HUMBOLDT STATE UNIVERSITY

19 January 2017

To: University Resources and Planning Committee

From: The President's Cabinet

Re: Status report on fiscal planning for -5% budget reduction for FY 2017-18

The original request from the University Resources and Planning Committee was for Cabinet to develop plans for both augmenting and reducing the University budget by 5% for implementation in fiscal year 2017-18. As Cabinet worked through this process, it became evident that a three-phased approach was necessary to both address the deficit issue and strategically reinvest our resources to advance Strategic Plan initiatives and achieve the Graduation Initiative 2025 goals:

- Phase 1: changes that can be implemented relatively quickly
- Phase 2: strategic changes that have widespread impacts and require broad campus engagement
- Phase 3: strategic investment (+5%)

To start, we are focused on Phases 1 and 2 to reduce the University's expenditures by 5% to address the deficit, if any funds remain, begin strategic reinvestment. While the initial goal was to achieve 5% savings by 2017-18, we acknowledge it will take more than a year to achieve the 5% reduction given the complexity of the organizational and structural changes needed. We want this to be a thoughtful and inclusive process that engages the campus in an active dialogue, with the goal of achieving long-lasting and meaningful change for the campus.

Financial Issues to Overcome

HSU's Operating Fund Budget and Structural Deficit

HSU's 2016-17 base (ongoing) general fund budget is approximately $128 million. Overall, the University's budget has grown by more than $30 million since 2010-11, when the base budget was almost $97 million. Even though the annual general fund budget has grown since 2010-11, spending increases have outpaced revenue, resulting in a structural deficit that must now be addressed. The budget deficit is anticipated to grow to between $3-$4 million in 2017-18 due to the combination of lower student enrollment and unfunded mandatory salary/benefit costs. In addition, in order to achieve a balanced budget we must address existing deficits in the three colleges and various ongoing one-time funded activities, bringing the total deficit to nearly $5 million.

HSU's Spending Compared to its CSU Peers

Even if the revenue situation were to improve, HSU's spending per full-time equivalent student (FTES) is too high to be sustainable over the long-term. HSU's spending per student (FTES) is amongst the highest in the CSU system and significantly higher than our similar sized (7,000 – 10,500 FTES) campus peers in the CSU. To put HSU's spending per FTES in context, in 2015-16:

- HSU spending per FTES - $15,810
- Similar sized CSU campus peer average spending per FTES - $14,339
    - +$1,471 per FTES - **10% more**
    - If HSU's spending per FTES was equivalent to our similar sized CSU peer average, **HSU's spending would be $11.7 million less**
- Bakersfield spending per FTES - $13,648
    - +$2,126 per FTES - **16% more**
    - If HSU's spending per FTES was equivalent to Bakersfield, **HSU's spending would be $17.1 million less**

Even with a 5% reduction, and no change to our current FTES cost structure, we will still be spending significantly more per FTES than our peers. Coupled with the progress we need to make to achieve the Graduation Initiative 2025 goals, it is imperative that we reshape the financial cost structure at HSU.

Enrollment

After several years of enrollment growth, Fall 2016 student enrollment declined by about 3% compared to Fall 2015. Looking ahead to Fall 2017, first-time freshmen applications are currently down 11% compared to this time last year. Combined with increased graduation rates, the Enrollment Management model predicts that our enrollment will drop again next fall. The preliminary enrollment target for 2017-18 budget planning purposes, which is used to budget tuition revenue, reflects a similar enrollment decrease in 2017-18 of approximately 3%. This two-year decline in enrollment exacerbates our budget issues and will elevate spending per FTES. Consequently, this is a major priority that we must work collectively to solve.

In addition to reduced tuition revenue, our resident enrollment target is well below the HSU campus target set by the CSU system. This puts us in a vulnerable position to potentially have our State allocation reduced.

Cabinet's Approach to Reduce the Budget by 5%

How much is 5%?

HSU's initial 5% reduction target is equivalent to **$5.7 million**, calculated on the basis of the 2016-17 budget, excluding system mandated financial aid that is included in the budget.

Purpose

Cabinet approached budget reductions with three goals in mind:

1. Encourage and engage the University community to think about change in a meaningful way, including how we could change our core abilities, curricular structure, and potentially even our mission
2. Reshape our financial structure for sustainable long-term success
3. Rethink who we are and how best to serve students

All reductions must be in the context of our Strategic Plan, the goals for student success articulated in the Graduation Initiative 2025, and the principles for accreditation established by the Western Association of Colleges and Schools.

Challenges

Thinking holistically

One of the challenges we face is developing a <u>consolidated</u> plan to reduce the University's budget by 5%. While across-the-board reduction plans by department would be expedient, they make less sense and are not strategic. Assigning reductions by division might be an option, but they would not be as comprehensive and impactful and would tend to undermine the interconnectedness of our efforts and deepen the "silos" on campus. We must collectively develop a University plan that spans all divisions, and reflects our values and priorities. This is the most challenging path, but it is essential.

We have approached this challenge with several principles in mind:

- Continue to implement the Strategic Plan
- Clearly communicate the plans and their underlying rationale
- Develop a new design for the University that will allow us to serve students within our means

A majority of the HSU budget is personnel

With nearly 85% of HSU's budget devoted to compensation (salaries and benefits), most budget reduction plans will affect employees. We acknowledge this challenge and commit, to the greatest extent possible, to finding personnel savings through attrition by evaluating vacancies when the opportunity arises. Employees are a major strategic asset to the University and must continue to be as the University works through this process.

For the past year Cabinet has engaged in a holistic review of all position requests.

Questions that must be answered before approved for recruitment include:

- How critical is this position?
- What staffing alternatives were considered?
- What is the impact on University operations and student success if it is not filled?
- Can we find any efficiencies by reconfiguring the position?

Addressing the Deficit in 2016-17

HSU's 2016-17 budget plan set aside one-time funding to address the existing structural deficit. The availability of one-time funding reflected a Cabinet decision we made last summer to pool the unspent roll forward budget from the prior fiscal year to alleviate this year's deficit. In addition, we anticipate one-time savings in 2016-17 will put HSU in a manageable budget situation for the current year. However, continuing to use one-time funding to backfill the structural deficit is not sustainable.

Achieving 5% savings/reductions for fiscal year 2017-18 and beyond

The President's Cabinet has discussed a wide range of possibilities for budget reductions and engaged in several thought provoking dialogues considering questions such as:

1. What is HSU doing that is not core to the mission and vision (and therefore could be stopped)?
2. What services, processes, and structures at HSU have outlived their original purpose and need to be redesigned or eliminated?
3. What services are not achieving the desired results and could be redesigned to enhance effectiveness?

In addition to Cabinet discussions, divisional vice presidents developed preliminary lists of potential reductions. These ideas have been reviewed and discussed by the Cabinet.

An overarching priority as reductions were reviewed and discussed was to minimize the impact to students. In addition, we focused on ways to make sustainable organizational change by eliminating services and activities that are not in direct alignment with our core mission, identifying operational efficiencies, and enhancing revenue. We are keenly aware that budgets cannot be reduced without also reducing the corresponding services being provided, so careful consideration of what we will stop doing has been a central component of our deliberations.

While we have made progress, there is still much work to be done. In some cases, the amount of potential savings is not yet clear. In other cases, reduction recommendations have not yet been discussed with subject matter experts and stakeholders, and further campus engagement is necessary to move these ideas forward. In addition, we also identified some instances where the cost-savings associated with a particular change will be limited, but will free up needed time to reinvest in higher priority activities. These recommendations reflect necessary improvements, but may not yield immediate financial savings.

Phase 1 planning

From the preliminary list of ideas, we have established a Phase 1 list of reductions and savings ideas that we propose to implement. Phase 1 recommendations range from new revenue opportunities and funding source changes to reducing and/or stopping services and eliminating positions. While most of the Phase 1 reductions and savings will be realized by 2017-18, some savings are not realized until 2018-19 due to anticipated process changes that must occur prior to implementation.

Phase 2 planning

Identifying and implementing Phase 2 options will require interactive work with the campus community. Several of the proposed reductions transcend divisions – and need to be assessed for unintended consequences prior to moving forward. Our initial list of Phase 2 options reflect big picture redesign concepts, complete with preliminary savings targets. The Phase 2 designation for these options is reflective of the need for further dialogue around these topics and is not meant to indicate that progress on Phase 2 options should wait until the completion of Phase 1. We recommend progress on Phase 2 options begin now so there is sufficient time to vet, implement, and achieve savings by 2018-19.

Laying the foundation for recalibrating our cost structure with Phases 1 and 2 is just the beginning of this process. A collective campus effort is required to fully implement and achieve the necessary savings. We acknowledge change will be difficult but are confident that we can achieve a balanced and sustainable financial future for the University if we work together.

Next Steps

1. URPC review of Phase 1 recommendations, provide feedback, develop communication plan - begin implementation
    a. Are there any glaring omissions that should be considered?
    b. Are there any major concerns with the proposed items?
2. URPC review big picture Phase 2 options and savings targets, provide feedback on concepts, direction, and how to best engage the campus in this phase of the process.