

MEMORANDUM

Date: December 8, 2006

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

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

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

RE: University Budget Planning 2007-2008

The purpose of this memorandum is to update the campus on the financial circumstances that impact our 2007-2008 budget planning process. This information becomes the starting point for developing our budget, using a process established last year by Vice President Desrochers and Provost Koch. This process emphasizes broad consultation across campus as well as comprehensive data and information gathering to inform our decisions.

Context for Budget Planning

Given that 2007 is the first year of a two year biennium for State funding, the Oregon University System (OUS) submitted its comprehensive two year budget proposal to the Governor's Office this Fall. In this proposal for a "foundational budget," OUS sought \$920 million, which includes anticipated revenues of \$82 million from tuition/fees and other sources as well as a substantial increase of \$188 million over the base budget.

The request for additional funding was meant to address concerns in areas such as faculty salaries, faculty/student enrollments, enrollment growth, and support for regional institutions as well as numerous programs such as ETIC and statewide public service programs. The proposal represented an aggressive attempt to reinstate state support for OUS institutions.

The Governor has now announced his budget recommendations after evaluating all agency proposals. The Governor has recommended a number of enhancements for the OUS including a \$40.7 million increase for all campuses' operations. The latter includes some funds for regional campuses, faculty salary increases, enrollment growth and faculty/ student ratios as well as energy costs. Additionally, the Governor has supported a significant amount of one time funds for deferred maintenance and capital projects.

Tuition and fees are proposed to be held at a 3.4% increase. Compensation increases for all employees will be handled separately as explained below. *(For further detail on the Governor's budget to go <http://www.oregon.gov/DAS/BAM/GRB0709.shtml>).*

The Governor's proposals will go forward to the Oregon State Legislature in January. From January until June, the Legislature will deliberate on the Governor's recommendations, making their own determinations, including the level of state funding support for the OUS as well as decisions about allowable tuition and fee levels.

As a result of this process and timeline, OUS institutions will not likely know the outcome of legislative deliberations before July 1, 2007. Once the legislative decisions are made, the Chancellor's Office will determine what the actual campus allocations will be, a process that could require a number of weeks.

Additionally, the state strategy for collective bargaining with SEIU and Portland State's strategy with its own bargaining units, AAUP and AFT, must be determined. Bargaining with SEIU usually starts early in the year, however, we have not yet been informed about the timeline or the manner in which negotiations will proceed at the state level. Portland State University usually begins its bargaining processes in March.

At the same time that the bargaining processes are underway the Legislature makes a determination about necessary compensation funds, however actual compensation allocations are usually held for a later action by the State Emergency Board. Compensation decisions, and whether the State provides adequate funds to cover those decisions, is the single most important factor in budget determination. We want to make special note of the fact that last biennium's compensation package (we are currently in the second year of that biennium), did not fully fund those costs.

Thus, as we begin the campus budget planning process, we have an incomplete picture of the major state revenue sources that will be available to the university. Still, it is necessary to prepare a budget plan. But this plan will, of necessity, contain some major contingencies and options for different levels of funding must be identified.

Budget Planning Process 2007-08

The objective of the campus budget planning process is to maximize the institution's ability to carry out its mission. Distribution of resources, whether in a tight budget climate or more robust climate, should reflect institutional goals and priorities. To achieve this we have commenced the budget planning process with an information and data collection effort this fall. **(See attached schedule).**

Also this fall, the Vice President for Academic Affairs/Provost commenced an academic priorities identification process for the next 3 to 5 years that will help inform this budgetary planning process. Consultation on this process, including the Council of Deans and other campus leaders is underway. Consultation with the faculty through a Faculty Symposium in January is planned.

Budget parameters and principles will be derived through this effort in addition to work with the Faculty Senate Budget Committee. By February, the vice presidents will begin deliberations on budget options. During the month of March there will again be consultations with the Council of Deans, Faculty Senate Budget Committee and other campus administrative leadership. Final recommendations, contingent upon actions of the State concerning the state appropriation, as well as tuition and fee levels, will be sent to the President for his review in late March. The president will make final decisions, still contingent on the state actions, in April. In mid May, the University Budget Office will provide information on preliminary (and contingent) allocations. Once the state process is finalized, the allocations will be made permanent.

Budget Process/Goals

The budget planning process will involve actions which are strategic investments as well as budget reductions or redirections in order to achieve the following goals:

Our first goal will be to address certain structural budget shortfalls that continue to influence the outcome of end of year closing. These structural deficits should be resolved so that programs are fully funded and budget management resides at the appropriate level. Incumbent in resolving these problems is the need to maximize the efficiency and productivity of class size, course offerings and scheduling.

A second goal will be to restore the fund balance to a safe level. This is necessary to stay within OUS Board policy, but more importantly to have a sufficient reserve to at least two months operations in the event of serious economic downturn, enrollment decline or other unforeseen situations.

A third goal will be to align budget decisions with the principles identified in the academic priority setting process. The University must make tradeoffs between programs and cannot maintain an open ended approach to program support given our limited resources. The academic planning process described above is intended to establish criteria for this purpose.

A final goal will be to address serious deficits in administrative support in many areas of the University. It is clear and widely understood that the administrative infrastructure of the University is insufficient to support the faculty, students and programs of the University and some areas are in critical condition.

Current Financial Status

At its November 2006 meeting, the Oregon University System (OUS) was briefed by the University System Controller on all campuses' financial circumstances. What was clear from this presentation is that all campuses are experiencing larger fund balance reductions than previously projected due to a variety of problems. Portland State University, similar to other campuses, projected a fund balance reduction that was not fully anticipated in April of last year.

At this time, the University financial projections anticipate a 2007 end of year fund balance shortfall in the range of \$4.4 to \$6.5 million. A reduction in this range could bring the University's fund balance down to approximately 8%. A 3% drop in the fund balance, would put us below our target of 10%, and dangerously close to the OUS minimum of 5%. Should the University make no changes in its spending patterns (and assuming no new costs), this would mean that the University would entirely spend down its fund balance in two years.

The University expected a \$1.5 to \$2 million shortfall as of late spring, 2006. However, despite the return of nearly \$1 million to the fund balance from Finance and Administration's Facilities division, the University's end of year closure indicated continuing shortfalls in a handful of programs for a net cost of approximately \$2.7. Additional requirements for various position and salary adjustments as well as a shortfall in anticipated enrollments account for another \$1.5 to \$1.7 million. Thus the overall reduction in fund balance by the end of this fiscal year is likely to be in the \$3.5 to \$6.5 million range. This shortfall must be restored. Furthermore, we are currently evaluating the 2008 expected resources and expenditures. Early indication is that there will be an imbalance (projected expenditures more than projected resources). This shortfall also needs to be addressed.

Next Steps

The University Budget Team will begin the consultation process with the Council of Deans and the Faculty Senate Budget Committee as well as administrative leadership in the coming weeks. Specific directions to academic and other administrative units will be sent directly from the appropriate Vice Presidents in the next two weeks.