

January 8, 2007

To: Members of the Council of Academic Deans and the Executive Committee, Finance and Administration Directors and Faculty Senate Budget Committee Chair

From: Roy Koch, Provost and Vice President for Academic Affairs
Lindsay Desrochers, Vice President for Finance and Administration

cc: President Daniel Bernstine; Vice President Cassie McVeety; and Interim General Counsel Henry Lazenby

Re: Instructions for development and submission of 2007-08 AY budgets

Update on biennial budget planning

On December 8, 2006, you received our initial memo on Budget Planning for the 2007-2008 academic year. Since then we have had time to examine the Governor's Recommended Budget (GRB), to estimate the potential OUS allocation to PSU based on historic patterns, and to determine a "best case scenario" for developing our budget. This "best case scenario" is drawn from the following **assumptions**:

- All of the recommendations in the GRB are funded at the requested levels;
- PSU receives the same proportion of the OUS budget as it has historically; and
- Our enrollment remains flat.

Given, these assumptions, we estimate that there will be a recurring shortfall of **at least \$2M**. This estimate takes into account the "structural" problems of under funding that have grown over time and have contributed to the spending down of our fund balance.

In addition to this shortfall, our best estimate of expenditures for this year indicates that we will need approximately \$3.2M to rebuild PSU's fund balance to a 10% level. Thus, our budget planning efforts should address two separate but related issues: (1) the recurring shortfall of at least \$2M, and (2) the \$3.2M rebuilding of PSU's fund balance to a 10% level.

To assist you in thinking about the development of the 2007-2008 academic year budget it will be useful to consider the impact of the decrease in fall in-load enrollments (approximately 1%). Given that each 1% of enrollment (over the year) is equivalent to about \$800K, it follows that a return to our 2005-2006 enrollment (or higher) can significantly address the recurring shortfall.

Goals

The goal of this year's process is to create a balanced and sustainable ongoing budget that includes developing and maintaining a fund balance of 10%. We will seek to accomplish this with a combination of revenue enhancements and systemic operational adjustments. We

have (at least) two challenges for the coming year – to reduce the shortfall in the ongoing budget and to begin to rebuild the fund balance. Optimally, we would also like to generate additional resources through either revenue enhancements or reallocation for investments in support of our academic priorities.

Recurring shortfall. Given that the estimate of a \$2M recurring shortfall is considered a “best case” scenario, we propose to **develop a budget plan that addresses a potential recurring shortfall of \$3M.** In this way, there is some flexibility in the event the GRB is not fully funded (a likely scenario in the past). **Funds beyond those needed to address the recurring shortfall will be used for reinvestment.**

Fund balance restoration. It is essential that we eliminate our recurring shortfall for the next academic year so that our fund balance will not be further reduced. The actions resulting in increased revenues and cost saving must accomplish this goal. It is also necessary to rebuild the fund balance to at least 10% of our operating expenses. By way of comparison, this represents just slightly over one month’s operating reserve for the institution. **Our goal for one time savings in the 2007-08 academic year will be \$2M** which takes us part way toward achieving this objective.

Principles

In evaluating the budget requests for 2007-08 we propose to use the following criteria. These are generally the same as those used to develop the 2006-07 budget but now rely on the work we have been doing with regard to PSU’s leadership position and academic priorities and with the experience we gained in last year’s process. The budget decision principles are as follows:

- All programs and support units will be evaluated in terms of four key elements: contributions to our leadership position and academic priorities, program quality, program productivity, and program cost.
- Historic equity in funding, in comparison to unit productivity and performance, will also be considered in allocating funding and in the determination of any budget reductions.
- Investments will be made in areas that provide evidence of Portland State’s leadership position in and support of academic priorities and accompanying infrastructure needs.
- Reductions in administrative and service units will be avoided even though they do not directly generate revenue.
- Budget reductions will be analyzed in relation to institutional revenue generation. No position will be eliminated that generates total revenue in excess of the total cost unless there is a compelling programmatic reason to do so. In addition, attention will be given to open positions where the revenue generated is not sufficient to support the position.

- Budget actions that address the recurring shortfall must be permanent reductions or revenue enhancements that contribute to central resources.
- One time savings will be identified as appropriate throughout the university and used to contribute in the recovery of the fund balance.
- Budget decisions should position the university and the academic units strategically for both the short- and long-term.

Process

It is our intent, as it was in last year's process, that the allocation of funding be accomplished in a transparent, rational, and consistent manner. Toward that end, this year's process will be based on the following components (*using the attachments listed for each component*):

1. The existing 2006-07 budget allocation, as well as an analysis of the academic units' indicators of their contributions to leadership positions and academic priorities; program quality; program and faculty productivity; and program costs and revenue (*Part 1: Indicators to Inform the Budget Allocation Process [Word attachment], to be completed by members of the Council of Academic Deans*),
2. Proposed budget actions to address the ongoing shortfall (*Part 2: 2007-2008 Proposed Budget Actions to Meet the Recurring Shortfall [Excel attachment]*),
3. Proposed budget actions to address rebuilding the fund balance (*Part 3: 2007-2008 Proposed Budget Actions to Rebuild the Fund Balance [Excel attachment]*), and
4. Request for investments (*Part 4a&b: 2007-2008 Proposed Budget Actions for Strategic Investments [Part 4a: Excel attachment, Part 4b: Word attachment]*).

The process will be organized around the major organizational units – Academic Affairs, Finance and Administration, University Relations, and the President's Office. Each Vice President will be responsible for leading the budget process in his/her respective unit. The University Budget Team will aggregate the proposals and make final recommendations to the President. These will include actions to eliminate the recurring shortfall and restore a substantial portion of the fund balance.

The starting point for the 2007-08 budget for each unit will be the sum of: (1) each unit's 2006-07 Exhibit B budget which includes access funding for academic units, and (2) in the case of the academic units, the 2006-07 enrollment allocation adjustment (before the settle up / down process). Again in the case of the academic units, this level of funding should be consistent with the SCH projection (as requested in item 2a of the November 30 memo from Carol Mack and Michael Fung). The Budget office will roll-up salaries, benefits etc. to the appropriate 2007-08 levels so that is not required.

Based on the principles listed above, each unit is asked to respond to *Part 1: Indicators to Inform the Budget Allocation Process (Word attachment)*, that involves a summary and analysis of the units' activities over the past year, describing indicators of their contributions

to leadership positions and academic priorities; program quality; program and faculty productivity; and program costs and revenues. We encourage you to share the *Part I* template with units for their use in providing you information, but only your template, providing overall summary comments, should come forward. It is our assumption that the information you provide as entries in *Part I* will form the basis of, and support for, the actions proposed in addressing the recurring shortfall (*Part 2*) and rebuilding the fund balance (*Part 3*) as well as the final budget allocation decisions made at the University level.

Thus, each unit is also asked to evaluate its operations and to propose revenue enhancements that contribute to central resources and budget reductions in an effort to address the recurring shortfall in the operating budget. *These actions will be submitted on the attached form, labeled Part 2: 2007-2008 Proposed Budget Actions to Meet the Recurring Shortfall (Excel attachment).*

In order to rebuild the fund balance, each unit will also be asked to identify one-time actions that defer expenses from the E&G budget during the 2007-2008 academic year. *These actions will also be submitted on the attached form, labeled Part 3: 2007-2008 Proposed Budget Actions to Rebuild the Fund Balance (Excel attachment).*

Finally, in anticipation of some excess revenue or budget savings, each unit may request funds for investment. Such requests should specifically address the cost, any revenue generated as a result of the investment, how the investment will support Portland State's leadership position and academic priorities, and how the investment supports the strategic priorities of the unit. It is our expectation that investments should lead to at least one of the following outcomes:

- In the case of academic units, investments will support our academic priorities, enhance the visibility and stature of Portland State, and generate additional resources.
- Investments will improve support services and administrative processes so that academic units can more effectively carry out their responsibilities and generate additional resources.
- Investments will improve the financial sustainability of the institution.

These proposals will be submitted on the attached forms, labeled Part 4a&b: 2007-2008 Proposed Budget Actions for Strategic Investments (Part 4a: Excel attachment, Part 4b: Word attachment).

Strategies

Given that the next academic year is the beginning of the biennium, we have a larger range of options for addressing our recurring shortfall than was the case last year. In particular, we may be able to develop some revenue options based on fees and tuition adjustments (primarily at the graduate level since the GRB limits resident undergraduate tuition increases

to the Consumer Price Index – approximately 3.4%) and, depending on our collective thinking, we may be able to increase enrollment to at least that of the 2005-06 levels or above, thus mitigating a portion of the shortfall or generating resources for investment. We must also keep in mind that proposed changes in tuition structure and fee increases may be subject to legislative action and OUS approval so there may be some uncertainty in particular actions. Along with revenue enhancement, we must also identify costs reductions. Vice Presidents will be discussing, with their respective leadership teams, specific strategies for their units.

Timeline

The revised schedule for this process is attached (*Campus Communication 2007-2008 Budget Planning Schedule [Word attachment]*).

Attachments

- *Part 1: Indicators to Inform the Budget Allocation Process (Word attachment) to be completed by members of the Council of Academic Deans)*
- *Part 2: 2007-2008 Proposed Budget Actions to Meet the Recurring Shortfall (Excel attachment)*
- *Part 3: 2007-2008 Proposed Budget Actions to Rebuild the Fund Balance (Excel attachment)*
- *Part 4 (a & b): 2007-2008 Proposed Budget Actions for Strategic Investments (Part 4a: Excel attachment; Part 4b: Word attachment)*
- *Campus Communication 2007-2008 Budget Planning Schedule (Word attachment)*