Campus Talk -- March 2024

Budget 101 Edition

FULL DISCLOSURE #1 of 2

We will stop frequently and discuss some budget (and ROI) terms briefly because there are a lot of people that were not here and/or were not engaged on these matters in 2019.

FULL DISCLOSURE #2 of 2

Nothing new will be presented today to most of you, but it might be the first time for someone sitting next to you.

And so you do not have to wait for what most people really want to hear about….

The Main Pay Things in Next 90 Days

- Another year of reallocating $2.0-2.5 million to compensation pool is in FY25 budget draft for the Board of Trust in May
  - 2% across the board again built in at a total cost of **$1,984,285** with fringe
  - **$220,000** estimated for promotion/advancement
- Again working to raise the floor of the minimum annual salary from the move to $27,040 last year (135 people)
  - Hope to get to around $29,120 on July 1 (150+ people) at a total cost of **$375,904** with fringe
- Net new tuition revenue (4% increase paid on -3% less SCH's) equals **$536,484** and state appropriation reduced by **(**$892,398**)** based on formula for '21/'22/'23 (COVID's echo) for a actual reduction in total fees and state appropriation of (**$355,914**)

The Main Pay Things in Next 90 Days

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- So we project ($355,914) reduction in our combined general tuition/fees and state appropriations next year.
- Because of ROI we will still be covering an increase of $1,984,285 (COLA) plus $375,904 (Floor) plus $220,000 (Prom/Adv) for pay increases (a total of $2,580,189).
- ROI is the how. Finding a way to maintain the quality of our university and taking care of our people is the why. That is an old message to just about everyone in this lecture hall.

Taking Care of Our People

"Our greatest assets are our talented faculty and staff. We must work to retain our talent and – despite challenging futures to higher education enrollment generally – must make the redirection of existing funds to our pay structure a priority. Competitive salaries and compensation considerations are the driving reasons that ROI has set targets for existing funds to be reallocated over the next two budget cycles." – *ROI presentation and document from March 12, 2020.*

Now back to the basics of our fiscal management and defining some of those terms.

Budget 101

"Budget Cycle"

Approaching End of FY24
Finalizing FY25
Developing and Building FY26
Forecasting FY27

Budget 101

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"Student Credit Hours more important than Headcount"

Factor of individual students taking hours of credit in a term(s) PLUS a declining number of total possible hours.

COVID Accelerated Higher Ed's Path Toward the Cliff

Universities and colleges could not kick the can to 2026 and 2027.

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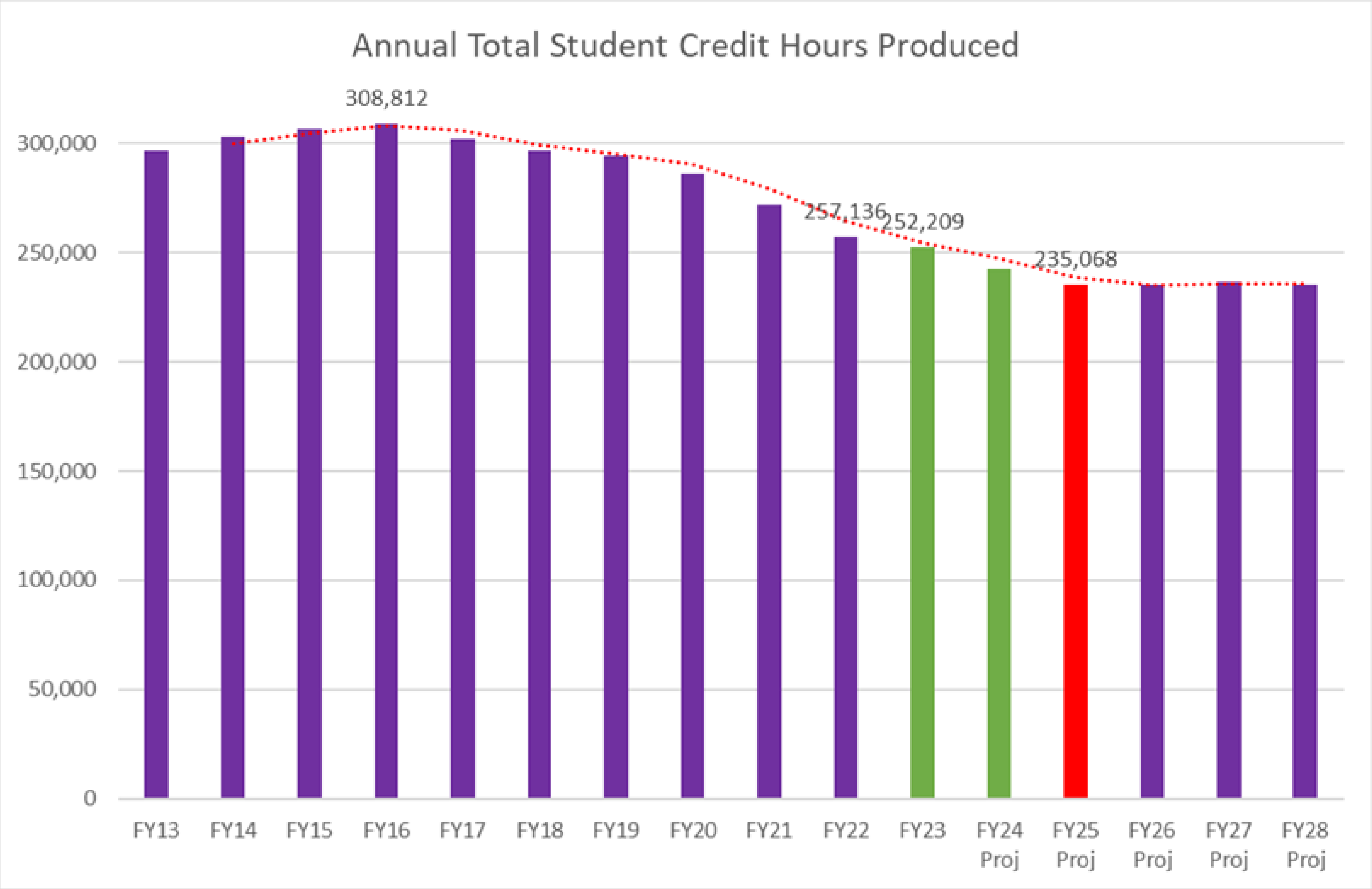
	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Freshman	2,115	2,260	2,208	2,173	2,147	2,291	2,252	2,199	2,136	2,064
Sophomore	1,757	1,503	1,683	1,646	1,619	1,582	1,701	1,673	1,633	1,585
Junior	1,854	1,730	1,252	1,403	1,367	1,339	1,314	1,414	1,390	1,355
Senior	2,387	2,135	2,151	1,765	1,735	1,716	1,685	1,648	1,706	1,713
Other	502	616	671	649	638	615	638	642	636	634
Graduate	1,720	1,861	1,775	1,769	1,772	1,779	1,791	1,777	1,778	1,779
Total	10,335	10,105	9,740	9,405	9,278	9,322	9,381	9,353	9,279	9,130
		-2.23%	-3.61%	-3.44%	-1.35%	0.47%	0.63%	-0.30%	-0.79%	-1.61%

Slide from November 2022 to May 2023 Presentations

Student Credit Hour Trends



“Elastic Nature of Tuition and Enrollment”

Fitch placed a deteriorating outlook on higher education as a whole in its *U.S. Higher Education Outlook 2024* .

The essence of the argument for our entire industry is:
(1) pressures from declining enrollment;
(2) increasing demand on costs for personnel and operations; and
(3) a limited ability to raise tuition to meet those challenges.

"Elastic Nature of Tuition and Enrollment"

Net new tuition revenue (4% tuition increase paid on -3% less SCH's) equals $536,484.

For Context

2% of salary increase = $1,984,285 which would require 14.8% tuition increase to generate that same amount …. assuming enrollment did not crater.

5% of salary increase = $4,960,712 which would require a 36.9% tuition increase to generate that same amount … assuming enrollment…. Well, who are we kidding? We would have no one attending our university.

Building Net Fee Revenue Estimates

4% fee increase applied using FY24 SCH's	$3,210,380
3% decline in number of SCH's for FY25	($2,673,896)
FY25 Projected New Tuition/Fee Revenue	$536,484

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"Inflation"

"Perhaps the President is so out of touch that he has no sense of the struggles that the average UCA employee is having with the cost of living." – *Loose paraphrase of Anonymous*

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The rising price of goods and services is crushing the expenditures and budgets of:

Our employees and their families

Our students and their families

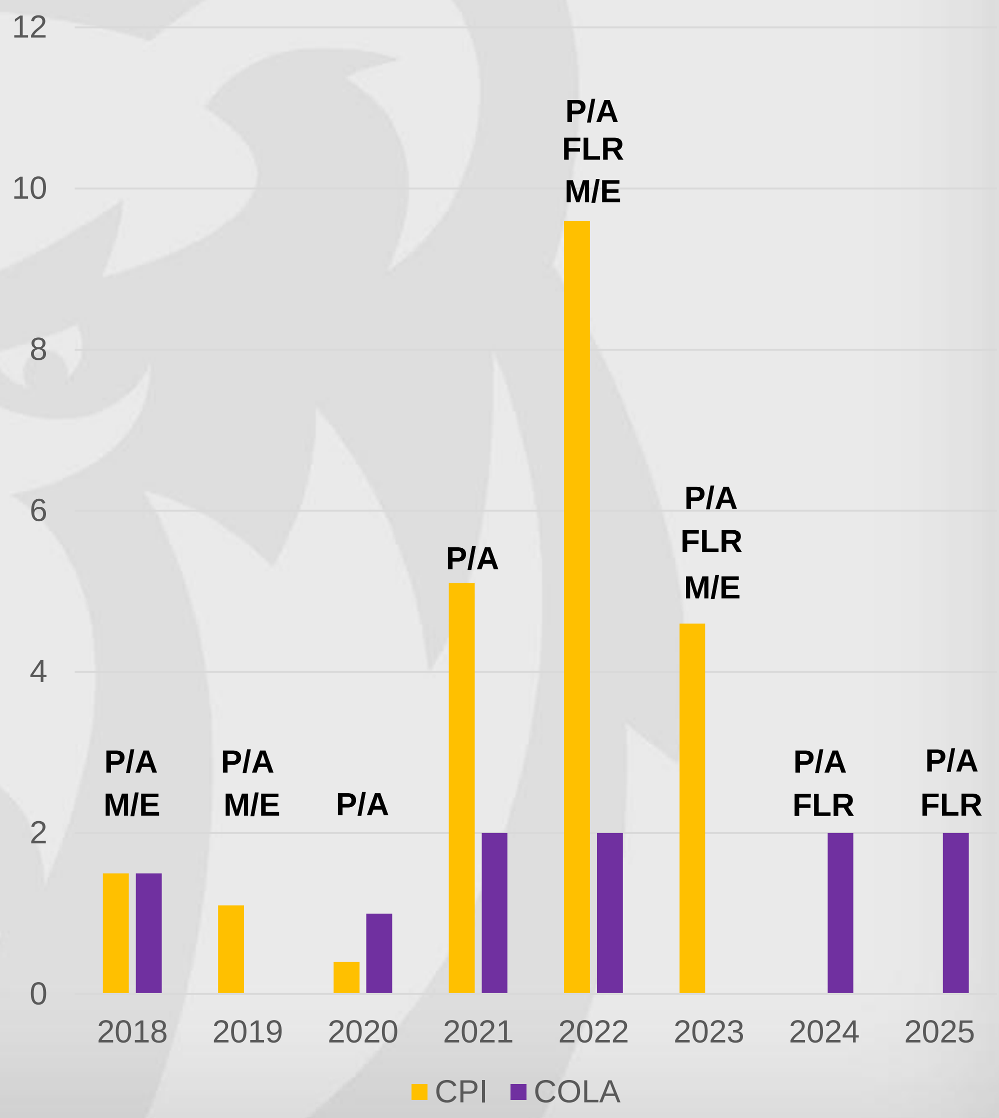
Our university

Your departments

Inflationary pressure was one of the reasons that ROI started in 2018. We had to free up funds in our existing budget to increase pay for employees and address other budget priorities with a dollar that was only going to go down in value.

Budget 101

- CPI West South Central region (ROI data source)
- Market & equity in FY18, FY19, FY22, FY23
- Promotion/advancement for faculty in all years to stay in line with market (only exception allowed 7/1/20)
- Raised floor of all salaries (started from $18,700) to no one below $27,040 plus benefits w/ another lift to $29,120 in FY25
- The spike in inflation the last 30 months has not been possible to meet with COLA's. Would have required significant tuition increases which presents a major threat to participation rates. (BoT 5/26/22; 5/25/23)



The Main Pay Things in Next 270 Days

- Building on our market & equity work FY19-FY23, an RFP is out right now for an external salary review of every full-time benefits eligible faculty & staff member. Proposals will be reviewed and contract to Legislative Review, but the work should commence in Q2/Q3 to have range and average salary info at peer institutions for all 1300+.
- Just as in the last six cycles, we will reallocate FY26, FY27, & FY28 to create pools for salary increases. The most likely policy decisions that we will have to make will continue to be:
  - distribute via across the board COLA's to all.
  - distribute to largest gaps in M&E which results in some employees getting increases (as well as some employees already being over their target salary).
  - distribute via common base adjustment to all.
  - address the compression issues that are constant.

Budget 101

Components of ROI 2.0 (‘23 to ‘27)

- Zero Based Budgeting
- Cost Evaluations for All Units
- Revenue Centered Management
- Market & Equity Analysis
- Budget Reserve Maintenance
- Voluntary Retirement Program
- Temporary Hiring Freezes
- Reduction in Temp & PT Positions
- Purchasing Controls & Contract Reductions
- Centralization of Reserves & M&O
- Reorganization of Departments and Units
- Maximize 1300 - 1340 FTE
- Streamline Academic Programs
- Cut Low Enrolled Programs

Resource Optimization Initiative

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"[ROI] is important to ensure that UCA remains a choice university and positioned to <u>fulfill</u> our mission and <u>thrive</u> during an era of <u>uncertainty</u> for public and private universities and colleges."

– *UCA Convocation, August 2019*

Shaping Our Future

- Clear line of sight from FY’23 to FY’26 – Important opportunities and decisions in front of us as we work toward a “shallower slope” by FY’25
- Continuance of the reallocation of resources to broad ROI priorities of (1) Affordability, (2) Student success, (3) Invest in strategic initiatives, (4) Maintain and/or build financial reserves, and (5) Retain employees at a competitive market salary
- It took four years of hard work to get uncommon results. We have the knowledge, the tools, and the resolve to achieve the same over the next four years.

Slide from November 2022 to December 2023 Presentations

Clear Outcomes thru FY27

- Develop budgets grounded in **reality** - not hopes and wishes
- Expect limited state funding growth and **very modest tuition increases**
- Will continue to find 75% of “new” money from **reallocation** within existing budget
- Continue to avoid furloughs and layoffs
- Continue to avoid benefit cuts
- Invest in our growing academic programs (we cannot starve them) as well as services
- Will not defer maintenance
- Will not draw on **endowment** corpus
- Create pools for **strategic COLA’s and one-time bonuses**
- Will fund **advancement and promotion** pools each year
- Will maintain budget **reserves**

Slide from November 2022 to December 2023 Presentations

Budget 101

“One-time money vs Recurring funds”

One-time revenue
Recurring revenue
One-time expenditures
Recurring expenditures
E&G vs Aux vs Private

“Pull Back to Central”

Example from FS misunderstanding re FY21-FY22 and $7.14 million increase in Institutional Support expense line

$3.55 million of salaries/benefits for PT teaching, student help, extra help, & department salary reserves
$3.59 million of M&O and contingency reserves

FY23 saw $4.33 million back into regular status

"Reserves"

- One time fund decisions. If you use $100,000 of reserves to cover a recurring expense in a department, you create a $100,000 deficit in next year's budget -- or you have to apply another $100k of reserves to that function.
- Results in a $100,000 reduction to our certified cash on hand.
- Days Cash on Hand has always been part of our Composite Financial Index with HLC/USDOE, our ratings index with Moody's, and – as of two years ago – a statutory requirement subject to our annual review by the Arkansas legislature (HSU rule).

“Reserves”

- Our certified figure with DF&A is 148.8 days cash on hand.
- One day of UCA’s general operating costs is $540,108. Of that, $300,621 is for regular salaries and benefits that day.
- One month’s payroll for regular salaries and benefits is approximately $9,143,912.
- HSU’s low of 7.0 days is a recent cautionary tale, but UCA has its own history in this space. Some of you remember what a colleague calls the “Bad Old Days” a decade plus ago when the university could not make payroll.

“Deferred Maintenance”

- AR does much less for us on this than TN, OK, and GA
- Though there is no formal state line item for a Capital Maintenance (or Capital Outlay) program, we are still responsible in our budget for $2.50 per gross square foot of E&G building maintenance and $1.25 per gross sqft for Auxiliary buildings.
- This is why dedicated Facility Fees are prominent in Arkansas higher education institutions’ budgets. No state line item … but the same capital requirements of the other states. Example of an unfunded mandate.
- We have to bond, fund, build, and maintain our facilities entirely. This is much discussed in the Presidents/Chancellors and Government Relations reps meetings.

"Endowment and Private Funds"

- An endowed gift has a dedicated purpose and its corpus (original asset) is invested and grows over time with an agreed upon spend rate. Our current official spend rate of UCA Foundation is 4%.
- When you hear of colleges spending from their corpus, they are in a death spiral. It is an act of desperation.
- UCA Foundation operates legally in relationship (contract agreement) with UCA but is a separate organization.
- Some gifts are one-time cash/stock/in-kind. Some are pledges over many years. Some are bequests as part of an estate once a person passes.

Final Questions

For more background and info:
uca.edu/roi

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