

12-10-2009

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Schmidly, David. "Comments for F&F December Committee Meeting FY 10 Budget Rescission." (2009).
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**COMMENTS for F&F DECEMBER COMMITTEE MEETING
FY 10 BUDGET RECISSION
(Main Campus Focus)**

David J. Schmidly
President, UNM

Introduction

- Nothing I'm showing you today is new. Rather, it represents a compilation of what has happened to our budgets over the past 12 months and our attempts to cope with it.
- The presentation is intended to provide a perspective for moving forward for the 2011 budget and beyond when the situation is likely to worsen. At the end of the presentation I will explain some of the steps that might be necessary to cope with the budget crisis moving forward.

Charts 1 & 2

- The FY 10 rescission for all of UNM as approved during the recent Special Session of the New Mexico Legislature amounted to about \$14.1M. The amount for Main Campus was \$8.355 M.
- To meet the most recent I&G rescission, we allocated \$6.7 M of new revenue -- \$3M of extra tuition from our fall enrollment growth and \$3.741 M of stimulus money the Governor has pledged to provide us after the first of the year, and we used \$741,100 from reserves, including \$555,825 from college reserves and \$185,275 from administration unit reserves. If you do the math, it will show that 75% of this new revenue was allocated to cover the deficit on behalf of academics, and 25% on behalf of the administrative sectors of the university budget.
- Originally, the Provost and the Deans had planned to allocate \$2,805,825 of college fund balances, and the administration had planned to allocate \$935,275 non-academic balances, to meet the budget shortfall. Instead, the decision was made to use one-time stimulus money to protect fund balances in anticipation of future cuts in FY 11.

Charts 3 & 4

- This represents the third budget reduction for Main Campus in less than 12 months totaling just over \$16M. Of this amount, 16.3% has come from academics, 30.1% from administration; 11.7% from BR&R, and 41.9% from surplus tuition and stimulus funding.

- Chart 4 illustrates another way to look at it (source of funds) with all permanent reductions allocated to administration; a 58/42% split in reallocations; and 85% of new revenue to academics.

Chart 5

- Finally, for the past 2 years (FY09 and FY10 we have allocated new revenues during the budget process totaling \$7,155,000. Of this amount 94% (\$6,705,000) went to academic initiatives and 6% (\$450,000) to non-academic initiatives.

Chart 6

- In planning for these reductions and allocations, I made some commitments, namely:

1. Protect the workforce by avoiding layoffs and mandatory furloughs

Through the use of a judicious position “pause and hold” approach, we were able to avoid widespread layoffs and mandatory furloughs. We have a voluntary furlough program that has had limited participation. There have been a few staff layoffs primarily occurring in auxiliary enterprises and special projects where business models have mandated them.

Charts 7, 8, & 9

2. Protect the classroom and faculty lines.

We have not paused any faculty hires and in fact approved the hiring of new faculty. Right now there are 32 faculty searches moving forward. (Chart 7)

Academic staff have been more impacted. (Chart 8)

We have allocated \$4,199,820 of new dollars to faculty, staff, and graduate student support.

3. Protect and hold harmless the research mission of the university.

There has been no use or diversion of F&A dollars in any of the three reductions and the Research Office remains adequately staffed.

Charts 10 & 11

4. Pledged to keep tuition affordable for our students.

Average tuition increases the last 2 years have been 5.65%. The national average over the same period was 6.5%. The average for the 8 year period from 2000-2007 at UNM was 8.28%.

Compared to our 20 peer institutions, we rank fourth from the bottom, and we are \$1,579 below the average of our peers.

5. *Pledged to hold harmless those Special Projects that relate to our Ethnic Support Centers.*

This only costs us \$28,300 and these programs are crucial to the success of our special student groups. As we look forward I also would like to hold harmless a few other special projects that are credit generating which would amount to another \$70,000. Overall, Special Projects have not fared well in the reductions. Collectively with athletics and KNME they total \$13,455,500 or about 6.7% of the total state allocation. The reductions in these areas amount to \$872,800 or about 6.5% of budget. The Deans will have the authority to use their fund balances, as warranted, to assist any special projects they deem worthy.

6. *Pledged to keep benefit cost increases to a minimum.*

By self-insuring our medical plans this year, we saved almost \$5 M dollars. \$3.5 M was in cost avoidance and \$1.5 M was held in the insurance reserve. The cost to our active employees did not increase for any insurance coverages, despite national increases of about 10%. We continued to offer long-term care insurance free of charge to employees, which is a benefit provided by only 3% of public employers nationwide. We enhanced our education benefits to employees, strengthened our wellness programs and services, and saw a recovery of our catastrophic leave program from a substantial deficit to a surplus. Additionally, we did not increase parking rates.

7. *Pledged to reduce costs by becoming more efficient.* The best example I can give is in the energy area. We have been very successful in managing our energy costs. Through out project with Energy Education, Inc. we have managed to reduce our energy consumption by 19%, avoiding more than \$5 M in energy costs. We must seek similar savings and efficiencies in other areas of the university.

Chart 12a

- All-in-all I believe we have done a good job of meeting our commitments. But moving forward with the high likelihood of additional state-funding cuts it will become necessary to reevaluate our ability to continue all of these commitments.
- The point is rapidly approaching when further cost reductions will necessitate fundamental restructuring of the organization and how it fulfills its mission. This may entail administration restructuring such as flattening the organizational chart; merging or eliminating administrative units; and rethinking how teaching is done and how courses are delivered. Such changes inevitably will involve people and their work and will be a difficult task.

Chart 12b

- Given the uncertainty of our situation going forward, I am re-affirming our commitment to the “pause and hold” strategy and will urge eliminating all new hiring for all administrative and staff positions except those deemed absolutely mission critical. This “freeze” will not apply to hiring faculty. It is absolutely vital that we continue to retain and hire new faculty in order to maintain an appropriate faculty-student ratio, high standards of instruction and learning, and adequate support for degree completion.
- The time also has come for us to carefully examine all of our I&G expenditures to ensure that these funds are spent in the most direct and effective ways possible in support of our core missions. That must be our number one priority with these funds.
- As much as we would like to believe, not all revenue and expenditure realities are within our control. The administration will continue to monitor fringe benefit costs, utility usage, investment income, scholarship awards, and various funding streams from the state that are tied to the state economy in an effort to minimize any negative effects they might have on the upcoming fiscal year budget.
- If additional cuts are deep enough, we may very well have to consider some sort of tiered furlough plan. Also, I am aware of the desire on the part of some faculty to develop a retirement incentive program that could help us foster continued growth and diversity of the faculty. I believe the time is right to develop such a plan and examine the cost of implementation as part of our budget planning for next year.
- In closing, I would comment that the breadth and depth of budget cuts, and the resulting impact on all sectors, have created the most challenging time for higher education in my career. Much has been said about how to “do more with less.” But an institution can only “do more with less” up to the point where “less” leaves one with “nothing.” The “do more with less” mantra works as long as it is possible to keep making easy cuts. Beyond that, “doing more with less” either becomes “doing without” or “doing fundamentally differently.”
- Difficult times require us to think differently, indeed boldly. In the face of significantly reduced state funding and increasing expenses, we must focus carefully on our priorities and strategic objectives. We must build a new model that will change the way we work, but not the quality of the work we do for our students and in communities close to home and around the state and nation.
- Warren Buffet once remarked, “When the tide goes out, you can see who has been swimming naked.” Well the tide IS out and those of us in higher education may have to invest in new swimsuits!!

Chart 12c

- These kinds of transformational changes are complex but necessary to preserve the quality of our academic programs over the long term. But they cannot be top-down. It is work that will – and must – be done together guided by our overarching strategic framework and values and implemented using time-tested university governance and administrative processes that actively involve the campus community. It is work that will require all of our engagement, as ideas are proposed, decisions are made, and changes are implemented over time.
- However challenging, these are times that can play to our strengths. Hopefully, a can-do spirit will become the hallmark at UNM. As we adapt, we must remain resilient, maintaining our momentum and our excellence.