Priorities in Budget Planning

- Student success
- Equity and diversity
- Fiscal stability and good stewardship of resources
- Shared responsibility and accountability

Values (*These are summarized from the "Values" statement in HSU's 2015-2020 Strategic Plan, which includes the complete list)*

- Outstanding education and evidence of student learning
- Teaching excellence
- Critical inquiry and civic engagement
- Intellectual growth
- Diversity and inclusion
- Environmental, economic, and social responsibility
- Integrating our location into the learning community
- The University's linkages to local and regional communities and cultures
- Inclusive access to knowledge

Background

In September 2016, President Rossbacher sent a letter to the University community outlining the budget situation and setting the reduction planning process in motion. While the initial request was for divisions to identify +/- 5% options, the focus soon shifted to -5% as the President's Cabinet, at the request of the URPC, recommended a three-phased approach "to both address the deficit issue and strategically reinvest our resources to advance Strategic Plan initiatives and achieve the Graduation Initiative 2025 goals." Phase I embodied changes that could be implemented relatively quickly; Phase II reflected strategic changes that have widespread impacts and require broad campus engagement; and Phase III was a planned future phase based on strategic reinvestment.

In February of 2017, the URPC provided commentary and recommendations to the President regarding Phase I and II, and reduction efforts continued to move forward. The URPC emphasized that "this 5% reduction is necessary to ensure HSU operates with a balanced budget and ceases the unsustainable practice of deficit spending" and that "addressing the deficit will require difficult decisions and it will take the entire University community working collectively together to implement the changes and successfully reshape our financial structure."

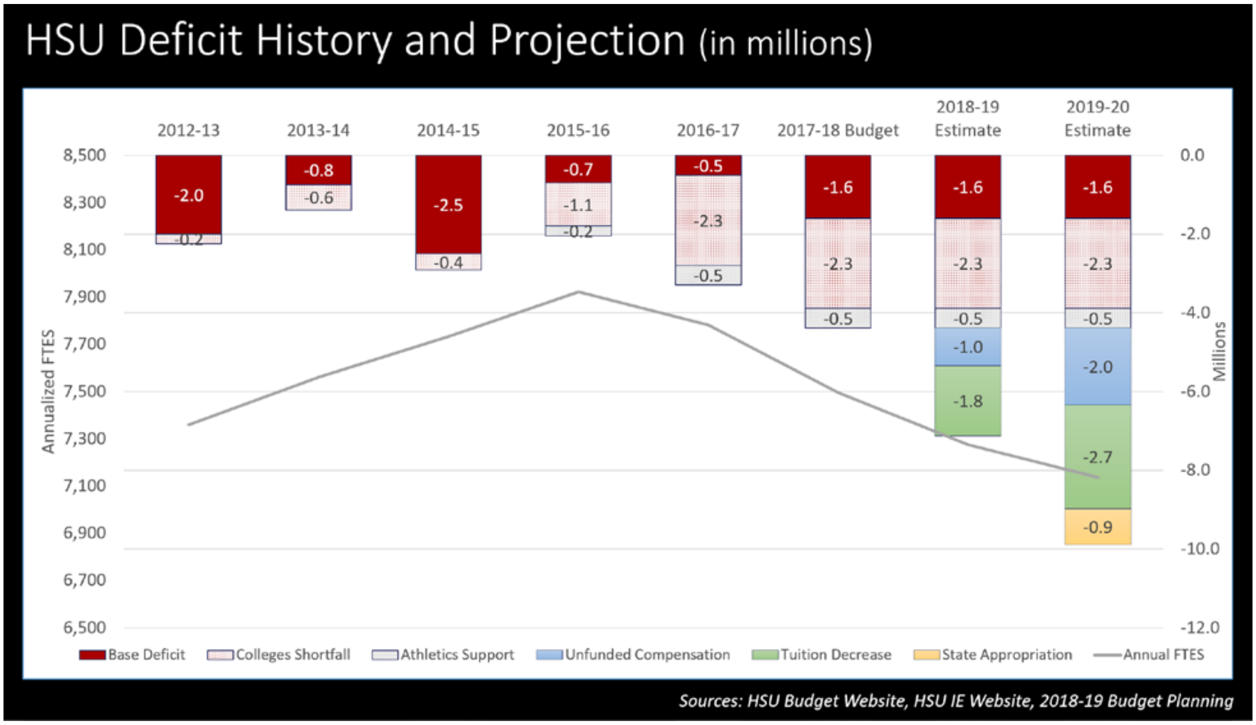
By August 2017, when the 2017-18 budget was approved, HSU had successfully reduced the budget deficit by $1.5 million via the initial Phase I implementation. However, this left a remaining base deficit in 2017-18 of $1.6 million (excluding spending beyond budgeted levels in the academic colleges and Intercollegiate Athletics). Meanwhile, efforts continued on the development of Phase II reductions. On October 31, 2017, a preliminary list of Phase II ideas totaling $3.8 million in estimated savings was provided to the campus for feedback and discussion, with a goal of ultimately achieving savings of $2.8 million. The URPC then led a broad public vetting process over the ensuing two months, culminating in a summary memo to President Rossbacher on January 24, 2018 and posting of Phase II feedback online.

While Phase II efforts continued to move forward, it became increasingly apparent that the deficit was growing. This was due to both internal and external factors, as initially described in President Rossbacher's letter to the campus community on January 19, 2018, and in more detail on February 2, 2018 at the Budget Open Forum and in President Rossbacher's post-forum message to the campus. Factors that contribute to HSU's larger projected deficit include:

- Continued spending beyond budgeted levels in some areas of campus, including the academic colleges and Intercollegiate Athletics;
- Unfunded increases in salaries, benefits, and other mandatory costs that have been approved by the CSU Board of Trustees for 2018-19; and
- Lower than anticipated projections for additional state appropriation based on the most recent budget proposal by Governor Brown for 2018-19.

A decline in enrollment is another factor in HSU's projected deficit. For fall 2018, the Office of Institutional Effectiveness (OIE) projects that HSU will have 300 fewer students than fall 2017, which would represent a decline of about 800 students from our peak enrollment in fall 2015. This enrollment decline is projected to contribute $1.8 million to the 2018-19 budget deficit.

- New student enrollment has declined in recent years. First-time freshmen enrollment (headcount) decreased by almost 7% in fall 2017 to 1,210, down from 1,295 in fall 2016 and down from 1,420 in fall 2015. Transfer enrollment was up slightly in fall 2017 (953 upper-division transfer) but is still down from fall 2015 (1,035 upper-division transfer). First-time freshmen and transfer student enrollment is expected to be flat or slightly down in fall 2018.
- A significant contributing factor regarding overall enrollment, retention of first-year students has declined in recent years. In fall 2017, 68.3% of freshmen returned for their sophomore year, a drop from 70.2% first-year retention in fall 2016 and 74.5% first-year retention in fall 2015. Smaller incoming classes of freshmen and transfer students coupled with lower retention rates compounds each year, resulting in lower numbers of continuing students.
- At the same time, graduation rates have increased. HSU's four-year graduation rate was 17% in spring 2017 (six-year graduation rate was 45.5%). The four-year rate is up from 15.8% in spring 2016 and 14% in spring 2015 (six-year rate is steady). Increasing graduation rates is a major priority as we strive to reach the Graduation Initiative 2025 goals.



Reduction Target: $9 million

HSU is facing a $7 million deficit in 2018-19 and an anticipated $9 million deficit in 2019-20 if we do nothing to address this shortfall. While the 2019-20 estimate in the chart above shows the possible deficit at nearly $10 million, we are currently planning for a $9 million reduction given conservative planning assumptions and an optimistic assumption that the CSU will not reduce our state appropriation.

Budget Reductions by FIRMS Code

Financial Information Reporting Management System (FIRMS) codes, or National Association of College and University Business Officers (NACUBO) codes, categorize expenditures by function and describe the purpose of primary university activities. FIRMS codes are standardized categories used throughout higher education to provide a basis for peer comparisons that transcend differing university organizational structures. Descriptions of each FIRMS category are provided later in this document under each category header.

To establish the 2018-19 reduction targets by FIRMS code, HSU first evaluated spending in each FIRMS category in comparison to CSU peers by examining individual campus spending, similar-sized (7,000-10,500 FTES) campus spending averages, and system averages. This analysis revealed that HSU's spending per FTES exceeds that of other peer campuses in nearly every FIRMS category. HSU, like all CSU campuses, has a primary mission to educate the students of California. HSU's ability to deliver a cost effective, quality education to California students is central to the work that we do, and aligning our FIRMS spending levels with our CSU peers is essential as resources become more scarce. HSU currently receives more funding per student than most CSU campuses, based on a historical funding model, and this allows us to continue to strategically invest more funding per student in high priority areas, such as

Instruction. However, differential funding levels are no longer part of the CSU allocation process because a common marginal cost calculation is now used to determine allocations to all campuses. Therefore, our higher allocation funding level is likely to diminish over time.

Once the $9 million reduction target is met--a 7% overall reduction in spending--HSU will still have a spending level that is higher than similar sized CSU peer average spending (8% higher) and the CSU system spending average (10% higher). In determining reduction targets by category, Cabinet strategically prioritized the lowest percent reductions in Instruction (-5%*) and Student Services (-5%) and the highest percent reduction in Institutional Support (-13%) to maximize resource availability for activities that directly benefit students.

FUNCTIONAL CATEGORY	HSU 17-18 Spending per FTES Target	$ Reduction Target	% Cut (17-18 Bud w. YTD comp + overspend)	% Higher than 7k-10.5k Campus Ave.	% Higher than System Ave.
Instruction*	7,030	(3,000,000)	-5%	10%	8%
Research	-	-	0%	-	-
Public Service	35	-	0%	-29%	-6%
Academic Support	1,880	(1,390,000)	-9%	6%	14%
Student Services	1,882	(740,000)	-5%	-4%	4%
Institutional Support	2,557	(2,750,000)	-13%	16%	30%
Op & Maint of Plant	1,990	(1,120,000)	-7%	12%	0%
Student Financial Aid	1,967	-	0%	6%	7%
TOTAL	$ 17,341	(9,000,000)	-7%	8%	10%

For additional context, the link below provides charts detailing HSU's 2016-17 spending levels compared to our similar sized CSU peers, estimated 2017-18 comparison prior to reductions being made, and estimated 2017-18 comparison after reductions have been made.

Spending charts link here

Reduction Plans by FIRMS Code

To move forward with decisions about where to reduce budgets within each FIRMS category, Cabinet first evaluated the initial set of Phase II options in combination with the feedback received during the vetting process. Feedback from the University community was incorporated in the following ways:

- A common theme was focusing on eliminating redundant, duplicative, or unnecessary activities, rather than asking members of the University community to do more with less. This approach is reflected in this budget plan and will become more clear in the coming months. We will be combining units to eliminate duplication and to better align our resources to support students.

*Instruction reduction is -5% from budgeted level, -6% from budgeted level plus $2.3 million in spending beyond budget

- Ensuring an accurate understanding of the effect of specific changes or reductions is important in making data-driven decisions. In some cases, the details of proposed changes are still being gathered, which may slightly delay implementation but result in better-informed decisions.
- Concerns were expressed that fiscal decisions need to also consider the potential long-term impact on the University's ability to fulfill its mission and vision. This has been a consistent focus throughout the development of this plan.
- Some of the feedback noted that the University community is looking to campus leadership to make difficult decisions about aligning the budget plan with available resources. The plan presented here responds to that request, although one of the challenges is how we, as a community, can engage in this discussion in a way that incorporates shared governance and collects input from the entire community.
- The feedback also emphasized that, as a community, we need to be accountable for our financial management and fiscal stewardship. Cabinet is actively working to develop processes and structures that instill greater accountability.

A wide range of specific suggestions were offered for reducing expenditures or increasing revenues. Most of the specific actions described in this plan have been adopted from the ideas contributed in the feedback process. The budget will be reduced by $9 million through a combination of efforts, including stopping spending beyond available resources, restructuring areas to reduce redundancy, ceasing specific activities, reducing positions, and increasing reimbursements related to self-support and auxiliary activities and services. Even in the midst of the larger deficit, not all Phase II options will be implemented - the direct result of valuable feedback provided by the campus community. For example, consolidating auxiliary organizations is not an action that will be taken at this time. Likewise, themes emerged during the Phase II vetting process that were not itemized in the initial list of options and have been incorporated into the reduction plan, such as reducing administrator positions and evaluating the campus advising strategy.

One of the most difficult aspects of making reductions is the impact to personnel. Employees are key to the University's ongoing success and without their dedication, we would be unable to fulfill our mission. Yet with almost 85% of our operational budget spent on salaries and benefits, it is impossible to achieve the needed reductions without making changes to the number of budgeted positions we have. While we have not finalized the planned reduction of 40-50 budgeted administrator and staff positions we initially referenced on February 2, we have the following progress to report:

- Immediate: Reduce five administrator positions and eight vacant staff positions
- Short-term: Anticipate reducing the budget by approximately 30 additional positions (administrators and staff) in the coming months, through attrition and reassignments to the greatest extent possible.
- Fall 2018: Reduction in temporary faculty appointments
- Fall 2019: No searches for tenure-line faculty
- The external searches for the Chief Information Officer, Vice Provost, and Enrollment Management Associate Vice President will be put on hold for the next year and a half, leveraging internal expertise to continue forward momentum in these areas. One-time savings will result from the reassignment of current personnel or duties to cover these positions or responsibilities, and these savings will be utilized to bridge the implementation of reductions.

The following overview by FIRMS category provides a summary of the actions we will take to align our spending with available revenue. The campus community will play an important role in determining how best to move forward with the implementation of many of the actions. These changes will be challenging. We appreciate the collective effort it will take to balance our budget and utilize our resources to sustain our core strengths and ensure equity and student success continue to be our highest priorities. While not all reduction actions are finalized, specific details will be provided in the coming weeks and months.

Instruction - $3 million

Instruction reflects direct costs related to delivering the University's instructional programs and is at the core of HSU's mission. In bringing instructional spending more into alignment with our CSU peers, we are committed to maintaining a 10% higher per student investment in instruction than our similar-sized CSU peers and keeping our per student investment in the top 25% of CSU campuses.

The $3 million target is comprised of eliminating the estimated $2.3 million in existing spending beyond budgeted levels within the three academic colleges, plus a 2% overall General Fund reduction to each college.

Achieving these reductions will require a thoughtful, balanced approach of reducing costs while ensuring students have access to classes they require to make progress toward the completion of their degree requirements. The colleges are pursuing budget-reduction strategies that include equitable faculty workloads, evaluation and adjustment of reassigned time that does not directly serve students, and reductions in elective course options. Greater flexibility in allowing students to count comparable course alternatives toward degree requirements will be an important aspect of maintaining and improving student progress toward degree as course offerings are reduced. We can operate differently and still offer the course sections students need. By way of example, in fall 2017 we had over 20,000 unfilled seats in our courses.

Academic Programs and the Office of Institutional Effectiveness are assisting the colleges in building fall 2018 and spring 2019 course schedules that align with student demand and utilize available resources. In addition, enhancing the alignment of course enrollment with space capacity will allow the University to better leverage classroom and laboratory space to meet the needs of students.

Research - $0

The Research category is not reflected in the reduction targets because this category of spending primarily takes place in the University's research foundation, the Sponsored Programs Foundation (SPF). HSU's state-side investment in research administration is included in the Academic Support category.

Public Service - $0

The Public Service category, which at HSU comprises the University's investment in KHSU, has no reduction target as HSU's spending in this category is already below peer averages.

Academic Support - $1.39 million

Academic Support reflects our administrative activities (e.g. Dean's Offices, SPF pre-award) and ancillary support activities (e.g. Library, online education, advising, Marine Lab) related to Instruction and Research. Our Materials, Services, and Facilities Fee (MSF) provides additional support to enhance students' educational experience at HSU and augments the spending activities in this category. Reducing *spending by 9% in this category retains higher spending per student than our peers (6% higher than similar-sized peers, 14% higher than system average).*

- Restructure campus activities to eliminate administrative redundancy, a consistent recommendation made during the Phase II vetting process.
- Evaluate the existing academic advising structures and strategies, which was a recurring theme throughout the Phase II vetting process. In addition, the Retention Council that is engaged in developing the strategic enrollment plan has identified advising as a high priority. An assessment of academic advising activities is currently underway.
- Close the Third Street Gallery. The community connection to the gallery is clear in the advocacy letters submitted to the URPC, and we look forward to exploring alternative community partnership opportunities to continue to promote art in the region.
- Recalibrate reimbursements for self-support activities covered by the Operating Fund (General Fund) to more accurately reflect the distribution of duties between funding sources.
- Assess our ancillary academic support activities during program review, to ensure that operational cost investments in these enhanced learning experiences result in a quantifiable positive impact on student success.
- Consult the campus to fully achieve targeted reductions for this area as information and additional expertise are needed from within the respective areas prior to moving forward on additional decisions.

Student Services: $740,000

Student Services includes services and activities that promote intellectual, cultural, and social development beyond the classroom and support students' emotional and physical well-being. In addition, enrollment management activities (e.g. Admissions, Registrar, Financial Aid) are included in this category. HSU spends less per student than its similar-sized CSU peers in this category; however, HSU currently does not have any base budget support for Athletics factored in to this category, whereas our peer campuses do at a significant cost (three out of the four similar-sized campuses invest more than $3 million per year in Intercollegiate Athletics from General Fund resources).

- Determine an alternate pathway for delivering Children's Center services. The Children's Center provides an important service to students, faculty, and staff. However, having a Children's Center operated directly by the University is financially challenging to sustain. We are continuing to explore alternative ways to provide this service through possible partnerships and/or privatizing the Children's Center at the current or different location. Providing childcare opportunities for our students is important, and we are optimistic we can identify an alternative that continues this service to our students, while freeing up University resources.
- Reduce personnel costs through the elimination of two existing vacant staff positions.
- Transition a position that manages an existing federal grant program from General Fund support to being funded directly by the grant, following best practices at other universities. The current grant goes through 2022 and one-time funding has been identified to bridge the remainder of the grant.
- Reorganize/co-locate student support functions to create synergy and better align student support services and programming efforts.

Institutional Support: $2.75 million

Institutional Support reflects the central administrative support services for the campus, including activities related to business services, human resources, marketing and communications, executive management, philanthropy, budget, institutional effectiveness, diversity, equity and inclusion, and information technology. The reduction to Institutional Support reflects a 13% reduction to this category, almost twice the rate of the overall 7% budget reduction. This higher proportional reduction helps preserve budgets in other categories and brings spending more in alignment with peers. HSU will continue to have higher spending per student than the average for the CSU because several centralized functions are included in this category, such as Information Technology Services, Office of Institutional Effectiveness, and an integrated Human Resources and Academic Personnel Services. The inclusion of these centralized activities results in relatively higher spending in this category (and less in other categories) compared with our CSU peer institutions.

- Restructure Information Technology Services (ITS) operations and reduce budgeted positions through vacancies, attrition, and reassignments over the next two to three years. Initially, two vacant positions will be reduced. These changes will result in reduced service levels to administrative campus operations. ITS is an area identified during the FIRMS code review in which we spend more than our CSU peers, and our ITS team is proactively working to bring spending into closer alignment.
- Increase self-support/auxiliary reimbursements to the Operating Fund (General Fund) to more fully cover the costs of services being provided by state operations.
- Change approach to budgeting future year January 1 benefit rate increases (e.g. health, dental) by shifting to budgeting the increases in arrears, instead of calculating estimates prior to the rate increases being known. This savings is a result of timing.
- Reduce the use of outside consultants, instead leveraging campus expertise as a first option.
- Reduce the operating budget in the President's Office and further explore shared services opportunities within executive management departments.
- Integrate UC business operations into the State business operations to have a single business operation (e.g. accounting, payroll, human resources, accounts payable) with infrastructure and common systems to support the whole campus, inclusive of auxiliary organizations. Target conversion: July 1, 2019.
- Eliminate $100k set aside for faculty start up since cost has been shifted to Sponsored Programs.
- Reduce the Office of Institutional Effectiveness by one vacant staff position, one position reassignment, and a .5 position through attrition.
- Eliminate internal chargebacks and make basic cost of doing business activities a University Wide expense. A group will be established this spring to work through this process, initially evaluating telecom, network, and copier service chargeback activities. Additional chargeback activities may be considered in the future.

Operations & Maintenance of Plant: $1.12 million

Operations and Maintenance of Plant encompasses our investments in maintaining a safe, clean, and quality campus physical and natural environment. Our beautiful, yet remote, location results in higher comparable maintenance and construction costs than our CSU peers. Therefore, it is important to *maintain a higher per student investment in this area, while still bringing costs more in alignment with our system peers.*

- Eliminate Enterprise rental car services on campus (previously identified in Phase 1).
- Consolidate facilities warehouse and distribution services, resulting in some service reductions (e.g., mail delivery three days per week).
- Discontinue campus Live Scan services which is a service already provided by other organizations in the community. Additional consultation is still needed to ensure a smooth transition as these changes are implemented.
- Sell, restructure, and/or pay off existing leases on University properties, thus freeing up the base budget previously associated with this activity.
- Explore shared services opportunities with community partners.
- Consolidate Housing facilities and state facilities operations into a single, unified operation to deliver all maintenance, grounds, and custodial services to the campus. Additionally, related business processes will be reviewed and incorporated into state business operations.
- Reduce the base budget for unplanned maintenance costs and energy projects.
- Reduce personnel costs through the elimination of one vacant administrator position and one vacant staff position.

Student Financial Aid: $0

This category is not included as it encompasses Chancellor's Office dictated financial aid amounts, mainly the State University Grant.

Conclusion

Even in the midst of significant budget reduction activities, positive forward progress is happening across the campus in many areas, and these accomplishments are important to highlight. We cannot let the current deficit define us as a University. HSU is a vital community that continues to make important strides in fulfilling the University's strategic plan and achieving change for equity.

As our University community takes responsibility for addressing our current fiscal situation and ensuring our future ability to serve our students, we continue to be engaged in noteworthy efforts that contribute to the quality and distinctiveness of the educational experience at HSU. Some examples:

- HSU is engaged in university-wide efforts to support student success, aligned with the CSU's Graduation Initiative. Elements of this work include developing a Strategic Enrollment Plan that focuses on increasing recruitment, retention, and graduation rates. This process is being led by a Student Success Alliance and multiple working groups. Additional information and details are available here.
- The University has invested in 75 tenure-line faculty positions over the past three academic years, leading to an increase in tenure density. An additional 9 faculty positions will added in fall 2018.
- The demonstrated success of place-based learning communities at HSU is resulting in the expansion of these programs into new combinations of academic programs and disciplines.
- Office of Diversity, Equity, and Inclusion received a $200,000 award from the CSU Chancellor's Office to support faculty diversity efforts. To date, micro-aggression awareness trainings have

occurred or are planned with the President's Cabinet, Academic Affairs, Student Affairs leadership, the Council of Chairs, and other areas. Additional workshops are planned in the coming months. In addition, several initiatives are underway that will create a more welcoming community that values diversity and equity.

- A working group is currently engaged in developing an integrated assessment, planning, and budgeting process. This group is focused on creating processes to support evidence-based decision making. Additional information and details are available here.
- A Student Fee Task Force is exploring the alignment of student fees with student needs and priorities, with recommendations anticipated by mid-April.
- HSU is being recognized across the CSU for our leadership in the areas of sustainability and programs to address students' basic needs for food and housing security.

Supporting Documents and Resources

September 2016 letter to the University: *Strategic Priorities and HSU's Budget*

January 2017 letter to the URPC: *Status report on fiscal planning for -5% budget reduction for FY 2017-18*

February 2017 URPC letter to the President: *URPC follow-up letter to the President regarding 5% reduction planning*

March 2017 President's response to the February 2017 URPC letter to the President: *Approval of Recommendations: Letter to the URPC*

August 2017 letter from the President's Cabinet to URPC: *Phase II Update*

January 2018 President's letter to the campus: *HSU Planning for the 2018-19 Budget*

January 2018 URPC letter summarizing Phase II feedback: *Feedback Received on Phase II Proposals*

February 2018 Budget Open Forum: *PowerPoint Presentation*

February 2018 post-forum President's message to the Campus: *Update on Campus Budget Challenges*