



MEMORANDUM

To: Ohio University Faculty, Staff and Students
From: Office of Budget Planning and Analysis
Re: Overview of Budget Planning Efforts
Date: November 18, 2008

In light of continued economic uncertainties, the University Budget Planning Council and the executive leadership (President, Executive Vice President/Provost and the Executive Staff/Academic Deans) continue to refine plans to meet potential shortfalls that may occur in the current fiscal year and in the next biennial budget. This memo outlines the current state of these budget planning efforts.

Some information provided in this memorandum was contained in a presentation made to Faculty Senate and Student Senate last week and scheduled for presentation to Administrative and Classified Senate this week. The presentation materials are available online at:
<http://www.ohio.edu/finance/bpa/upload/111408FacultySenatePresentation.pdf>.

In constructing this document, we made every effort to provide complete, clear, concise information about the current budget situation. But, it is important to acknowledge that there are currently significant uncertainties relating to economic circumstances locally, nationally, and internationally. These uncertainties are not likely to change until near the end of this fiscal year in June 2009.

Despite this lack of certainty, planning must begin now to prepare for potentially tough decisions with potentially serious consequences. The discussions are not meant to create fear but rather to consider all potential options to maximize our ability to handle potential shortfalls should they occur. At this point, this is a planning exercise for contingencies that, hopefully, we will not face.

To address student concerns related to tuition and fees in the current academic year, we have had no indication from the state that the existing fee caps will change. Therefore, we do not anticipate and are not planning for any change in tuition and fees in the current (2008-2009) academic year.

Please continue to monitor your email over the break for the latest news and information on budget planning work.

Background

Nearly one year ago Ohio University began planning for budget shortfalls during the 2008 fiscal year. The Budget Planning Council and the Executive Staff/Academic Deans recommended a contingency plan in April 2008 to President McDavis which would have delayed raises and base budget Five Year Vision Ohio Implementation Plan (FYVOIP) investments. The goal of the plan was to delay base expenditures until a clearer budget picture emerged from the state. President McDavis approved that recommendation and carried it forward to the Board of Trustees.

The Board reviewed that recommendation, but determined that the University should move forward with the raises and all FYVOIP investments (see <http://www.ohio.edu/outlook/07-08/April/461.cfm>) as

top priorities. In so doing, the Board of Trustees requested a different approach to contingency planning focusing on cost saving measures such as strategic procurement and shared services, along with revenue generating initiatives through Lifelong Learning, and partnerships such as the initiative with Columbus State. Such a plan was developed during the summer. It focused on expenditure restrictions, cost savings, revenues from new academic programs such as the B.S.N. and targeted enrollment growth. Most of the restrictions, cost savings, and new revenues could not be realized immediately, but with bridging strategies, the plan offered the potential to meet anticipated shortfalls.

However, the economic outlook nationally and in the state of Ohio continued to worsen during summer 2008 (see <http://www.cbpp.org/1-15-08sfp.htm>). In September, the State of Ohio Office of Budget and Management reported that state revenue was \$192 million below estimates. Three days after the federal government seized control of Fannie Mae and Freddie Mac on September 7, Governor Ted Strickland announced additional state budget cuts (see, Outlook <http://www.ohio.edu/outlook/08-09/September/22.cfm>). It was clear that the University contingency plan developed over the summer would not sufficiently meet the potential budget shortfalls we might face as a result of a financial situation now acknowledged as an international crisis.

Fall Quarter Planning 2008

When 2008 Fall Quarter began, the Budget Planning Council, a body consisting of representatives from all of the constituent groups along with academic and executive leadership, began discussing the University's options for trying to balance its budget given various assumptions for changes in revenues and expenses.

The first order of concern was how to deal with shortfalls in budgeted revenue in the 2009 fiscal year. The Fiscal Year 2009 budget was built with the expectation that there would be \$5.1 million in investment income and \$2.9 million from the Foundation to support Advancement. This estimate was lower than the investment revenue budgeted the previous year. It has been the practice of the University in its past two years of budgeting to be conservative about projecting revenues.

The other significant source of revenue subject to uncertainties was the state share of instruction (subsidy) which under the second year of the biennial budget amounted to \$102 million for the Athens campus. The Governor protected this portion of the biennial budget from the cuts he announced in January 2008 and September 2008. With a strong likelihood of additional shortfalls in state revenue, universities around the state started to make plans to meet the challenges of a potential cut to subsidy (see <http://www.ohio.com/news/ap?articleID=969564&c=y>).

Ohio University Senior Vice President for Finance and Administration Bill Decatur and his staff recommended that the University prepare plans to meet a shortfall of up to \$13 million in budgeted revenue in the current fiscal year resulting from the loss of investment income resulting from the international financial crisis and the potential loss of subsidy related to the fiscal difficulties being faced by the state (see, Outlook <http://www.ohio.edu/outlook/08-09/October/129.cfm>).

Initially, planning centered on handling mid-year shortfalls in the current budget. To that end, a hiring freeze was instituted on September 19 to begin to bank funds in order to offset the \$8 million shortfall that had already occurred and a potential additional reduction of \$5 million primarily in subsidy (see, Outlook <http://www.ohio.edu/outlook/08-09/September/70a.cfm>). To determine how to spread these savings targets across planning units, several approaches are being discussed.

The first approach is to simply spread the reductions across all planning units using the methodology employed in previous years for budget reductions. This method creates differential targets that are lower for academic areas than academic support areas. This is done by shrinking the academic budgets subject to reductions by exempting a set of budget expenditures from the reduction calculation. These exemptions include: tenured/tenure-track faculty salaries; graduate tuition scholarships; stipends; tech fees; central pool and reserves; Vision Ohio investments; and other miscellaneous expenditures such as the instructional funds that are used to compensate Honors Tutorial College Faculty tutors. This approach creates reduction targets for academic units in the range of 3 to 4 percent and for academic support units in the range of 7.0 to 8.5 percent.

Planning units have been given these targets as a starting point for trying to set aside funds now that could be used to meet that target if the full reduction scenario should come to pass (<http://www.ohio.edu/finance/bpa/upload/102408-Reduction-Analysis.pdf>). Since these targets are for one-time funds, planning units can use any available resources including carry forwards, expense reductions or savings from positions that become vacant during the year. These funds will be accumulated within the planning units rather than pulled centrally so that if the full reduction scenario does not occur, the funds will remain within the planning unit.

The second approach is to monitor the distribution of savings from positions that become vacant during the year. These savings will be randomly distributed and some positions will need to be refilled because of their essential nature. Therefore, these savings will not be evenly distributed across planning units. In addition, carry forward funds are not equally available in different planning units. This will create differential abilities for planning units to meet the targets established above and at some point we may need to consider adjusting the targets in relation to where the savings are the greatest.

The final approach is to prioritize the various functions and programs across planning units and protect those that are considered to be higher in priority. The final decision will consider all of these approaches to some extent.

Planning for the Fiscal Year 2010 Budget

Beyond the immediate issue of mid-year reductions to the current budget, the more critical planning issue facing the University is the outlook for the 2010 fiscal year budget. On the revenue side, current shortfalls in investment income are expected to continue; net revenues (tuition actually paid after waivers) from graduate programs have declined; continued problems with the state budget continue to threaten subsidy; the population of high school graduates in Ohio will now start to decline; and the credit crisis may affect the affordability of college. On the expense side, health care costs will continue to inflate, utility costs are increasing, and compensation increases require additional revenues to fund.

The Budget Planning Council is currently beginning to model the effects of combinations of these various revenue and expense assumptions on the budget. When constraints on tuition increases, both from the state and the ability of students to pay, are combined with the potential loss of subsidy from a state that is experiencing significant budget constraints and the pressure of increases in compensation, health care and utilities, the budget shortfall quickly escalates beyond \$35 million. The Budget Planning Council will provide advice on the creation of a series of these potential scenarios for planning purposes.

Potential scenarios of this magnitude cannot be handled simply by distributing reductions across all planning units. Since the executive leadership (President, Executive Vice President/Provost and Executive Staff/Academic Deans) represents the group that would have to implement any budget

reductions, they will begin a series of meetings in November that will look strategically at the functions and programs across the University. This group will approach the issue of potential reductions using a process similar to the one used to prioritize the investments made in the first year of the Vision OHIO implementation.

As with the planning around potential reductions to the current budget, the scenarios for the 2010 fiscal year are modeling potential events that will be uncertain until the end of the 2009 fiscal year. Despite this uncertainty, it is important to create strategic priorities that will allow the University to focus increasingly limited resources. This prioritization will require all options to be fully considered and potentially require bold decisions to position the University to move beyond the constant cycle of budget reductions regardless of the magnitude of reductions that we might face in the next biennium.

As we move forward, we have set the following target timeframes for our Fiscal Year 2010 budget planning work:

- **November 2008**
 - University Budget Planning Council begins detailed review of centrally budgeted items.
 - University Budget Planning and Analysis provides guidance to planning units to build budget scenarios.
 - Planning unit heads and Budget Unit Managers complete analysis of unit savings from vacancies, carry-forward planning for Fiscal Year 2009 contingency planning.
- **December 2008 through February 2009**
 - Planning unit heads and Budget Unit Managers prepare reduction scenarios for Fiscal Year 2010.
 - University Student Fee, General Fee and Internal Fee Committees meet to develop inventory of fees along with recommendations for fees for next academic year.
- **January 2009**
 - University planning units submit preliminary budget reduction plans to Budget Planning and Analysis.
 - Governor Strickland presents his proposal for the state's next biennial budget (Fiscal Years 2010 and 2011).
- **March 2009**
 - University Student Fee, General Fee and Internal Fee Committees make recommendations to Budget Planning Council.
- **April 2009 through June 2009**
 - Ohio General Assembly and Governor Strickland finalize state's biennial budget.
 - University Budget Planning Council submits recommendations for Fiscal Year 2010 budget to President McDavis for review.
 - President McDavis finalizes recommendation.
 - President McDavis submits recommendation to Board of Trustees for action.
 - Board of Trustees approves 2010 fiscal year budget.
- **July 2009**
 - Fiscal Year 2010 begins.