Furlough and Finance at UAizona in the Wake of Covid-19: Follow-Up Report

Presented by the General Faculty Financial Advisory Committee (GFFAC)
With Input From

- Ravneet Chadha, Executive Director of University Analytics & Institutional Research
- Liesl Folks, Senior Vice President for Academic Affairs and Provost
- Don Lukes, Indiana University Treasurer
- Garth Perry, Vice President & Chief Budget Officer
- Helena Rodrigues & members, Workforce Working Group, FSERT*
- Robert C. Robbins, President
- Lisa Rulney, Senior Vice President for Business Affairs and CFO
- John Sullivan, University of Michigan Treasurer
- Kasey Urquidez & members, Students Working Group, FSERT*
- Susan Wiedemer, Pennsylvania State University Assistant Controller
- Faculty Senate

*Financial Sustainability Emergency Response Task Force Teams
GFFAC Members

- Brian Berrellez - SPBAC/APAC/Staff (CALS)
- Scott Cederburg – Faculty (Eller)
- Ravi Goyal – Senator/Faculty (CALS)
- Ron Hammer – Senator/Faculty (CoM-P)
- Mona Hymel – Senator/Faculty (Law)
- Marcia Klotz – CAJUA/Faculty (SBS)
- Guadalupe Lozano – Faculty (CoS)
- Farid Matuk – CAJUA/Faculty (SBS)
- Ruth Oropeza – Graduate Student (SBS)
- Christina Rocha - Staff (RII)
- Jessica Summers – CoF/Faculty (CoEd)
- Russ Toomey – CAJUA/Faculty (CALS)
- Mayela Trevino - Staff (CoEd)
Furlough Plan Announced

- General Assembly Votes to delay furlough until September
- Furlough is delayed until August 10

GFFAC Timeline

- GFFAC is formed
- GFFAC presents at Senate
- GFFAC submits report to administration

- GFFAC attends SPBAC meetings
- Furlough continues as planned by administration
- ABOR allows for universities to pursue line of credit

- GFFAC plans additional meetings with FSERT
- Fall census reports enrollment
- Contract renewals are issued reflecting reduced salaries

Furlough Plan Adjusted
GFFAC: Where are we now?

OCTOBER

- Moody’s issues Aa2 bond rating
- GFFAC meets with President Robbins, Provost Folks, & CFO Rulney
- Based on census data and net tuition revenue, furlough is shortened

NOVEMBER

- Academic and support units receive their new budgets
- ABOR approves legislative package that includes budget for COVID relief, increased state appropriations for universities, and ability to seek system-wide century bonds for opportunities and initiatives funding

December Senate
- GFFAC Follow-Up Report
Presentation Overview/Outline

• Reflection of Covid-19 Impact on Reactionary Budgeting in FY21
• Outlook for Cautionary Budgeting in FY22
• Strategic Budgeting and Finance Recommendations Moving Forward
• Update on Shared Governance
How Budgetary Decisions in FY21 Can Inform Better Practices FY22 and Beyond

FY21 Reactionary Budgeting

• Adjustments pre-Covid based on tuition discounting exposes the University to radical shortfalls that cannot be anticipated or mitigated without serious disruption to our operations.

• Financial mitigation strategies during Covid focus on maintaining cash-on-hand by using estimated projections and drawing money primarily from employee salaries.

• With the shortening of the furlough, many colleges and academic support units are being required to use existing reserves and/or borrow money from other units to cover deficits, thus having the following effects:
  ✔ Reducing university cash on hand
  ✔ Limiting units’ ability to invest in academic programming for current/future students
  ✔ Forcing some units to consider employee layoffs in FY21 and FY22

• Quick decisions left major stakeholders (including shared governance) out of the conversation.
Actual Tuition Loss: ~$55M (40% improvement)

<table>
<thead>
<tr>
<th>Description</th>
<th>Actuals FY20 (3 mos)</th>
<th>Projected COVID IMPACTS FY21 (12 mos)</th>
<th>Total (15 mos)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td></td>
<td></td>
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<td>Tuition and Fee Revenue (NET)</td>
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<td></td>
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<td>In-State Students</td>
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<td>Out of State - Domestic Students</td>
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<td>Arizona Online</td>
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</tr>
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<td>All Other Tuition and Fees</td>
<td>-$7,894,000</td>
<td>-$3,600,000</td>
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</table>
## October: Projected Loss

### updated 10/9/20 - Estimated Impacts Resulting from COVID-19 Crisis

**University of Arizona**

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<tr>
<td>Investment Income</td>
<td>-$17,165,000</td>
<td>-$17,493,000</td>
<td>-$34,658,000</td>
</tr>
<tr>
<td>Philanthropy</td>
<td>-$8,383,000</td>
<td>-$8,383,000</td>
<td></td>
</tr>
<tr>
<td>Auxiliary Revenues: Housing, Student Union, Bookstores, etc.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Parking, Campus Health, and Campus Recreation</td>
<td>-$15,223,000</td>
<td>-$68,727,000</td>
<td>-$83,950,000</td>
</tr>
<tr>
<td>Intercollegiate Athletics</td>
<td>-$48,900,000</td>
<td>$0</td>
<td>-$48,900,000</td>
</tr>
<tr>
<td>Facilities and Administrative Cost Recovery</td>
<td>$0</td>
<td></td>
<td>$0</td>
</tr>
<tr>
<td>Department Sales &amp; Service and Conferences</td>
<td>-$5,800,000</td>
<td>-$5,800,000</td>
<td></td>
</tr>
<tr>
<td><strong>Estimated Revenue Impact</strong></td>
<td>-$40,282,000</td>
<td>-$186,003,000</td>
<td>-$226,285,000</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increased costs for online support for students, faculty, and staff COVID Protection Measures</td>
<td>-$1,497,000</td>
<td>-$20,000,000</td>
<td>-$21,497,000</td>
</tr>
<tr>
<td><strong>Estimated Expenses Impact</strong></td>
<td>-$1,497,000</td>
<td>-$20,000,000</td>
<td>-$21,497,000</td>
</tr>
<tr>
<td><strong>Total Projected COVID-19 Financial Impact</strong></td>
<td>-$41,779,000</td>
<td>-$206,003,000</td>
<td>-$247,782,000</td>
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</tbody>
</table>
Revised Budget Still Leaves a Deficit

- Total enrollment numbers are up
- But, total revenue is down year-over-year due to the composition of types of tuition being paid by students

Total enrollment for last 10 years:

<table>
<thead>
<tr>
<th></th>
<th>Fall 2011</th>
<th>Fall 2012</th>
<th>Fall 2013</th>
<th>Fall 2014</th>
<th>Fall 2015</th>
<th>Fall 2016</th>
<th>Fall 2017</th>
<th>Fall 2018</th>
<th>Fall 2019</th>
<th>Fall 2020</th>
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<tbody>
<tr>
<td>Graduate Students</td>
<td>7,083</td>
<td>7,162</td>
<td>7,443</td>
<td>7,720</td>
<td>7,817</td>
<td>7,946</td>
<td>8,106</td>
<td>8,334</td>
<td>8,423</td>
<td>8,585</td>
</tr>
<tr>
<td>First Professional Students</td>
<td>1,488</td>
<td>1,496</td>
<td>1,508</td>
<td>1,529</td>
<td>1,539</td>
<td>1,607</td>
<td>1,602</td>
<td>1,650</td>
<td>1,694</td>
<td>1,844</td>
</tr>
<tr>
<td>Total</td>
<td>39,236</td>
<td>40,223</td>
<td>40,621</td>
<td>42,236</td>
<td>43,088</td>
<td>43,625</td>
<td>44,831</td>
<td>45,217</td>
<td>45,918</td>
<td>46,932</td>
</tr>
</tbody>
</table>
Source of Tuition Revenue

**Main Campus Undergraduate Enrollment Only**

<table>
<thead>
<tr>
<th>First-Year Students</th>
<th>FY2020</th>
<th>FY2021</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resident</td>
<td>5,604</td>
<td>5,432</td>
<td>-3.1%</td>
</tr>
<tr>
<td>Non-Resident</td>
<td>3,147</td>
<td>2,749</td>
<td>-12.6%</td>
</tr>
<tr>
<td>International</td>
<td>499</td>
<td>153</td>
<td>-69.3%</td>
</tr>
<tr>
<td><strong>Total Students</strong></td>
<td><strong>20,364</strong></td>
<td><strong>20,158</strong></td>
<td><strong>-1.0%</strong></td>
</tr>
<tr>
<td>Resident</td>
<td>20,364</td>
<td>20,158</td>
<td>-1.0%</td>
</tr>
<tr>
<td>Non-Resident</td>
<td>8,732</td>
<td>8,515</td>
<td>-2.5%</td>
</tr>
<tr>
<td>International</td>
<td>2,073</td>
<td>1,541</td>
<td>-25.7%</td>
</tr>
</tbody>
</table>
Impact of Tuition Discounting

- These data represent tuition (not fees) for all undergraduate, main campus students enrolled and paid at fall census
- Institutional aid includes merit and needs-based aid
- Arizona Online revenue is NOT included in this NTR calculation

<table>
<thead>
<tr>
<th>Residency</th>
<th>Student Count</th>
<th>Tuition Revenue</th>
<th>Institutional Aid</th>
<th>Net Tuition Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resident</td>
<td>20,158</td>
<td>$103,751,132</td>
<td>$59,112,546</td>
<td>$44,638,586</td>
</tr>
<tr>
<td>Non-Resident</td>
<td>8,515</td>
<td>$131,036,449</td>
<td>$46,680,104</td>
<td>$84,356,345</td>
</tr>
<tr>
<td>International</td>
<td>1,541</td>
<td>$25,012,573</td>
<td>$4,453,701</td>
<td>$20,558,872</td>
</tr>
</tbody>
</table>
History of Tuition Discounting

- Year-over-year data on revenue and tuition discounting

<table>
<thead>
<tr>
<th>Revenues</th>
<th>FY08</th>
<th>FY09</th>
<th>FY10</th>
<th>FY11</th>
<th>FY12</th>
<th>FY13</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
<th>FY17</th>
<th>FY18</th>
<th>FY19</th>
<th>FY20</th>
<th>FY21 Proj.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuition &amp; fees</td>
<td>327,051</td>
<td>377,354</td>
<td>469,086</td>
<td>537,436</td>
<td>586,932</td>
<td>644,756</td>
<td>670,322</td>
<td>749,413</td>
<td>805,144</td>
<td>854,294</td>
<td>867,563</td>
<td>890,558</td>
<td>911,407</td>
<td>911,300</td>
</tr>
<tr>
<td>Net Tuition and Fees</td>
<td>231,536</td>
<td>269,447</td>
<td>329,586</td>
<td>379,199</td>
<td>410,507</td>
<td>461,580</td>
<td>484,809</td>
<td>554,767</td>
<td>608,679</td>
<td>653,726</td>
<td>653,519</td>
<td>658,090</td>
<td>644,352</td>
<td>623,400</td>
</tr>
<tr>
<td>Discount</td>
<td>29%</td>
<td>29%</td>
<td>30%</td>
<td>29%</td>
<td>30%</td>
<td>28%</td>
<td>28%</td>
<td>26%</td>
<td>24%</td>
<td>23%</td>
<td>25%</td>
<td>26%</td>
<td>29%</td>
<td>32%</td>
</tr>
</tbody>
</table>

Discount Rate

![Discount Rate Graph](image-url)
Mitigation Will Not Cover FY21 Deficit

• Previous mitigation strategies:
  ✓ Furlough/Flex program ($55M); wage freeze ($20M); hiring freeze; strategic plan halt ($58M); postpone capital projects ($22M), CARES act funding ($15M)
  ✓ All of the above are ONE TIME ONLY sources of cash – there will not be a furlough in FY22

• Updated mitigation strategies include:
  ✓ Refinancing: UArizona has refinanced a bond payment due in December 2020, which allows for short-term access to $19M that can be repaid later. At least half of this money will be designated for auxiliary relief
  ✓ Consultants: Public Financial Management (PFM) has been appointed to evaluate the pros and cons of outsourcing auxiliaries at UArizona, starting with Facilities Management and the Bookstores
  ✓ State Relief: ABOR will go to the legislature asking for up to $75M for FY21
How Budgetary Decisions in FY21 Can Inform Better Practices FY22 and Beyond

**FY22 Cautionary Budgeting**

- ABOR intends to push legislation on the following issues:
  - ✓ Obtain an increase in UArizona state appropriated budget (FY21 = $280M) for FY22 (additional $110M)
  - ✓ Propose change to state statutes to include century bonds for innovative and strategic investments (not operational expenses)

- University of Arizona Leadership has decided not to apply for a line of credit (LOC) at this time for the following reasons:
  - ✓ Existing cash balances have been used to offset losses, and a LOC will only be considered if we run low on cash
  - ✓ ABOR members have discouraged Arizona Universities from using LOCs to pay for operating costs
  - ✓ No other Arizona state entity has applied for LOCs as a Covid-19 financial mitigation strategy
  - ✓ Obtaining and using LOCs to cover operational costs may affect UArizona’s credit rating and/or relationship with state legislature

- When we talk about shrinking the University of Arizona, where are the cuts going to be made?
How Budgetary Decisions in FY21 Can Inform Better Practices FY22 and Beyond

FY22 Cautionary Strategic Budgeting

Other universities are actively using debt markets, including issuing bonds, issuing commercial paper, and using lines of credit to cover Covid-19 related costs. New lines of credit for COVID-related relief are being used at the following institutions (among others)

• **University of Michigan** has taken out three lines of credit for operating expenses at different repayment terms (2, 3, and 4 years)

• **Penn State University** has taken a $250M line of credit for operating expenses with a three year repayment term

• **Indiana University** brokered a $600M line of credit for operating expenses as a syndicate deal with JP Morgan with terms of one year repayment (refinancing will allow additional time for repayment flexibility)
Recommendations: Short-Term Mitigation

1. Provide formal feedback to the university community on specific recommendations that were considered/not considered with accompanying rationale from the original GFFAC Report

2. Apply for a system-wide line of credit for all three Arizona universities to help University of Arizona with operating expenses and debt accrued by auxiliaries, or provide formal feedback on why this option wasn’t chosen

3. Use supplemental relief from state legislature or Congress to cover academic and support unit losses due to decreases in NTR* for FY21

4. Create a budget model for FY22 that optimizes employment retention with financial efficiencies

*Net Tuition Revenue (NTR)
Recommendations: Long-Term Mitigation

1. Modify/truncate tuition discounting models for future recruiting, and require admissions to include colleges as partners in strategic decision-making

2. Use land grant mission and academic reputation to recruit students; improved rankings could make admissions more competitive for Arizona students who are historically disadvantaged

3. Evaluate operational efficiencies and redundancies within and between units

4. Work with a variety of stakeholders and shared governance groups to reassess the value and restructuring of Responsibility Centered Management (RCM) and Activity Informed Budgeting (AIB)

5. Use furloughs, pay reduction, and employee layoffs as the LAST strategy for dealing with financial exigency rather than the FIRST; if a layoff program is established, a process for transparent and equitable performance evaluations needs to be in place beforehand
Investment in Core Mission

- Application rates are currently climbing
- Demographic trends suggesting fewer future applicants – Existential Threat for all universities
- Shrinking applicant pools can trigger a consolidation of the higher-ed marketplace, with larger, well-regarded universities left to reap a larger market share
- Fewer freshmen will NOT have fewer interests
- Invest now across our disciplinary spectrum to attract varied interests of all future applicants
Leadership Through Solidarity

In ABOR's recent review, they granted Robbins a $100K bonus for meeting a number of at-risk enterprise metrics: research expenditures, graduates from high-demand programs, university initiatives, and improved rankings. We are concerned that these metrics reward one individual for the labor of the entire university community. Moreover, at a time when the president and Senior Leadership Team have required that very community to make major sacrifices, we are concerned that the president receives a monetary reward for services performed by those who have taken a pay cut or been laid off.
President Robbins could donate his bonus to:

- Campus Food Pantry (or other local food bank)
- Student Emergency Fund
- Presidential Scholarship for DACA students
- Campus Cultural Centers
- Native SOAR
- COBA
- Bonuses for Essential Workers on Campus
- PPE
Updates on Shared Governance

Recommendations from GFFAC's July Report

1. The University of Arizona Executive Leadership Team adopt and distribute widely a formal statement of the respective roles and responsibilities of the governing board, administration, and faculty in decisions about the institution’s budget.

2. Faculty who serve on budget committees (e.g., SPBAC) have “access to all the information” they require to carry out their tasks effectively.

3. The University of Arizona Executive Leadership Team prepare a roster of faculty members who are experts in various facets of budgeting, finance, and related higher education policies.

4. The University of Arizona Executive Leadership Team develop ways to encourage faculty interest in serving on budget committees and reward such service.

5. The University of Arizona Executive Leadership Team prepare regular reports on the effectiveness of their mechanisms for reaching budgetary decisions with the goal of improving them (e.g., regular updates from FSERT committees to Faculty Senate).
Thank you! Questions?