



Budget Planning

PRESENTATION TO FACULTY SENATE – NOVEMBER 10, 2008

Economic Environment

- International financial crisis
 - The University budget includes investment as a revenue source
- State budget cuts this year totaling \$1.27 billion
 - Higher Education held mostly harmless
- October state revenues are bleak
 - Not likely the State can continue to afford to protect Higher Education

Threats to Revenue

- Student Demographics
 - The number of Ohio high school graduates will decline 10% in the next 10 years
 - We will have to attract a higher percentage of this declining population to just stay even
- Affordability
 - Endowment-funded scholarships depend on investment performance
 - Student loans more difficult to obtain
 - State economy threatens jobs and family income
- Tuition Caps and State Subsidy
 - Tuition caps are popular with the legislature and public
 - State's ability to maintain subsidy will be difficult given the budget crisis

Shortfall in the Current FY09 Budget

- Investment Income Shortfall
 - Athens budget assumes \$5.1M investment income
 - Advancement operations assume \$2.9M from foundation
- State Funding Reductions
 - \$300,000 impact on the Athens budget in Success Challenge
 - More significant cuts to line items in the Voinovich School and College of Osteopathic Medicine
 - State Investment in Instruction (SII) held harmless
- Potential for Additional Mid-Year Subsidy Reduction
- Position Freeze Designed to Generate Savings
- Planning Units Given Preliminary Savings Targets to Start Accumulating Contingency Funds

Threats for FY2010

- Investment Income Cannot be Assumed
- Potential for State Cut to Subsidy (SII)
- Likely Caps on Tuition Increases
- Poor Economy Could Affect Enrollments
- Continued Cost Inflation in Health Care and Utilities

Need for Planning

- Shortfalls in current FY09 budget must be addressed (probably continue into FY10)
- We will need to produce a balanced FY10 budget during a period of uncertainty
 - Economic outlook is uncertain
 - Governor submits executive budget in January
 - House and Senate versions follow
 - Final answers will not be available until June/July
- Prudent to create and analyze potential scenarios now rather than wait despite this uncertainty

Planning Groups

- Budget Planning and Analysis (BPA) – support group providing analysis and scenarios
- Vision Ohio Steering Committee (VOSC) – makes recommendations for future investments
- Budget Planning Council (BPC) – representative group providing recommendations for scenario construction and approaches for balancing the budget
- Executive Staff/Deans – Planning unit heads that must reconcile need for investment with impact of reductions needed to balance the budget

Scenario Building

- Revenue depends on enrollment – can we assume flat enrollment?
 - Declining number of high school graduates
 - Can students afford to attend?
 - Competition from lower cost community colleges
 - Access to financial aid
 - Rising room and board costs
 - Economy affecting family income

Scenario Building

- What revenue assumptions should be used?
 - \$8M reduction in investment-related income
 - Flat subsidy with an inflationary tuition increase (6% increase with 2.4% going to need-based scholarship)
 - 5% decrease in subsidy with 6% tuition increase
 - 10% decrease in subsidy with a 6% tuition increase

Scenario Building

- What Assumptions should be used for Expenses?
 - Salary increases (3% - 1.5% - 0%)
 - Health care inflation
 - Utility cost increases (Coal, Natural Gas, AEP)
 - Vision Ohio Investments
 - \$1.2M Faculty Compensation Investment
 - Additional Base Investments for Year 2
 - Debt Service on SIS/Network Upgrade
 - \$5.3M per year debt service
 - 50% from student fee, 50% from budget reallocation

Planning For FY2010 Budget

- BPC will be creating scenarios – these are for planning purposes to be fiscally responsible.
- Scenarios combining assumptions for declining revenues and choices related to expenditure increases result in deficits ranging from \$15 to \$38M.
- Deficits of this magnitude could not be handled by simply distributing reduction targets to all planning units as in the past.

Planning For FY2010 Budget

- These scenarios are models of potential events based on educated guesses and possibilities.
- FY10 budget uncertain until late in the year.
- Given the size of potential deficits, we could face tough decisions.
- We must begin planning now to maximize our ability to handle potential deficits should they occur.
- Planning is not meant to create fear or anxiety but rather to plan for contingencies we hopefully will not face.

Planning Group Activities

- Budget Planning Council (BPC) – Will attempt to finalize an initial set of scenarios in the next several weeks.
- Executive Staff/Deans – Starting a series of regular planning meetings to consider possible responses to large budget deficits.
- Planning Units – Will be using scenarios to look at revenue enhancement and expense reduction options.
- Constituent Group Senates – Encouraged to provide input through BPC representatives and planning unit heads.