these funds: 1) mitigate layoffs; 2) minimize student fee increases; 3) preserve instructional capacity; and 4) invest in new revenue producing and/or cost-saving activities. With the economy still deep in recession, the campus continues to plan for further revenue reductions and the exhaustion of federal stimulus funds.

The campus is actively engaged in developing a detailed facility needs plan for the next ten years. The state is anticipated to contribute nearly $700 million over the next decade for capital improvements, and this current planning process will inform the use of these funds. Despite this large infusion of state support, these funds combined with the campus’ own capital contributions, still leave a shortfall of nearly $1.4 billion for critical capital improvements. Since additional capital funding will be needed beyond the state contribution, the campus will actively solicit outside support for facility needs and will continue to focus on freeing up more institutional funds to devote to space improvements.

---

**Feedback**

*Become involved in the accreditation process. Please lend your voice to this important work.*

Visit: [http://www.umass.edu/neasc/feedback.html](http://www.umass.edu/neasc/feedback.html)