Minutes
Wednesday, July 1, 2020
9:00-10:30am via Zoom


Absent: M. Burke, J. Jones, S. Keim, I. Kron, J.P. Roczniaik, K. Whisman


Presenters: Farid Matuk, CAJUA Representative; Lisa Rulney, Senior Vice President and Chief Financial Officer

Call to Order
Co-Chair Helm called the meeting to order at 9:00am

Approval of the Minutes of June 3, 2020
The June 3, 2020 minutes were approved.

Update on the Delay of the University Furlough/Pay Reduction Program
President Robbins updated the committee on delay of the implementation of the furlough/salary reduction program and stated he was looking forward to working with shared governance bodies for further transparent discussion of furlough decisions and financial matters. He addressed perceptions of mistrust of administrators and stated the decision to delay the furlough program will not hurt those who decided to take furlough days early. He noted that, as a result of the delay, short falls for colleges may occur when budgets are determined. Robbins informed the committee that reserve funds are not held by central administration, but are reserves held by each college. He added if the trend in COVID-19 cases continued to rise, there may be larger drops in revenue from out of state and international student tuition.

1 Questions asked on chat that remained unanswered during the regular meeting were forwarded to the relevant presenters for follow-up reports and answers. Presenters’ resulting answers are marked as “follow-up” in the minutes.
Statement from Coalition for Academic Justice at UArizona (CAJUA), Farid Matuk

Matuk provided a statement to the committee regarding CAJUA (Coalition for Academic Justice at the University of Arizona) and the presentation from Dr. Bunsis. Matuk acknowledged the delay of the furlough plan as announced by President Robbins and expressed the commitment of CAJUA in finding comprehensive approaches to UA’s financial challenges. He provided an overview of the makeup of CAJUA (nearly 500 members involving graduate and professional students, staff, faculty from a diverse range of colleges). He stated the purpose of the coalition was to meet both the challenges posed to UA due to COVID-19 and those that will be present once the virus is under control in a manner that was transparent, inclusive, compassionate and fact-based. Matuk stressed the importance of solidarity across different positions to preserve the University’s ability to carry out responsibilities as a land-grant institution, as a newly designated Hispanic-Serving Institution, and as a major RI public flagship University residing on the traditional territory of the Tohono O’odham and Pascua Yaqui Nations.

Matuk described how the Bunsis analysis was contracted in an attempt to receive an independent analysis of UA’s financial position in absence of granular data from the public presentations given by the Executive Leadership Team.

Matuk outlined guiding principles CAJUA hopes will guide collaboration with administrators going forward, including:

- Establishing the University’s deficit using current and most granular data available.
- Seeking a comprehensive savings plan that immediately halts ongoing layoffs and non-renewals.
- Seeking a more progressive savings approach that reduces reliance on squeezing savings from employee compensation during a time of widespread vulnerability.

Matuk strongly encouraged exploring the possibility of debt-financing and expressed that, when discussing UA’s reserves, the intention is not to liquidate assets or investments, or sweeping money from colleges and departments. He stated financial analysis completed by CAJUA suggests UA holds $805m in unrestricted assets after adjustment for pension liability and the large net reserve position is the reason for UA’s high credit rating. He shared a scenario of floating $70-80m in bonds to bring UA in line with peer institutions and stated such a scenario would reduce our net unrestricted financial asset by less than 10% and would have a negligible impact on UA’s credit rating. He also responded to concerns raised by Deans and Department Chairs regarding funds being encumbered within colleges/departments by stating that the Bunsis analysis accounted for this money as separate and restricted, non-expendable asset totaling $175m in 2019.

Presentation: Financial Analysis of the University of Arizona prepared by Dr. Bunsis, Lisa Rulney, Senior Vice President and Chief Financial Officer

Rulney presented to the committee regarding the financing of the UA mission and offered responses and clarifications to the financial assessment presented by Dr. Bunsis. She stated Dr. Bunsis based his assessment on comprehensive financial reports from 2019, thus not representing current financial status of UA.

Shared Goals: Rulney presented shared goals for both the University and for individuals including continuing to exist well into the future, delivering high-quality education, and producing world-class research. She stated individuals want to deliver positive impacts to the community, be respected regardless of their role at UA, and be part of a just and equitable community.
Looking Back v. Looking Forward: Rulney explained the differences between financial reports and the budgeting process. She provided details on the Comprehensive Annual Financial Report (CAFR) and the All Funds Operating Budget (AFMY). She said all UA financial statements are in compliance with established government standards and statements are audited annually by the Arizona Auditor General with exemplary results. Rulney clarified institutional support in context of the all the different types of spending on campus. She provided data from 2015-2019 to indicate how data have changed over time.

Tomorrow’s Forecast: Rulney reiterated the severity of the current budget crisis and referenced previously shared information with SPBAC (and through townhalls) about the impact of the Coronavirus on the University. She shared with the committee updated information about the projected effect on fiscal year 2021, noting revenues are expected to decrease from $150m to $197m from July 1, 2020 to June 20, 2021. Rulney also shared projections of the state budget, stating the budget is not finalized. The “skinny budget” of FY20-21 removed one-time funding of $9.5m and increased the University’s proportional share of health insurance trust fund by $11m. She hoped the “skinny budget” would hold and there would be only a $21m hit to the budget. She also mentioned the “skinny budget” was viewed as the floor, not the ceiling by legislators, and Rulney will provide more details as more information is learned.

Rulney said there is an expected $38m loss that is the sum total of what is expected in terms of giving/philanthropy. She stated after the 2008 mortgage crisis, UA experienced a 15% drop in giving. She is forecasting a $30m gain in investments in FY21 but cautioned that aspects of the portfolio will not produce gains as expected.

Cashing Out: Rulney provided a response to ideas the University holds a reserve fund of roughly $800m that could be spent freely in place of a furlough. She stated this was not true and the University does not have a reserve fund. Rulney provided details of the unrestricted assets, indicating this represented total net operating cash including day-to-day items such as payroll, benefits, travel, facilities. Before the pandemic, UA paid $165m in expenses monthly. She said that UA is spending operating cash to offset the effects of the crisis, but not enough to insulate from significant losses. According to Rulney, operating cash has fallen significantly. On June 6, 2020 UA had $669n in operating cash, down from $824m held 1 year ago. She said that operating cash is distributed across academic and support units and it was planned to use furlough savings to sustain as much of operations as possible.

Rulney showed a chart of operating cash trends from FY19 to FY20 and indicated the University has already spend down $125m. She stated the importance of holding onto operating cash with international enrollment anticipated to drop by 40% and the University will end the year with 4 months of cash on hand.

Rulney provided an explanation of how cash flows through the institution and noted the importance of weathering months when revenue is not collected but expenses are still required. She gave an overview of trends in cash on hand, indicating the times when the University was dangerously low in 2009 and 2010. Past decreases in cash on hand were related to jumpstarting the University’s strategic plan. She noted the cash on hand requirements are set by Regents. Since the start of the pandemic, Rulney said we are using cash much faster because revenue has dropped. In regard to auxiliary units, Rulney said the University’s financial statements roll-up all financial activity, so losses decrease cash on hand as an institution. She added a drop in UA’s credit rating could cost up to 35 basis points, with each basis point equal to $200,000 or a total of $14m.
Bonds: Rulney provided information on why issuing bonds cannot replace a furlough, stating that bonds may only be sold for capital projects. She said UA is unable to sell bonds for anything longer than a 40-year term and this requirement was set by state statute and required legislative action to change. She provided an overview of limitations set on how the UA bond portfolio may be restructured and indicated ABOR sets regulations on refinancing.

Tuition Mix: Rulney shared news about the volume of enrollment, indicating it may not be as low as expected. However, she explained the mix of in-state, out of state, and international enrollment will have a significant impact on revenue. She detailed how enrollment and net tuition revenue are correlated, with a dependence on non-resident and international students. Rulney shared that changes to the tuition mix are reflected in changes to revenue which lead to budget reductions to all units on campus.

Wildcat Enrollment Journey: Rulney explained the correlation between potential students who attend orientations and those who attend classes. She said the orientation cancellation rate this year had reached 13-16%. Orientations are now virtual so she was not certain how to interpret the data. She also added students admit incentives encourage them to hold out until the last minute to register. She said students currently may register without financial liability. Rulney indicated a -9% change for domestic non-resident undergraduate student orientations over last year and -41.7% change for international undergraduate student orientations.

Rulney stated that the furlough program can be adjusted as more information from net tuition revenue is known.

She said non-resident fall registration increased 1% over FY19 and international registration had decreased 16% over FY19. Rulney reiterated there was no financial liability for students to register for classes at this time, there was no liability to cancel or late fees until classes start. She added these registration numbers will not be certain until the census date of September 13, 2020.

Comprehensive Mitigation: Rulney addressed alternatives to the furlough savings plan and stated projected savings are a range which will continue to change with the pause to the furlough plan. Rulney responded to concerns that the UA furlough plan was larger than other institutions. She said this was true, but that UA must solve a larger problem including a flattening revenue curve. She stated this did not mean there will not be layoffs, but an institution wide layoff program had not been implemented. She added auxiliaries have been forced to contract with revenue cut off when campus closed, and this may lead to job losses. In regard to the CARES Act, Rulney stated she mentioned in town hall meetings UA has access to $31m in emergency aid with $4.6 directed to students so far. She said there were restrictions on what CARES Act funds could be used for including offsetting revenue losses, offsetting refunds to students, and covering costs associated with pivoting to online instruction.

Rulney concluded her presentation by pointing out information resources available such as reports on the Financial Services website. She stated the Office of Budget and Planning had resources and plans and UAIR had information including an interactive factbook. Rulney welcomed input from shared governance groups.

Presentation Questions and Discussion: Co-Chair Helm discussed with Rulney the perceived need for transparency in financial planning, the difficulty faculty have encountered in finding information, and layoffs. Rulney agreed more communication was necessary and expressed the need for faculty to hear from Business Affairs
when there isn’t a budget cut. In regard to layoffs, she stated the goal was to protect as many jobs as possible but added that budget issues may lead to layoff decisions on a local level. She added it was irresponsible to say there will not be more job losses, given that 63% of UA expenses are personnel and related benefits.

Committee member Liverman asked for clarification regarding the percentages of reserves situated in colleges and other sectors. Rulney responded that reserves are kept in colleges, departments, support units, and auxiliaries with approximately 50% of reserves in academic units. She added departments and colleges will need reserves to manage budget cuts from the impact of COVID-19. Liverman asked if reserves are not being used for the next payroll will those funds be rolled into investments? Rulney replied that fund balances in accounts make up the cash UA has on hand and are invested in short-term, low-risk investments. Rulney added investment income from operating cash is used to fund the strategic plan, but the investment income is not enough to cover the strategic plan. She confirmed as the strategic plan is cut, funds will be put toward deficits. President Robbins suggested some colleges have good cash reserves and funds will not be swept centrally. He added decisions need to be made locally, funds are invested collectively, with returns going back to units.

Co-Chair Brummund asked Rulney about next steps. Rulney responded she had conversations with CFOs from ASU and NAU to ask Regents in August for the ability to refinance/restructure debt payments in order to push off principle and extend the life the portfolio. She expected this to allow for more cash when it is needed. She also stated she is working with Regents to lobby the Legislature to make changes but was unsure of the timeline.

Committee member Liverman asked if UA had permission for a commercial loan at a higher interest rate. Rulney deferred to James Florian to answer. Florian stated operations could not be financed and the instrument of financing was not the critical point. He added the state wants to avoid UA entering into a position of always having to finance operations. President Robbins added he had been working with Governor Ducey and Regents to explain the financial situation and was optimistic working with ASU and NAU would lead to relief on paying principle of bonds. Rulney added in a previous conversation with Moody’s UA was close to a lower bond rating and restructuring of the portfolio will change the University’s credit rating (leading to increased costs for operational and capital projects).

Committee member Ayoun asked how the University meets its daily expenses in the summer when tuition revenues are lower. Rulney responded by explaining the importance of having cash on hand during spikes in revenue and also during months when there is not enough inbound revenue to cover expenses.
Follow-up Presentation Questions and Discussion:

Received prior Lisa Rulney’s presentation on July 1.

1) UA has the first and most extreme furlough plan in the country - why are we so out of step with peer institutions? Other universities have NOT followed suit.
   a) We do not concur with this characterization. We know from emerging public reports that most of our peers are experiencing equivalent losses. However, the fact is that we do not have specific details on other Universities’ programs to mitigate those losses, and they are less transparent about the options they are choosing to implement. Our program response is structured to mitigate the projected financial losses for the University of Arizona while preserving as many jobs as possible. The Furlough and Furlough-Based Salary Program will be reevaluated in both October 2020 and March 2021 to enable opportunities for adjustment based on the actual versus projected losses.

2) According to the report, we are in a solid, financially sound situation in that we have reserves - now is the time to activate them to avoid furloughing and layoffs.
   a) UA financial statements appear worse because, unlike other universities, UA did not make the adjustments suggested after the financial audit by the bond agencies. One critical adjustment they did not make was in regard to UNRESTRICTED NET ASSETS. In the UA financial report, they reported a negative $130 million, where in reality we have over $800 million in unrestricted net assets. If we did have such a deficit in the unrestricted net assets, we wouldn’t have the rating that we have from bond agencies.
   b) The main financial issue identified in the analysis is a declining cash flow for the university. However, we have been and continue to report positive cash flow. The two main bond agencies noted the decline but agreed that this decline will likely change so it did not impact our rating.
      i) While outside groups (e.g., credit agencies) often look at our financial reporting information with select pieces added/removed to better suit their purposes, the manner of our financial reporting is dictated to us. We’re proud that credit agencies were so impressed with our leadership, our organization, and the potential of the strategic plan that they awarded our rating at its current level.

Financial statements are designed to create consistency among organizations and institutions - of precise, retrospective reporting for use by investors, creditors, regulators, and tax authorities.

Financial statements are governed by a set of standards: ours (as a governmental agency under the State of Arizona) are called the Governmental Accounting Standards Board (GASB) - nearly a hundred specific methods for reporting on our financials, from revenue to net position to pension liability. GASB reviews/updates its standards on a regular basis, for example, the 2015 requirement to start including Pension (aka ASRS) Liability and the 2018 requirement to include Other Post-Employment Benefits (OPEB).

Each year, the State hires an actuary to review our population – and each year the actuary produces and then the State provides us with a number which we must place...

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2 Follow-up questions were received and incorporated into the minutes on 09-01-2020.
into a specific spot in our Comprehensive Annual Financial Report (CAFR), according to GASB.

We are not permitted to participate in the hiring of the actuary nor affect their process, which includes the actuary independently validating sample data of an individual provided by the University compared to the information that the individual provides themselves.

This number from the State represents the pension (ASRS) liability we have – comparing the amount our current population is likely to put into ASRS over its collective lifetime minus how much the actuary estimates the population will withdraw in their lifetimes.

As we are considered to be a relatively healthy population, the actuary expects that we will have to pay out more than we (collectively as individuals and as institution) put in.

Our CAFR has specific spots where we are required to account for this liability – again in order to create consistent reporting between GASB organizations.

It is true that we do not immediately owe this liability amount to ASRS, but:
(1) We will eventually owe that amount, should the reality come to pass as the actuary’s model predicts. This information is vital in how the State calculates its contribution rates for ASRS, for instance.
(2) The State could pass a law requiring us to fund 1:1 – and we need to be prepared for that possibility.

Once in the CAFR, different entities/needs call for different ways to review our financial reporting information. For example, ABOR asks that for our Annual Financial Review that we remove the pension liability.

But the baseline information is defined by GASB, and that baseline is presented in our CAFR.

Credit agencies, with their large teams of financial and credit experts, are well aware of GASB and what the various parts of our CAFR represent.

Yes, they often ask for supplemental information (e.g., reviewing our financials with the pension liability pulled out), but the request is simply for their convenience, saving them the time by having us do that legwork so that they can focus on analyzing and confirming the data.

The claim that we somehow managed to sneak this information by our credit rating agencies and/or convince them to give us an undue credit score are demonstrably false.

c) These $800 million unrestricted net assets reflect some liquidity of funds that can be and are meant to be used for exactly the kind of situation we’re in. Using it will reduce our bond rating, but this becomes a choice between UA bond rating and faculty and staff well-being.
What is included in the 800m+ reserves that Bunsis discusses and are they actually available to reduce pay cuts? Do they include reserves in the colleges?
i) As noted in the Financing the Mission messages of July 1 and July 13, the germination of the erroneous $806 million reference stems from the presentation to our community of a fundamental misunderstanding of the validity of using (now two-year) past fiscal year financial reporting documents to understand and make organizational decisions based on projected and current actuals.

As noted in Financing the Mission – Bonding, Loans, and Where is our Operating Cash, “So, you may wonder if the leaders in all these areas [with Colleges holding 60% of then-current fund balances, and the rest spread across support units and auxiliaries] could realign all the planned commitments of their fund balances to avoid other mitigation strategies? I am proud to say that is exactly what is happening now. Our leadership colleagues are working to identify ways to pause or halt other priorities to save as many jobs as possible. We must supplement these efforts, however, as units often utilize their fund balances to directly support colleagues, especially when new initiatives need an initial push to get started.”

d) UA has an excellent rating from bond agencies, and this reflects the good state of our finances moving forward from 2019 FY. Should we debt-finance / float bonds instead of furlough/layoffs? Are the $800M invested in the market, putting the University in an excellent position to float a bond against those assets? When we speak of tapping reserves, we speak of such financial instruments at bonds. We do NOT imagine tapping whatever liquid assets that might currently be in colleges and units.

i) As noted in the Financing the Mission messages of July 1 and July 13, we continue to look into any and all opportunities to mitigate the losses caused by the pandemic – this includes the possibility of utilizing bonds, loans, or lines of credit.

However, it is important to note that these options require changes to policy and law by both the Arizona Board of Regents and the Arizona Legislature – with their fall timetables, it is unlikely we would secure the required approval to activate these options before 2021. In the meantime, action must be taken to protect as many jobs as possible and give College and Support Unit leadership some way to temporarily mitigate some of the projected losses – other than across-the-board layoffs. The Furlough and Furlough-Based Salary Programs are a necessary component of our comprehensive mitigation strategy and give College and Support Unit leaders flexibility for FY21, thereby protecting as many jobs as possible.

The initiation of the Furlough and Furlough Based Salary Programs will not delay consideration of other mitigation options, and it is possible that implementation of additional measures in the future may lessen the impact of the Furlough and Furlough Based Salary Programs. We feel it is equally likely that later implementation of additional measures will simply help us weather a worsening financial crisis.

3) The State of Arizona (joint budget committee document from the Arizona legislature) indicated that we have not taken the financial hit that the state was expecting in April - how does this change our forecast?

a) While the State forecast continues to fluctuate, our understanding is that the so-called “Skinny Budget” approved in the Spring will act as the ceiling for possible FY21 allocations to the three universities. That “Skinny Budget” approved the University’s allocation at a funding level lower than FY20 as it did not include converting $35M (system-wide) from
previous one-time funding into permanent funding as originally intended – and does not address the unfunded requirement that emerged late Spring that we pay an additional $16M to the Health Insurance Trust Fund. As it stands, it is possible the University will experience a net reduction in state funding compared to FY20.

4) How have the CARES funds (UA= 30 million, half of it (15 mill) goes to student support) been distributed?
   a) The institutional dollars allotted to the University of Arizona, both for main CARES Act and those directed to us as a result of being a Hispanic Serving Institution, have not yet been distributed within the University, as we spend the next few months better understanding the costs associated with mitigating and responding to COVID-19.

5) According to the report, the $250 million deficit is a gross overestimate of the actual state of the UA finances. A more accurate and likely estimate is about $105 million. There are discrepancies found in the UA estimate for financial loss from the pandemic (e.g., UA did not factor in the 15 million we got from the CARES Act that's intended for general use, included $100 million "non-cash and not real internal charges and transfers," included loss on investments when the stock market has gone up since).
   a) We strongly disagree with this assessment – and it contains clear factual inaccuracies; a review of public statements, including the comprehensive town halls from early on in the pandemic, show that CARES Act funding has always been included in our modeling and forecasts, for instance. Moving beyond the use of inherently outdated financial data from our FY19 Comprehensive Annual Financial Report and instead using the detailed and nuanced understanding of our enrollment trends and current projected financial outlook from our expert colleagues, we created 4 scenarios – medical miracle, best case, moderate case, worst case. We utilized the moderate case (some face-to-face, some hybrid, some online instruction + significantly reduced in-person activity on campus) as the planning scenario, forecasting the $250M to $300M deficit. We continue to track closely to the moderate case modeling.

6) Why is there a claim for $38M in investment loss in FY20? The stock market seems positive.
   a) The $38M for FY20 is not an investment loss but is the revised impact from both investment income and gift loss in anticipated revenues from our original projections. In February 2020, our projected target for FY20 was a gain of approximately $51M, total. Then COVID hit, and we carefully watched our investments and incoming gifts to understand how the rest of FY20 would play out. Our final FY20 position was a net gain of $13M – while positive, this represents a $38M difference in anticipated revenues which we would have been able to use, otherwise.

   We agree that the stock market continues to look positive in the long-term. However, it is clear that there are certain aspects to our portfolio that will not produce levels of income that were anticipated pre-COVID-19. This includes the majority of our investment in bonds that will be impacted by lower market interest rates.

   So while for FY21 we are again forecasting a net gain, the projected target is only $32M
We are also projecting a 10% decline in philanthropy income year-over-year.

7) Why is there a difference between Bunsis forecasts of tuition revenue and those that have been presented to SPBAC? Can they identify what the different assumptions might be?

   a) The forecasts presented by our recruitment and enrollment expert colleagues are models that utilize the most current enrollment trends and information informed by direct-student contact, as opposed to nearly two-year old financial accounting data, only.

8) What will be the financial ramifications of going 100% online this fall? And the changes in composition in student body this fall (more in-state, fewer out-of-state)?

   a) The current projection utilizes the “moderate case” scenario – and the losses are on track to total between $250M and $300M. If we were to go fully online, going forward, we would likely see a significant increase in this projection, due to additional losses in tuition revenue.

   Composition of the student body (e.g., out-of-state vs in-state, and those with scholarships) will have a significant impact on the Net Tuition Revenue for FY21.

9) Was there a pre-COVID19 plan accelerated under COVID-19 to lay off planned cuts / downsizing? There is some evidence from the UA 2019 outlook statement in the audited financial statements (before the pandemic) that there were plans for cuts.

   a) Beginning last fall (before COVID-19 was a word that most of us had heard) we shared with leaders across campus that the FY21 RCM model, which was based on Colleges’ FY20 activity, indicated some minor budget reductions (low single digit percentage) would be necessary.

   Then COVID-19 hit. We know that the effect will be, and already has started to be, unlike anything we have ever seen. For example, we would never have needed to even consider a furlough or pay reduction plan, or any of the other countless mitigation strategies that we have been collectively researching and implementing, if everything had continued with what we saw in Fall 2019.

Received after Lisa Rulney’s presentation (from SPBAC members)

1. Things are looking better than suggested. SL aren’t changing the message to match the new data they are receiving.

2. There are issues with projected losses (the majority of which are driven by SL’s pessimistic enrollment projections). The data presented is actually more positive. So far, relatively late in the game, we are not seeing the dramatic fall off in enrollments of key groups or “negative mix” on which SL supposedly based their moderate-case estimates.

3. As for NTR reductions:
   - The International NTR number seems a bit pessimistic, even given the 41.7% decline in new student orientations. (Actually, this picture of the Int’l entering class is much better than the 80% reduction that Brent White was predicting back in April). Returning
international registrations are down only 16%. So, a budget projection of 33% decline in NTR seems overly cautious.
- Non-resident fall registrations from returning students are +1%! While incoming new student orientations are down 9%, that isn't catastrophic, especially since it represents only about 25% of the NR cohort. Out of this, SL are budgeting an NTR reduction of 28.
- In-state (resident) student decline in NTR of 20%? There is no justification provided for this. Kasey's weekly new student enrollment numbers don't have any college on campus projecting that large a decline in incoming students (CALS, for example, is slightly positive).

a. Enrollment models assumed significant decreases in total traditional students with some assumptions that headcount may not be as drastic in the end, but still consequential. There is an assumption embedded in these figures that students will be taking fewer courses resulting in lower FTE as a proportion of headcount and lower net tuition revenue. The enrollment forecasts were based on budget and planning assumptions that senior leadership have been using throughout the summer and are consistent with payment data we received as late as two days before classes started.
Throughout the summer we have seen overall enrollment increase from our original plan. However, students were not paying their bills until very recently, so it was not clear whether they were going to drop. Payment data was tracking these estimates closely until late August, when students opted to start paying their bills as classes started (this trend is much later than normal when compared to prior academic years). That said we anticipate that we will continue to see shifts in student activity between now and the census date. So, although our actual figures are improved today, they are still uncertain.

4. The "moderate case" projection shown in Lisa’s slide deck forecasts about $96.8 million reduction in UG NTR for FY 21, compared to FY20. The breakdown by student category is Resident (-20.3 mil), Domestic NR (-56.5 mil), and International (-20 mil). Several key points:
   - This projected tuition loss gets us nowhere close to the widely cited $250 million in losses that were used to justify the furlough program and other cost-cutting measures. Even including the $60 million in losses from FY 20 (a data point which shouldn't change much now that the year has closed), we are still nearly $100 million shy of that dire projection.
   - SL needs to show where the rest of the losses come from, or back off the large deficit number. It severely undermines their credibility to stick with it.
   - It’s OK at this point to concede that the enrollment picture has improved over the past two months and things aren't as bad as we thought.
   a. The projected losses, including and beyond tuition, can be seen in the included slides³, continuously updated versions of which were utilized in all College and Support Unit Town Halls as well as numerous presentations to various shared governance (including SPBAC) and University groups throughout Spring and Summer 2020.

5. It is doubtful that the UA will go entirely online for Fall 2020. Quite possibly we will stick with the Provost's current plan. However, even if we go totally online, why would there be deep discounts in tuition? If we have to go online because of the pandemic environment in the state, students and especially parents will welcome the opportunity to

³ Please refer to the attached presentation “FINANCING THE MISSION: COVID-19 Economic Impact”
continue progress toward degree online, instead of shutting down or putting their students at risk.

a. We do not concur with this characterization. Throughout the summer and continuing now, the Provost Office and Bursar’s Office received inquiries into reduced tuition due to the current 4-modality, staged approach – providing evidence that students and parents would demand a significant reduction in tuition in a prolonged fully-online modality.

6. Lisa's presentation shouldn't convince anyone who thinks carefully about the numbers presented. For example, while there are losses in auxiliary income associated with declines in traffic through campus services, those can also be largely countered with cost cutting measures (reduced hours, reduced staffing), and should be, just like any business. Faculty/staff shouldn't be taking pay cuts because the UA is selling fewer sandwiches.
   a. The FY21 budget impacts to Colleges and Support Units are based on decreases in Net Tuition Revenue, and not on decreases to Auxiliary revenue. It is important to again reiterate that while our Auxiliary Units are an integral part of our University experience, and whose staff are not somehow “less than” members of our community, Auxiliaries are expected to locally manage reductions in their activity.

7. This is similar to #5 on the post-CFO presentation question list (also submitted in the chat at our last meeting). Original furloughs and budgets were based on an estimated 80% decline in international students and a 20% decline in out-of-state students. Currently, however, enrollment projections seem much better than this. How have furlough plans changed based on this updated enrollment data? Would it make sense to get final enrollment numbers (Sept 13th) and then construct a furlough plan with full financial information?
   a. As noted in the President’s August 7 message to campus, “Once we obtain more information about our borrowing and line of credit options, such as those proposed by GFFAC; determine whether the federal stimulus bill will be approved; and have an opportunity to review fall census data, we will make adjustments to the program accordingly in early October. We will explore additional adjustments in March 2021. Our shared governance bodies, including the Strategic Planning and Budget Advisory Committee and GFFAC, will be included in developing plans for these adjustments.”

8. The CFO's presentation (c. 39:00 min) and follow-up email stated "You also may have heard that our planned Furlough and Furlough-Based Salary Programs are larger in scope and scale than at other institutions. It is true that many other institutions have implemented much smaller-scale furlough/pay reduction programs than we have proposed. However, it is not true that we have a larger problem to solve than other campuses, nor that we were in financial difficulties prior to the pandemic. Similar large public institutions (e.g., OSU, UC) have reported very similar projected losses.” If we do not have a larger problem than other universities, why are our furlough programs larger in scope and scale than other institutions?
   a. See the response to pre-July 1 presentation Question 1.a)

9. The CFO stated (c. 39:20 in presentation) "it is not true that we had financial difficulties prior to the pandemic.” However, we learned at the January 22, 2020 SPBAC meeting January that tuition discounting problems were leading to an upcoming c. $26M shortfall. As a result, there would be a $36M financial restructuring and colleges would have to
undertake a 3.5% budget cut. In my opinion, this would seem to be a serious financial
difficulty. Could the CFO please resolve the discrepancy between her January 22 and
July 1 presentations?

a. As noted in the response to the pre-July 1 presentation Question 9.a), the pre-COVID net
tuition shortfall of $37.5M against the University’s $2.2B annual operating expenses would
not have required any of the mitigation strategies now being deployed due to the economic
impacts of COVID-19.

10. Could we see how the $125M was spent?

11. The estimated balance/reserves at the end of FY20. Although Lisa said about 699m she
did not explain the most important issue which is exactly where those are. What every
department head and many faculty want to know is how much of the end of year reserves roll up
from the departments and colleges (and other major units) - with some specific examples
not a general trust us statement. It would take pressure off central admin if we could be
transparent about how much rolls up from SBS, CALS, Medicine etc. Even if we had that
for FY19 pending FY20 information. I have asked for this several times and cannot
underestimate the importance of providing this information. Until this is provided the
myth of the hidden 800m will persist. Faculty may back off if they realize that using these
reserves will directly hurt their departments or will work with their deans to try and help.
In my own college heads are offering to give some reserves back to the college - or move
staff and faculty salary onto them - if it will reduce layoffs or furloughs.

12. In the CAJUA meeting on Friday last week several people apparently tried to explain
these issues and were shut down because they could not explain where the reserves are.
The most important is the question of 824m or 699m reserves and whether they are
restricted or owned and generally by whom. Not the 22,000-account answer but some
aggregate information that shows by college or other sector. Explain in some detail
where they are if only at College level.

13. This was partly covered already but I still don’t understand why we are not using more
reserves. I know of several deans that see the reserves as a good use for budget
shortfalls. Sure they would rather keep their reserves but if the reserves are used to
reduce the impact of net tuition reductions they won’t see the significant budget cuts
being proposed (to RCM). Hopefully not all, but even if say somewhere between 25% to
50% of most fund balances were swept that would make a big and justifiable impact. We
did it before after the Great Recession... we fell below the ABOR days cash on hand
guidelines then and that was acceptable... and it's already been determined that ratings
and interest increases would be fairly negligible. Post Pandemic we would look to rebuild
those reserves. If there are other considerations it would be helpful to know them.

a. As noted in the Financing the Mission messages of July 1 and July 13, our operating cash is
located in tens of thousands of accounts, spread across the University.

As noted in Financing the Mission – Bonding, Loans, and Where is our Operating Cash, “So,
you may wonder if the leaders in all these areas [with Colleges holding 60% of then-current
fund balances, and the rest spread across support units and auxiliaries] could realign all the
planned commitments of their fund balances to avoid other mitigation strategies? I am proud
to say that is exactly what is happening now. Our leadership colleagues are working to
identify ways to pause or halt other priorities to save as many jobs as possible. We must
supplement these efforts, however, as units often utilize their fund balances to directly
support colleagues, especially when new initiatives need an initial push to get started.”
b. In addition to the context above, a special note regarding the Great Recession – it was not acceptable to the Board of Regents that we fell below ABOR Days Cash On Hand guidelines as a result of the Great Recession and the University of Arizona was impacted and required to bring its DCoH back within the Moody’s range.

14. That we are not currently permitted to borrow against our reserves - either bonds or commercial loans - by state rule so that is why no borrowing has occurred on that (though if there is a capital project is there any chance to release funds by borrowing from that?).
   a. Utilizing bond funds obtained for a capital project for any other purpose is prohibited.

15. A clear explanation that even though much of these reserves are owned in departments, the university does make short term investments with them until they are needed. For example, if we invest Aug tuition until we need it to pay Dec payroll (if I understand this correctly).
   a. Thank you for this suggestion. We will find additional opportunities to convey to our community that we do indeed invest on a short-term basis, to ensure that we have enough operating cash on hand to cover operating expenses.

16. A straightforward answer as to whether there are any unrestricted reserves held centrally that have been used or can be used to avoid layoffs, or if they are being held in case of worse situation in FY22.
   a. As noted in the Financing the Mission messages of July 1 and July 13, there is no centrally held reserve fund. Our operating cash is located in tens of thousands of accounts, spread across the University, the majority of which is in the Colleges – and the July 13 message gives a breakdown.

   As noted in Financing the Mission – Bonding, Loans, and Where is our Operating Cash, “So, you may wonder if the leaders in all these areas [with Colleges holding 60% of then-current fund balances, and the rest spread across support units and auxiliaries] could realign all the planned commitments of their fund balances to avoid other mitigation strategies? I am proud to say that is exactly what is happening now. Our leadership colleagues are working to identify ways to pause or halt other priorities to save as many jobs as possible. We must supplement these efforts, however, as units often utilize their fund balances to directly support colleagues, especially when new initiatives need an initial push to get started.”

17. I am not supportive of the furlough program as drafted. In the case of a unit that is mostly auxiliary and actually charges capital projects by the hour for our services, the furlough program does not help our unit financially nor does it help the University financially. At best it breaks even financially… while demotivating people. I would expect much more understanding of the reason this is prudent before implementation.
   a. The financial impacts of the pandemic for the University of Arizona and for Arizona and the nation are still unfolding, but it is already clear that this is the largest financial downturn in the US since the great depression and here, FY21 will have greatly reduced revenues. Therefore, we must swiftly adjust our spending accordingly. We have received a number of
interesting suggestions for mitigating our projected financial losses (estimated to be approximately $250 to $300 million). However, the planned Furlough and Furlough-based Salary Programs (FFSP) are calculated to mitigate a greater number of avoidable personnel reductions for staff and faculty. The initiation of the FFSP will not delay consideration of other mitigation options, and it is possible that implementation of additional measures in the future may lessen the impact of the FFSP. We feel it is equally likely that later implementation of additional measures will simply help us weather a worsening financial crisis in the longer-term.

**Adjournment**
The meeting was adjourned at 10:33am.
FINANCING THE MISSION: COVID-19 Economic Impact

July 21, 2020
## Estimated Impacts Resulting from COVID-19 Crisis

**Version Date - 7/12/20**

<table>
<thead>
<tr>
<th>Description</th>
<th>FY20 (3 Mos)</th>
<th>FY21 (12 Mos)</th>
<th>Total (15 Mos)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tuition &amp; Fee Revenue (Net)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In-State Students</td>
<td></td>
<td>$-17,263,256</td>
<td>$-17,263,256</td>
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<tr>
<td>Out of State - Domestic Students</td>
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<td>$-53,272,273</td>
<td>$-53,272,273</td>
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<tr>
<td>All Other Tuition &amp; Fees</td>
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<td>$-8,000,000</td>
<td>$-4,500,000</td>
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<tr>
<td>Investment and Philanthropy Income</td>
<td></td>
<td>$-27,100,000</td>
<td>$-21,900,000</td>
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<tr>
<td><strong>Auxiliary Revenues:</strong> Housing, Student Union, Bookstores, Parking, Campus Health &amp; Campus Recreation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intercolligate Athletics</td>
<td></td>
<td>$-8,900,000</td>
<td>$-13,800,000</td>
</tr>
<tr>
<td>Facilities &amp; Administrative Cost Recovery</td>
<td></td>
<td>$0</td>
<td>$-16,000,000</td>
</tr>
<tr>
<td>Departmental Sales &amp; Service and Conferences</td>
<td></td>
<td>$-6,200,000</td>
<td>$-2,900,000</td>
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<tr>
<td><strong>Estimated Revenue Impact</strong></td>
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<td>$-76,500,000</td>
<td>$-177,542,774</td>
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<tr>
<td><strong>Expenses</strong></td>
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<tr>
<td>Costs for online support for students, faculty &amp; staff</td>
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<tr>
<td>COVID Protection Measures</td>
<td></td>
<td>$-7,100,000</td>
<td>$-20,000,000</td>
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<tr>
<td><strong>Estimated Expenses Impact</strong></td>
<td></td>
<td>$-7,100,000</td>
<td>$-20,000,000</td>
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<tr>
<td><strong>Total Projected COVID-19 Financial Impact</strong></td>
<td></td>
<td>$-83,600,000</td>
<td>$-197,542,774</td>
</tr>
</tbody>
</table>

*Model assumes students, faculty, staff are able to return to campus Fall 2020*
Financial Sustainability Emergency Response Taskforce

| Core Team: Lisa Rulney, Barry Brummund, David Elmer, Jim Florian, Sangita Pawar, Helena Rodrigues, Nicole Salazar, Kathy Whisman |
| Workgroups (With Stakeholder Input) |
| Explore & Develop |
| Core Team |
| Synthesize Recommendation |
| Executive Team |
| Vet Recommendation |
| President Robbins |
| Make Final Decision |

**Capital Projects, Debt, & Investments**
- Jim Florian
- Laura Bakkensen
- Craig Barker
- Peter Dourlein
- Paulo Goes
- Brooks Jeffery
- Steve Kelly
- Rob Miller
- Bob Smith

**Operational Efficiencies**
- Nicole Salazar
- Nina Bates
- Brian Berrellez
- Tom Bourgeois
- Sabrina Helm
- Steve Moore
- Maliaca Oxnam
- Sangita Pawar
- Stephanie Rosenberg
- Debby Shively
- Simon White

**New Opportunities**
- Sangita Pawar
- Parker Antin
- Michael Brewer
- Javier Duran
- Stan Park
- Nancy Pollock-Ellwand
- Stan Reynolds
- Lori Schultz
- Carol Stewart
- Jason Wertheim

**Students**
- Barry Brummund
  - Ravneet Chadha
  - A-P Durand
  - Jim Florian
  - Greg Heileman
  - Melanie Hingle
  - Marc Miller
  - Garth Perry
  - Cindy Rankin
  - Andrea Romero
  - Pam Ray
  - Shilpita Sen
  - Tara Singleton
  - Kelly South
  - Kasey Urquidez
  - Katie Van Renterghem

**Strategic Plan Investments**
- Kathy Whisman
  - Maribel Alvarez
  - Melissa Colchado
  - Sonia Colina
  - Michelle Gates
  - Jane Hunter
  - Diana Liverman
  - John O’Neil
  - Andy Schulz
  - Marilyn Taylor

**Intercollegiate Athletics**
- Kathy Whisman
  - Mario Calderon
  - Marv Slepian
  - Krystal Swindlehurst
  - Ricardo Valerdi
  - Derek Van Der Merwe
  - Bryce Wolma

**Workforce**
- Helena Rodrigues
- Elizabeth Cantwell
- Josephine Corder
- Emily Gillilian
- Lisa Gundy
- Daniel McDonald
- Ki Moore
- Francisco Pedroza
- Nicole Salazar
- Jessica Summers
- Marilyn Taylor
- Staci Wilson

Learn more at financialtaskforce.arizona.edu
# Mitigation Strategies

**Version Date - 7/13/20**

<table>
<thead>
<tr>
<th>Description</th>
<th>FY20</th>
<th>FY21</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td>Capital Planning - delay Old Chem renovation, ARB, GCRB (3 months),</td>
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<td></td>
<td></td>
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<tr>
<td>Postponed several renovation projects</td>
<td>$7,000,000</td>
<td>$14,700,000</td>
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<tr>
<td>Postpone Annual Merit Increase Program</td>
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<td>$19,900,000</td>
<td>$19,900,000</td>
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<tr>
<td>Hiring Pause</td>
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<td>TBD**</td>
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<td>Furlough and Furlough-Based Salary Program</td>
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<td>$71,800,000</td>
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<td>Strategic Plan Review - Halt new FY20 funding</td>
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<tr>
<td>CARES Act Funding</td>
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<tr>
<td><strong>Variance to Projection</strong></td>
<td>-$50,700,000</td>
<td>-$37,066,274</td>
<td>-$87,766,274</td>
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</tbody>
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*Model assumes students, faculty, staff are able to return to campus Fall 2020*