DATE:     August 13, 2015

TO:        Eileen Hamilton, Chair, University Budget Advisory Committee

CC:        Members, University Budget Advisory Committee

FROM:      Joseph F. Sheley, President

RE:        2015-16 UBAC Recommendations

Thank you for providing me with the University Budget Advisory Committee’s recommendations regarding the 2015-16 budget. I am grateful to UBAC’s members for the work they put into those recommendations. They signal an exceptional facility with campus budget matters and a significant understanding of our financial challenges.

We now have a fairly accurate sense of the CSU’s allocation to the campus for 2015-16 though we still are sorting through details and their implications. Our budget situation is better this year than last year in an important way: we have been given an increase in our enrollment target, thereby enabling far greater access to college for the region’s residents and, thus, net of instructional costs, more dollars with which to meet campus needs. Our good fortune in this regard is tempered by the fact that while the state is providing the funds sought by the Board of Trustees, the Trustees’ request was not expansive. It sought to regain some of the momentum begun a few years earlier and then lost last year. Thus, we are not going backwards but also are not progressing far forward. Further, and not unexpected, the dollars associated with calls on our new funds – obligations, mandates, needs, and desires – exceed the sum of those new dollars.

Finally, the state’s financial situation clearly is improving but is in no sense settled. The ultimate outcome of the sunset of Proposition 30 has not been determined, for example. Nor have the financial consequences of the drought the state is experiencing. We are left generally with a sense of year-to-year rather than longer-term planning.

I am addressing UBAC’s recommendations slightly out of order below in that I am placing those regarding the structural deficit and the uses of reserves first. If we do not maintain our focus upon these, we likely will not be able to achieve or sustain the other priorities we hope to pursue.

**Structural Deficit**

Structural deficits represent the use of non-renewable dollars (reserves) to extend ongoing institutional operations beyond what is possible using only renewable base funding. They are a two-edged sword. Managed well in the shorter run, they permit wise use of reserves without endangering core operations.
Extended into the longer term, they leave the campus vulnerable to sudden budget reductions when reserves are depleted. Our structural deficit is modest overall, but its growth in 2014-15 requires attention.

**UBAC Recommendation 1a:** Identify reliable ongoing funding to cover the majority of long-term commitments, especially those regarding permanent personnel.

**UBAC Recommendation 1b:** Intensify the level of critical and systematic review of needs and priorities associated with the filling of vacancies within and across divisions.

**UBAC Recommendation 1c:** Return salary savings from vacated permanent positions to the departments or divisions in which they occur so that they can be dedicated to prioritized critical needs.

**UBAC Recommendation 1d:** Replacement of critical, permanent positions should not be delayed without sound reasons (e.g., mission critical needs that necessitate temporary reallocation of base funding).

Response: *I am in nearly complete agreement with the above recommendations. Late-arising financial pressures on the 2014-15 budget caused us to rely on reserves to underwrite longer-term commitments to a degree that is not sustainable for more than a year or two. This leaves us susceptible to reductions in personnel and operations that could be avoided were we to slow down depletion of reserves and prioritize base-funded expenditures such that lower priorities do not displace higher ones. With this in mind, we will work this year and next to solidify coverage of permanent personnel and major operations with base funding. We will slow down spending generally. We will make informed choices regarding the filling of vacancies and work to expedite the filling of critical, permanent positions.*

Regarding salary savings from vacated permanent positions, we are not yet at a point at which we can decentralize disbursement of those funds. Academic Affairs appropriately seeks more systematic and predictable base funding to stabilize part-time instructional costs. To the extent that we move base funding to that end, we will need salary savings to shore up the gap left in the general budget.

**Reserves**

We have been able over the years to accumulate reserves in the form of unexpended base and one-time funds carried forward. The goal always is to create reserves for discretionary expenditures – to handle emergencies and one-time initiatives, respond to one-time equipment needs, address deferred maintenance, and temporarily fill gaps in the base budget. The total amount of such reserves is sometimes deceptive in that much of that total’s potential use is earmarked rather than discretionary (e.g., allocations from the CSU toward accomplishment of a particular outcome, able to be rolled forward but not used for other purposes). To make certain that we have at least some newly generated reserves each year, we have in recent years held unallocated a portion of our base funding (2.73 percent in 2014-15) and applied those unexpended dollars to the general reserve. It also has been this campus’s practice in recent years to return 40 percent of year-end balances of unexpended funds to the divisions that produced them and to place 60 percent in the general reserve. To the extent that reserved dollars are not expended in the year in question, they roll over into the next year’s reserve.

**UBAC Recommendation 2a:** Continue to pursue the creation of a base reserve within the total budget in the amount of 3 percent.
UBAC Recommendation 2b: Continue to distribute 40 percent of year-end, carried-forward division dollars to the divisions producing them while placing 60 percent in the campus general reserve.

Response: We again will pursue a base reserve of at least 3 percent of the total base budget (5 to 7 percent is the common standard). We also will seek to limit expenditure of these reserved dollars to one-time uses, as opposed to ongoing commitments (i.e., those that encourage a structural deficit). We will seek to return 40 percent of carried forward dollars to the divisions that produced them. Yet, we will do so within the context of reduction of the structural deficit, prioritized personnel and operations commitments, and proposed uses of returned funds within the divisions.

Instruction and Schedule Delivery

UBAC identifies instruction as the primary function of the University and emphasizes high-quality instruction and an efficient balance of program priorities and enrollment demand as of utmost importance. Within this priority rests the issue of the ratio of permanent (tenured/tenure-track) to temporary (part-time, non-tenured/tenure-track) faculty members. A significant imbalance may affect the delivery of core instructional goals and thereby slow our graduation rates. As UBAC notes, the situation is complicated further by difficulties in locating qualified temporary instructors within our geographic area.

At present, some portion of our temporary faculty numbers is attributable to enrollment exceeding our funded target. We presently are experiencing considerable admissions demand. Enrollment pressure beyond target by definition must be addressed via temporary instructors. It is the ratio of permanent faculty members within the targeted enrollment demand that is at issue. That ratio has been influenced by both budget exigencies during the recession and by the relatively uneven creation of permanent faculty vacancies through faculty separations across academic departments. Academic Affairs has addressed the matter appropriately and by necessity in recent years through application of salary savings generated by faculty separations to instructional staffing needs and, thereafter, by seeking one-time funds, from within or outside of the division, to cover instructional pressures such as GE course bottlenecks. As we move out of the recession, we need to stabilize the funding of instructional demand and the ratio of permanent to temporary faculty members.

UBAC Recommendation 3a: Develop a base-budget line for part-time faculty allocations tied to the delivery of core, recurring needs in the schedule that are typically covered by temporary faculty.

UBAC Recommendation 3b: Base decisions to delay replacement of permanent faculty upon careful planning while seeking to stabilize and improve student/faculty ratios and the percentage of permanent faculty within our overall instructional force.

UBAC Recommendation 3c: Direct sufficient base funding to Academic Affairs’ budget allocation to underwrite temporary faculty appointments equivalent to 15 percent of overall faculty FTEF.

UBAC Recommendation 3d: Return a significant portion of salary savings to the colleges to enable deans and department chairs to determine how best to meet the needs of their students and programs.

Response: As our campus funding allocation from the CSU becomes more stable, we indeed must focus more upon the composition of our faculty. In 2015-16, we will begin (it is unlikely that we can manage
This in a single year) systematically to move toward more stable and predictable funding of instruction of our targeted enrollment population through a combination of designated allocation of base funding of temporary faculty members and use of salary savings. This must be accomplished within the parameters of appropriate formulae for the funding of instruction per FTES and the careful setting of priorities regarding delivery of core and required major and GE course offerings. Within this effort, we should devote attention to increasing the ratio of permanent to temporary faculty and, to the extent possible and practical, decreasing instructional student-faculty ratios. The matter of salary savings as a source of funding personnel costs within and across all divisions will be addressed as part of the effort to decrease the structural deficit.

Student Success Initiatives

In line with the CSU’s emphasis on student success, we must be attentive especially to increasing the graduation rate and the time to graduation of our students. That will require attention to curriculum and instructional schedule, student engagement, services, and advising. It will also encourage us to assess our efforts in this regard and to develop explicit measures by which to mark progress. Part of this year’s CSU allocation to campuses includes funding for the accomplishment of the CSU’s student success initiatives. We will be required to provide a plan for its use and include in the plan a commitment to benchmarking and the measurement of outcomes. At the campus level, we await the recommendations of the University Task Force on Advising which should go a long way toward framing our pursuit of system initiatives.

UBAC Recommendation 4a: Continue efforts to identify longer-term funding for positions and services that have been especially effective at improving student success.

UBAC Recommendation 4b: Give priority for ongoing funding to extant grant-supported campus initiatives that have proven successful in enhancing persistence rates and reducing time to degree.

Response: Pursuit of student success initiatives is pursuit of what is best for our students in terms of enhancing the quality of their experience at the University and of increasing opportunities for those awaiting access to the University in a high-demand admissions environment. We will focus on such initiatives and on the quality and integrity of our measurement of success. To the extent that we can underwrite practices developed through grant-supported efforts, we should do so. The key to accomplishment of such initiatives presently is more systematic assessment and integration of results of what we have been doing across our many divisions and programs in the area of graduation rate and time to graduation.

Operations, Equipment, and Deferred Maintenance

As have most institutions during recessionary times, the University has devoted its shrinking resource base primarily to sustaining instruction and personnel at the cost of sufficient attention to maintenance of facilities, everyday operations, and equipment critical to program delivery. The impact of these decisions has meant fewer options for the enhancement of instruction and faculty and staff development and increased risk of a major breakdown within our campus infrastructure. The challenge has not remained static. IT operations and equipment, for example, have become increasingly important to both administrative and academic functions at the University. Not the least of our challenges is improvement of IT security.
UBAC Recommendation 5: Place high priority upon both deferred building maintenance and critically needed equipment replacement in support of our major academic and functional objectives.

Response: I am in agreement with UBAC regarding its assessment of the situation and its recommended action. The key to accomplishment of this general goal is the creation of a plan by which to inventory and prioritize deferred-maintenance projects and operational and equipment needs in terms of urgency and cost. (Such a plan actually now exists regarding deferred maintenance, but it stands independent of other challenges and commitments.) The situation must be addressed through the use of both ongoing and one-time funds. We will develop the necessary inventory and plans this year and seek to implement at least a portion of the plans before year’s end.

Development of Additional Funding Streams

Among the most difficult challenges of the contemporary university is the development of alternative sources of revenue for the campus. Nearly all such sources are developed in a highly competitive environment and generally require some level of front-end investment. Among the most obvious of such sources is the growth of non-resident (including international) students so that the tuition revenue they generate, net of instructional costs, can be directed toward critical campus needs. Similarly, creative efforts to provide continuing-education learning opportunities for residents of the region also can generate substantial revenue to devote to campus needs. Auxiliary Business Services contribute to the quality of life within the university. University Advancement’s efforts in the area of development always possess the potential of major financial support for programming through such support rarely is unrestricted in its applications. Finally, successful pursuit of external funding through grants and contracts often contributes to the provision of student services, faculty development, and community outreach.

UBAC Recommendation 6: Growing non-state revenue (especially through grants, non-resident fee revenue, and self-support programs) should remain a significant priority for the University.

Response: I agree with UBAC’s sense of the necessity of efforts to generate non-state revenue and encourage everyone’s support of this goal. We will continue to pursue opportunities to add revenue streams to those provided by the state. This will include prudent investment in operations and careful analysis of markets and returns. We have significant opportunities in this vein and must double down on efforts to expand our reach.

Again, please thank the members of UBAC for the effort they devoted to understanding our financial situation and for the recommendations they offered for development of the 2015-16 budget. I look forward to continued dialogue with UBAC throughout the year.