



**REPORT TO THE UNIVERSITY COMMUNITY
OF ACTIONS TAKEN TO FINALIZE THE FY 2010 BUDGET
June 1, 2009**

During our recent meetings with our academic colleges and other employee groups, I promised that once the work of the Budget Reduction committee had been completed, and I had the opportunity to review the committee's recommendations, we would make a report to the university community of actions taken to finalize our FY 2010 budget. I have completed my review of the work of the committee and would like now to report to you the actions that have been and that will be taken to address the FY 2010 budget reduction imposed during the 2009 Legislative session.

Let me begin by thanking members of the committee for their outstanding work. Their task was difficult, and involved an enormous expenditure of time, but we simply could not have addressed the challenges we face without their dedicated service. The committee was co-chaired by Provost Raymond Coward and Vice President Fred Hunsaker. Other members included John Kras and Vince Wickwar from the Faculty Senate, Noelle Cockett and Scott Hinton from our dean and vice president group, Marsha Howell representing our professional and classified staff, and David Cowley from Business and Finance.

Before getting to specifics of the 2010 budget, let me briefly summarize previous budget-related actions we have taken during the last academic year to provide some context for this report. As you will remember from our meetings with the colleges and other employee groups, we used the terminology of "rounds" to describe the several budget cuts taken, and yet ahead. The table below describes the individual rounds of cuts taken:

SUMMARY OF STATE BUDGET CUTS

	FY 2009		FY 2010
	Round 1 Cut (ongoing)	Round 2 Cut (one-time)	Round 3 Cut (ongoing)
Gross Cut	\$6.5M	\$11.3M	\$21M
One-Time Backfill	-	(\$5.65M)	(\$13M)
Net Cut	\$6.5M	\$5.65M	\$8M

	FY 2009-10	FY 2011	FY 2009-11
	Cumulative Ongoing Cuts (Round 1&3)	Potential Round 4 Cut (ongoing)	Potential Ongoing Cuts (Rounds 1,3&4)
Gross Cut	\$27.5M		
One-Time Backfill	(\$13M)		
Net Cut	\$14.5M	\$13M	\$27.5M
Net Cut % on Orig. FY 2009 Base	9%	8%	17%

Round 1

Round 1 reflects the ongoing cut to our base that was imposed by the September 2008 special session of the Legislature. As you recall, this session was called by Governor Huntsman to re-balance the state budget in response to the dramatic downturn in revenues that occurred during the early stages of the economic recession. As we have reported previously, this \$6.5 million reduction to our budget was addressed through a range of actions taken by our individual units, the most important of which was the elimination of open positions. Actual reductions in force were held to a minimum (just over 22 positions), and some modest reductions were taken in our unit operating budgets (just over \$725,000 across all campus entities). While we were able to address this cut without impacting a large number of current employees, we all need to recognize that the reduction to our workforce was significant because of the loss of open positions that extends virtually across the entire campus community.

Round 2

Round 2 reflects the one-time cut that was imposed in January of this year during the early stages of the Legislative session. Utah State University's cut was \$11.3 million, half of which was backfilled by the Legislature through the use of one-time state monies. As you will recall, we were able to address a significant part of the remaining \$5.65 million reduction through the

imposition of a campus-wide, five-day furlough. The furlough generated almost 60% of the funds needed, with the balance coming from centrally-held accounts and a modest (less than .6%) cut to our various campus units. Again, primarily through the use of the furlough, we were able to address this reduction without significant impacts on our workforce.

Round 3

This leads me to Round 3, which is the primary focus of this report. The state budget that was passed at the conclusion of the 2009 Legislative session included another \$21 million reduction to the USU budget, bringing the total of our ongoing cuts to almost \$27.5 million, or 17% of our state tax-funded revenues. Fortunately, the economic stimulus package proposed by President Obama and passed by Congress provided significant backfill to help get us through the 2010 fiscal year. Specifically, we were provided with \$13 million dollars in stimulus package funding, leaving us with an \$8 million reduction in funds for this coming year. While the backfill was critical for us, I remind everyone that this is a temporary “fix” and that we still face a FY 2011 (July 1, 2010) reduction of almost \$13 million dollars, or an additional 8% of our budget. For us, this will be Round 4.

The first action of the committee in addressing the Round 3 reduction of \$8 million was to ask each campus unit to provide a budget that reflected a 5% cut to their base. Deans and vice presidents then were invited to individual meetings with the committee where all of their proposed reductions were reviewed in detail. The work of our deans and vice presidents in preparing for these meetings reflected careful review of their units, with a focus on doing whatever necessary to “protect” the core strengths of our university, including the quality of our academic, research, and support programs. While the committee accepted many of the proposals that came forward, there were also a number of instances where deans and vice presidents were asked to go back and reconsider proposed cuts. Most of these requests were made, again, so that we could assure, to the extent possible, that key initiatives of the university, including revenue enhancing activities, could be protected.

As the committee was conducting its work, we identified almost \$2.5 million dollars from Tier II Tuition funds and other central sources to create what we call an Investment Fund. As the deans and vice presidents met with the committee, they were invited to submit proposals for those funds that would strengthen and enhance their core activities. While some of the proposals were presented to offset specific cuts, most identified new core opportunities and initiatives for maintaining critical programs. Through the use of the Investment Fund, the actual reduction in base to our units was reduced to \$5.6 million or an average of 3.5% of our unit budgets.

A major strategy for addressing the Round 3 cuts was the development of a campus-wide Voluntary Separation Incentive Program. The goal of this program was to provide a one-time incentive to employees who were willing to accept early retirement or otherwise voluntarily separate from the university in order to generate ongoing salary savings that could be used to

meet unit budget reductions. Campus units were given discretion to accept voluntary separation requests where financial savings could be achieved.

Interest in this program was very high, resulting in nearly 220 individuals agreeing to voluntary separation. Gross salary and benefits for this group totaled \$14 million, of which \$3 million was given up in the budget cuts. Of the remaining \$11 million, a significant amount will be used strategically to hire new employees to fill critical positions. For many units, open positions from voluntary separations will be held to meet all or part of what we hope will be the final round of cuts facing the university in FY 2011.

Let me now summarize the major impacts of the reductions taken on our campus community:

- **Reductions in workforce have accounted for the vast majority of the budget cuts to date.**

As described above, as we enter the new FY 2010 (July 1, 2009), the tax funds portion of our "Education and General" account (E&G), will be \$27.5 million less (-17%) than what we had at the start of the last fiscal year (July 1, 2008). We have already made adjustments totaling \$14.5 million and the remaining \$13 million (which has been backfilled by the State Legislature with one-time money for this year) will need to be identified by July 1, 2010. These latter cuts are still in front of us.

Our response to the \$14.5 million in budget cuts taken to this point reflects a combination of revenue enhancement and budget reductions. Personnel reductions account for a majority of the cuts. Specifically, we have reduced our personnel expenses by \$11.1 million (accounting for approximately 76% of the total budget reduction).

The remaining \$3.4 million in cuts has been addressed by:

- \$2 million in new Tier II tuition revenues were placed in the Investment Fund described above to offset the cuts; and
- Nearly \$1.4 million was reduced from our operating expenses.

Personnel cuts account for such a large proportion of the overall cuts that were enacted because the revenue source that was reduced by the State Legislature (i.e., the tax funds portion of our E&G account) is primarily spent on personnel costs. That is, nearly 75% of our university-wide E&G budget is dedicated to personnel costs and, within the academic units, this proportion is 92%. Thus, it is not surprising that cuts to this revenue stream would result in reductions in our workforce. Higher education is a labor-intensive activity and this particular revenue stream covers a large portion of our personnel costs.

- **To date, the strategies used to reduce our workforce have been able to minimize, but not completely eliminate, the need for layoffs and contract nonrenewals.**

The vast majority (70%) of our workforce reduction was achieved using strategies that did not require the layoff of current employees. For example, more than half of the employee reductions were achieved through a combination of eliminating unfilled, open positions (34%) and the Voluntary Separation Incentive Plan (23%). Other significant savings (13%) came from shifting the support of employees from the E&G account to other revenue sources (thus maintaining those jobs, but altering the source of support). Employing these strategies has allowed us to keep to a minimum the number of employees who had to be terminated in reduction in force (RIF) actions or in the nonrenewal of contracts (accounting for about 18% of the overall savings that accrued from personnel actions). In total, 41 full-time equivalent positions were eliminated by RIFs or nonrenewals—affecting 49 different individuals. The remaining savings (11%) came from the elimination of discretionary wage pools (not linked to specific employees) and other miscellaneous personnel related actions (1%).

- **Workforce reductions have occurred in all employee categories.**

A total of 162 full-time equivalent positions have been eliminated in this first year of cuts, representing 6.8% of the total workforce that is supported by the E&G revenue stream. (NOTE: USU has many other employees who are supported by other revenue streams—like auxiliary services, philanthropy, or external grants). These 162 lost positions were fairly evenly distributed across faculty (35%), professional staff and executives (29%) and classified staff (36%). However, because of the differential salaries in these employee categories, the total dollar savings accrued from these eliminated positions differed significantly—lost faculty positions represented 47% of the total dollar amount cut, professional staff and executives represented 32%, and classified staff accounted for 21% of the total personnel dollars cut.

- **Future budget cuts.**

While the State Legislature gave us a reprieve on our total budget cuts for the upcoming fiscal year, let me underscore that we still need to identify an additional \$13 million in cuts by this time next year for Fiscal Year 2011. Like this year, to achieve that goal we will use a combination of new revenue sources and budget cuts. But, it is inevitable that we will be forced to absorb still further personnel reductions as we move forward. Moreover, because we have already used much of our flexibility in certain personnel strategies (for example, we have very few open, unfilled positions left to eliminate), we will be faced with even more difficult decisions as we move forward to overcome what we hope will be the final hurdle.

Some Final Thoughts

It should now be clear to us all that the economic crisis we are currently in is unlike anything we have experienced in our lifetimes. To quote from a recent *Chronicle* article by Goldie Blumenstyk: “This is not the recession of the early 1990s, not the aftermath of the tech-bubble burst, not the downturn that overtook the American economy and psyche after September 11. The still-unfolding economic crisis is bigger, more fundamental, and for good or ill,

transformational for all of society.” And while there are some positive signs that things are improving, I find few who are so bold as to argue that the hard times are behind us.

So our question remains that of how best to position Utah State University to continue to move forward in this uncertain environment. We simply cannot act, in Blumenstyk’s words, as if the financial crisis won’t have lasting effects on our institution. It will. And the consequence will be some pretty profound effects on the way we do business, both in the immediate future, and in the longer term.

We will need to engage, perhaps as we have never done before, in rethinking our organizational structures, our financial models, our curriculum, and our delivery systems. As we work to define what type of institution we will be for the next generation, we must be driven by the challenge of positioning this great university to continue to build upon the excellence that is now in place. I believe we have both the tools, and the will, as a university community to do just that. Thank you for your continuing support and good will, even in the face of great adversity.

Later this summer, we will provide another report that will address both revenue enhancing and budget reduction strategies that can be employed for the FY 2011 cuts. We invite each of you to submit ideas that might be considered in that process. I have asked Fred Hunsaker, Vice President for Business and Finance, to collect these suggestions.