University Budget Advisory Council
Action Minutes
Feb 22, 2024

Members present: Opinder Bawa, Shannon Burchard, Sarah Blackburn, Julie Orio, Johnathan Cromwell, David Ferguson, Kurt Keilhacker, Laura Hanneman, Michael Harrington, Angelica Martinez, Lindsey McClenahan, Bhavesh Ram, Isabelle Sholes, Brian Young, Tim Redmond, Nathan Nkemere

Members absent and excused: Otgo Erhemjants

1. **<u>Welcome & Overview</u>**

- Welcomed new members: Tim Redmond & Nathan Nkemere
- Approval of December 2023 Action Minutes to done via Google poll
    - Vote: 10 Yes, 0 No, 2 Abstain

2. **<u>Budget Information & Updates</u>** - review of work that has been completed by UBAC and the Office of Planning and Budget:

<u>Budget Assist Survey Results Summary</u>

A summary of the Budget Assist Survey Results, including written comments, was sent to ex-officio members, namely the President and CFO. No comments were received from members regarding non-discretionary budget assists. The exercise was deemed helpful beyond the budget creation period, enabling decisions on strategic initiatives should the university find itself in a stronger fiscal position than expected. Traditionally, the President would decide on discretionary increases towards the end of December. However, this year, the President allocated $250k to support discretionary requests, with the intention to later determine the allocation of funds. This $250k is being incorporated into the operating budget for board consideration in March.

Questions:

- **Question (Cromwell):** Do these get updated with the decision of what was funded or not? **Answer (Harrington)**: Budget Assist platform serves as a historical database of all the decisions that have been made on the request and amount of funding received. The Budget Assist platform is set up to send out notifications. As funding decisions are made, the individuals that submitted the request(s) are notified.
- **Question (Cromwell)**: Have those decisions been made? **Answer (Harrington)**: No, not at this point.

<u>FY23 Endowment Spend Summary</u>

This report covers endowment spend by category for the past closed fiscal year. Transfers in represent distributions from the endowment supporting various restricted funds designated by donors. A significant portion of the endowment is allocated towards scholarships, with specific student demographics identified by financial aid and offered restricted scholarships, also known as "funded scholarships." Endowment activity primarily occurs within Academic Affairs, with a notable amount directed towards scholarships in athletics. Furthermore, endowment distributions support faculty lines and staff positions across the university, sometimes leveraging funding splits between endowment and the operating budget.

Questions:

- **Question: (Redmond)** Can you tell us where the endowment currently stands now, how much money we have? How much revenue we're getting from our investments, and how does that compare over the last 3 or 4 years? **Answer (Harrington):** Yes, but will require a new report. Confirming request to see endowment spin off over the past 5 years. **Answer (McClenahan)**: Endowment is a huge priority of the Development Team. Much of the money will go to scholarships, faculty lines, and program support. Most of the gifts that come in are designated to a specific area, so donors either indicate as part of their estate plans or as a current gift what they would like to fund. Then that money needs to support that effort in perpetuity unless the donor or donor's family comes back and requests an update to that endowment intention. Biggest goal is supporting scholarships because it is a huge cost that continues to rise. In this campaign, the hope is to raise $150-200M in endowment out of a $500M goal.
- **Question (Sholes):** Can we share scholarship spend? How much goes to athletics? **Answer (Harrington):** Yes. So put together a report, a five year history of scholarship spend to include restricted and university sources, as well as show the splits between undergrad, undergrad athletics, and grad, for example. **Answer (McClenahan)**: A few quick points: 75% of the endowment is restricted. 60% is for scholarships. We have 20 endowed faculty positions. Spend from last year was $22M from endowment to support students, faculty, and these programs.

FY25 Savings Allocations Methodology and Allocations

This report outlines the approach employed by the cabinet to allocate budget savings targets across divisions. It involves modifying expense budgets for immunization or exclusions to determine the percentage allocation across units and divisions. While unit allocations are provided, division leaders have autonomy in managing their overall division targets once agreed upon by the cabinet. There's flexibility in how cabinet members establish and achieve savings targets. Immunized budgets, determined through cabinet discussions over multiple cycles, include approximately 85% of the full-time faculty and librarian compensation budget. After accounting for excluded budgets, the remaining total is used to calculate the percentage applied to the target for balancing the budget, thus deriving division targets.

Excluded budgets: The university employs a detailed chart of accounts to organize expenses based on organizational structure and expense type, navigating through divisions or departmental management structures. This ensures clarity in budget allocation and management processes.

- The budget allocation process follows a two-path method, involving exclusion or immunization of certain units and budgets.
- Departments like the law department, practicing responsibility-centered management budgeting, manage their expenses within their allocated share and are excluded from savings allocation efforts.
- Funds earmarked for strategic initiatives, new academic programs, and contractual union agreements are excluded from the allocation process.
- Certain budgets, such as part-time faculty development and compensation, are removed from allocation efforts but may see savings due to policy changes in the future.
- The guiding principle is to avoid setting targets based on budgets unsuitable for adjustments due to primacy or contractual obligations.
- Excluded areas also encompass vital services like student safety and disability services, as well as facility support budgets for regional campuses.
- Operational budgets related to programming at regional campuses are subject to allocation but not facility support budgets.

Through careful exclusion and immunization processes, the university ensures that critical functions and dedicated funding areas remain intact while optimizing budgetary adjustments for efficiency and effectiveness.

Questions:

- **Question (Burchard):** Can we anticipate that the one-time cuts implemented to address this year's budget shortfalls will transition into base cuts? What savings allocations have been identified for the next fiscal year? Is there a specific directionality regarding the ratio between one-time and base cuts? **Answer (Harrington):** President would like over half of the savings allocations for next year to be base.
- Last year's one-time savings of $39.5 million, treated as a contra budget, partially satisfy current balancing efforts, alongside the university's operating reserves of approximately $9 million. Remaining compensation pools and budget sets supporting overtime are unallocated. Key units provide necessary support for admissions, commencement, and contracts, overseen by the vice provost for enrollment management and development. Certain development organizations are immunized at 80%, agreed upon by the cabinet.
- Utilities, debt service payments, insurance.

After these immunizations, we have a basis for the allocation. This methodology is proven to be helpful for the Cabinet over multiple cycles, and it has been updated for the past year.

<u>FY25 Budget Creation Upcoming Dates & Reports</u>

- The Office of Planning and Budget website features a link to the Operating Budget Timeline, which is regularly updated and is current with events from January, February, and March.
- Additionally, the OPB contributes to the Board of Trustees Finance Committee e-book.

- Plans are underway to compile the Q3 operating forecast for the current fiscal year and the operating budget for fiscal year 25 for board approval, with submissions expected in March.
- Notably, this approval process occurred in June last year, but the board has emphasized the importance of avoiding such delays for FY25.

3. **Communications Update (Cromwell)**

Our communications sub-team, including Johnathan, David, Brian, Bavesh, and Kurt, has been diligently preparing a communication package for wider dissemination within the University community, especially given the ongoing budget discussions and high Town Hall attendance.

Goals:

1. Finalize the communication plan.
2. Present a comprehensive deck to UBAC for community update on budget matters.

Plan:

- Present a deck to UBAC, focusing on budget cycle, revenue, and cost breakdowns.
- Solicit feedback, particularly on revenue trends, cost breakdowns, and key budget questions.

Key Points of Presentation:

- Highlight revenue sources primarily from tuition and enrollments.
- Provide detailed breakdowns of major operating units within the university.
- Illustrate budget growth through assists and clarify top-line versus actual implementation.

Next Steps:

- Address tuition rate versus retention.
- Strengthen ties with the strategic planning committee.
- Establish a mechanism for collecting community questions and creating an FAQ.

Comments:

- **Burchard:** School of Law's contributions are reflected in numerical analyses, though not directly outlined in the budget. This aspect is sometimes overlooked.
- **Cromwell**: We need to share more broadly the School of Law's workshop listed on our website.
- **Blackburn**: Gifts and contributions represent a small portion of the budget pie. Significant contributions from other sources should be acknowledged.
- **Harrington**: Important to ensure alignment of numbers before wider dissemination.

- **Orio**: Separating student life and athletics would enhance clarity.
- **Cromwell:** Feedback from UBAC members needed before further discussion.
- **Blackburn**: Thanks to the group for the effort. Would like to share with business managers.
- **Cromwell**: Considering a 20-minute video for the UBAC website as part of next steps.

4. **Updates from the Provost, Eileen Fung and VP of Strategic Enrollment Management, April Crabtree (Note: questions and answers are edited for clarity.)**

Opening Comments (Fung): The submission of the budget reallocation proposal to Charlie and Michael involved significant deliberation and tough decisions across all units. Dealing with multi-year planning and cost reduction while investing in essential areas posed challenges, particularly for Deans and the Vice Provost.

Question (UBAC): At the town hall, the president said: “we should budget conservatively, but behave ambitiously.” One area we don’t currently do this is with enrollments. Currently, we set ambitious enrollment targets at the beginning of the year, and then we use these same numbers to determine our budget and expected operational costs for the year. This inevitably creates problems when we fall short of targets, which gets compounded during downward trends over several years. Can we modify our procedures to disentangle ambitious enrollment targets from more conservative actual enrollments to determine our budget each year?

Answer (Crabtree): Starting with the different procedures for setting enrollment targets for graduate and undergraduate programs, the emphasis is on realism and conservatism. Eileen's contributions have elevated strategic planning, ensuring targets align with past behavior to avoid overestimation. Undergraduate targets involve collaboration between strategic enrollment management and the Provost, taking into account past applicant behavior for projection.

In the case of undergraduate enrollment targets, we analyze historical applicant behavior, considering factors such as application trends, student demographics, and preferred majors. These insights inform the determination of realistic enrollment goals, with a view towards ensuring fiscal responsibility. Alongside the baseline targets, the team also sets stretch goals aimed at driving additional revenue and expanding student headcount.

The process for setting graduate enrollment targets follows a different process. Deans of individual schools within the college, in consultation with the Provost, scrutinize program-specific factors such as available funding and space constraints. This approach allows for headcount targets that align with the unique capacities and priorities of each graduate program. Ultimately, these targets are reviewed and approved by the Provost and Cabinet.

Answer (Fung): Focusing on the challenges and complexities associated with setting enrollment targets for graduate programs, we acknowledge the difficulty in providing stretch targets for graduate programs due to constraints such as facility limitations. Various external factors that can affect enrollment include market saturation, competition for scholarships, and the cost sensitivity of international students, exacerbated by currency fluctuations.

Efforts to bridge the financial gap for students through scholarships and institutional support are regularly considered. Unlike undergraduate programs, graduate programs operate with more uniqueness and specificity, each having distinct demographics, market positions, and recruitment strategies tailored to their respective fields.

The importance of realism in target setting is important. There is a need for targets that are neither overly conservative nor excessively aspirational. The need for collaboration with deans and graduate directors to establish achievable yet ambitious targets is frequently discussed, with the understanding that surpassing these targets may be contingent upon factors like facility expansion, for example.

Question (Cromwell): Is it beneficial to adopt a more conservative approach to setting enrollment targets this year, with varying levels of effort dedicated to the process? While recognizing the importance of a thorough and comprehensive enrollment targeting process, is there room for flexibility in aligning future-oriented enrollment goals with budgeting considerations? Could there be merit in exploring the possibility of using different numbers for setting targets and actual budgeting purposes, based on historical data and forward-looking projections?

Answer (Fung): The rigidity of setting a singular number for enrollment targets can indeed pose challenges, especially considering the dynamic nature of educational landscapes. Historically, we've relied on patterns and trends to guide these projections, leveraging insights from both past performance and current market dynamics. However, this year, the Deans have been encouraged to adopt a more pragmatic approach, considering the sustainability of their enrollment targets.

Rather than being tethered to a predefined number dictated by a playbook or business model, I've urged them to critically assess their program's viability at various enrollment levels. This involves evaluating whether past targets align with current and future resource needs, and whether adjustments are necessary to ensure long-term sustainability. Importantly, this process isn't solely about setting a new numerical target but also about fostering a deeper understanding of our program's growth trajectory and strategic direction.

It's essential to recognize that enrollment targets aren't static figures but rather dynamic benchmarks that may evolve over time. By encouraging the Deans to think in terms of a range rather than a fixed number, we allow for greater flexibility and adaptability in our planning processes. Ultimately, the goal is to strike a balance between historical performance and future aspirations, ensuring that enrollment targets align with both our financial objectives and our programmatic goals.

Answer (Crabtree): The challenge lies in our inability to predict the future with certainty. Our best course of action is to rely on historical data and current behavioral indicators to inform our projections. However, the admissions landscape is inherently dynamic, subject to the unpredictable whims of prospective students.

Undergraduate admissions, in particular, is a realm shaped by the ever-shifting preferences of young individuals. Despite our efforts to strategize and adapt based on past experiences, a significant portion of the process remains uncertain.

Adaptability is key in navigating this uncertainty. As you've mentioned, our approach involves continuous refinement based on real-time feedback. This iterative process allows us to swiftly adjust our strategies in response to emerging trends and unforeseen circumstances.

In essence, while enrollment projections provide valuable insights, they must be viewed with a degree of flexibility. Our ability to adapt and respond to changing dynamics is crucial in ensuring our continued success in the admissions process.

Question (Merkel): Is there ongoing consideration regarding the sustainability of graduate programs, particularly in light of disparities in program sizes where some are budgeted for 80 students while others for only 15? Are there discussions surrounding the establishment of minimum thresholds for program viability and continuity, and what strategies, such as consolidation efforts or alternative forms, are being explored to ensure the survival of smaller programs in a more budget-friendly manner?

Answer (Fung): Sustainability is a critical consideration, and the 15-student threshold is generally unsustainable for any program. Typically, we aim for around 18 to 20 students for viability. We've been actively addressing this issue by categorizing programs into three buckets. Firstly, programs that are already sustainable and adequately resourced, allowing for innovation and student support. Secondly, programs needing revitalization due to inconsistency or outdatedness, where we explore options like curriculum redesign or integration with other programs for efficiency and improved outcomes. An example of this is the successful collaboration between certain programs across different schools. Lastly, programs deemed unsustainable due to market relevance or other factors, which may lead to considerations such as curriculum relocation or program sunsetting. We regularly review and reassess these categories to ensure the long-term sustainability of our programs, prioritizing not just contribution margins but overall program health and effectiveness.

Question (Redmond): Could you elaborate on how department mergers are expected to yield revenue savings? Specifically, with the merging of programs like Media Studies and Communication Studies, where do you foresee the financial benefits, aside from streamlining administrative functions and reducing duplication?

Answer (Fung): There are indeed multiple facets to consider. Firstly, with the merger of MPA and LPA, our aim is not only to streamline administrative support but also to expand the capacity of both programs. By consolidating resources and leveraging a unified structure, we anticipate growth in both headcount and revenue, potentially doubling our combined enrollment goals.

Regarding the merger of departments like Media Studies and Communication Studies, it's essential to clarify that this isn't about merging curricula but rather about reducing administrative redundancy. Students still identify with their respective majors, but the merger facilitates more efficient operational and budgetary management. Importantly, these mergers enable increased collaboration and resource sharing, leading to potential cost savings. For instance, joint programming and events can be cosponsored, elective courses can be shared to maximize enrollment, and a wider array of diverse offerings can be provided to students. Additionally, by fostering a more cohesive community among students, these mergers enhance the overall student experience and mitigate competition for resources, ultimately creating a more robust academic environment. These benefits are already being realized through existing collaborative efforts, and the department mergers serve to further support and amplify these initiatives.

Question (Burchard): Will the reduction in administrative costs primarily occur through attrition and natural turnover, or is there a planned effort to reallocate staff members to other areas or departments to mitigate layoffs?

Answer (Fung): At present, there are no plans for layoffs. Instead, we're focusing on reallocating responsibilities and resources to adapt to changing program needs. This involves not filling vacant positions due to attrition and retirement and redistributing responsibilities among existing staff. Our approach is dynamic and fluid, considering both the shrinking size of some programs and the development of new ones. We're exploring ways to ensure that resources are allocated where they're most needed, whether it's supporting existing programs or facilitating the growth of new initiatives. This includes not only administrative positions but also adjustments in faculty course releases to accommodate shifting student needs.

Question (Merkel): Is there provision for university departments and programs to access funds beyond those allocated for new program development? Specifically, are there resources available to support program refreshment or to address capacity limitations hindering growth, such as insufficient faculty or staff resources, particularly for programs with potential growth in prospective student interest but lacking corresponding resources?

Answer (Fung): Funds are indeed earmarked for new program development, covering expenses like hiring personnel and providing operating funds. Additionally, there are ongoing opportunities for programs seeking to implement retention strategies or pilot new initiatives to access funds through avenues like the Provost Innovation Fund. Existing programs looking to expand or refresh, such as Media Studies creating a Data Engineering program, can also apply for additional funds through budget requests to the Provost's Office. These funds are flexibly utilized to support a variety of program needs and initiatives.

Question (Young): Is the significant disparity between program sizes, such as 15 versus 25 students, more concerning than the contribution margin when considering modifications or changes to programs?

Answer (Fung): While contribution margin is a significant factor, the size of a program can sometimes be misleading. A large program doesn't always guarantee a high contribution margin, just as a small program doesn't necessarily mean a low margin. When I mentioned 20 and 18, I was referring to a standard benchmark for headcount that typically ensures sufficient net revenue to sustain the program. However, there's flexibility in allowing programs to ramp up, depending on factors like existing faculty resources or the need for new appointments. Some programs, despite being smaller, may be more expensive to maintain due to facility costs, and thus may not always hit the target contribution margin. Conversely, programs like history or humanities, despite their smaller size, may often meet or exceed the contribution margin due to lower resource requirements. Therefore, various factors need to be considered beyond just program size when evaluating financial sustainability.

Question (UBAC): During the budget-assist cycle this past fall, we discovered that tuition-rate increases have a strong negative correlation with 1st- and 2nd-year retention. For example, every 1% increase in tuition rate has been associated with a more than 1% decline in retention over the past 5 years. This suggests we may be doing more harm than good on our overall budget when increasing tuition rates each year. There are many other factors that could explain this relationship, so further investigation is needed. What would be the best way to share our findings and facilitate this inquiry at the university?

Answer (Crabtree): The correlation between tuition increases and various factors has been noted, and indeed, there seems to be a relationship worth considering. In my involvement with setting enrollment targets, I've observed a significant amount of thought put into the financial aspects by individuals such as Michael and his team, in collaboration with Charlie Cross. They focus on supporting the institution holistically, ensuring employee support, adequate student services, and addressing rising operational costs. Traditionally, passing on a portion of these costs to students through tuition increases has been the norm, consistent with the broader landscape of higher education.

However, acknowledging the challenges posed by tuition increases prompts deeper questions about our institutional approach. The Provost's initiative in hiring a new AVP for partnerships underscores the exploration of alternative funding sources. This prompts discussions on how to balance the financial equation. We must assess if retention challenges are indeed influenced by tuition increases and consider various strategies, such as tuition freezes for incoming classes or alternative financial models. Ultimately, the fundamental challenge remains: aligning revenue generation with operational needs.

Answer (Fung): It's definitely a challenging issue that many Cabinet members are grappling with. Our primary goal is to ensure that our students can afford a USF education, but we're also contending with increasing contractual costs to support our operations, faculty, and staff. At present, we're not generating sufficient net tuition revenue to cover these expenses.

One avenue we're exploring is identifying non-traditional sources of revenue to supplement our operational needs. Additionally, we're working on a longer-term strategy to address the issue of weaker market positions in certain programs. This involves changing the perception of a USF education among prospective students, many of whom may be deterred by the perceived cost. We need to convey the value and outcomes of a USF education effectively, positioning it as a worthwhile investment despite rising tuition costs. It's a multifaceted approach that involves cost-cutting, strategic reinvestment, and reshaping the narrative around the value proposition of a USF education.

Question (Cromwell): So, the core question revolves around the impact of tuition rate increases on current students' decisions to remain enrolled at USF. Essentially, if even a small percentage of current students are dissuaded by tuition hikes and subsequently choose not to continue their enrollment, it could lead to significant revenue loss over the course of their remaining time at the university. Therefore, the question is aimed at determining whether this relationship between tuition increases and current student retention is real, and if so, how to address it to mitigate potential revenue decline.

Who are the appropriate stakeholders to investigate this matter further and analyze whether such a correlation exists. Additionally, what is the best approach for sharing these findings within the university community and initiating efforts to explore potential solutions if the relationship between tuition increases and current student retention proves to be significant.

Answer (Fung): Certainly, it's essential to determine whether there's a genuine correlation between tuition increases and current student retention. We could explore this further by examining data on non-returning students and their reasons for leaving, including financial factors. However, it's crucial to discern whether the issue lies specifically with tuition increases or with tuition costs overall. I'll discuss this with April and other members of the cabinet to see if we can devise a plan to investigate and confirm this correlation accurately.

Answer (Orio): It's true that the impact of tuition increases, especially on continuing students, is a recurring concern. While we've conducted some analyses in the past and communicated findings with students, there's still a need for more comprehensive exploration. Michael, perhaps we can revisit the data and delve deeper into the specifics of how tuition increases affect retention rates. Additionally, as April mentioned, we have data on the financial connection to retention, but further examination is required to isolate the effects of tuition increases specifically. It's an area worth revisiting and investigating further to better understand its implications for our students' persistence and the university's overall financial landscape.

Answer (Crabtree): A good example, melding the two points together, is the nursing program highlights the importance of perceived value and market positioning. Nursing students see the value in their education at USF, which translates to high retention rates despite tuition increases. They recognize the prestige of the program, the quality of education, and the support they receive, all of which contribute to their commitment to staying enrolled. However, for students in other programs, the decision-making process may differ, as they weigh the costs against perceived value and alternative options. Building USF's reputation and emphasizing the benefits of attending our institution are crucial in ensuring that students understand the value proposition and are willing to invest in their education here.

Answer (Fung): Adding to April's comments, it's important to note the perception of value and investment in education, particularly with programs like nursing where USF has a strong market position. Additionally, we're implementing strategies like the 4 plus 1 program to provide added value and incentives for students to stay with us. By offering a pathway to complete both bachelor's and master's degrees in five years with a discount in the final year, we're showcasing the benefits of staying enrolled at USF. These initiatives aim to enhance the overall student experience and demonstrate the value proposition of attending our institution.