

Regent's Budget Presentation



Presentation by the Utah System of Higher Education – Office of Finance and Facilities

We will take a few minutes this morning to provide the Regents with some background materials regarding the Utah System of Higher Education (USHE) budget prior to discussions and action on the USHE 2010-11 Operating Budget Request.

This presentation format is similar to the Tuition Tutorial we presented this past spring prior to the Tuition Setting discussions that took place at the March meeting in St. George, Utah.

Operating Budget Overview

In deciding what information would be most useful to present, we determined early-on that it was important to involve several of our colleagues in State Government – because of the interplay that exists among USHE institutions, the Office of the Commissioner (OCHE), and various State entities when working our way through the annual budget processes.

Presenters:

Dr. Greg Stauffer, OCHE – overview of higher education and state support, along with introductory comments
Paul Morris, OCHE – primer on USHE budget processes and fund accounting
Carson Howell, GOPB – The Governor's Office role in state budget processes
Spencer Pratt, LFA – the Legislative's role in state budget processes

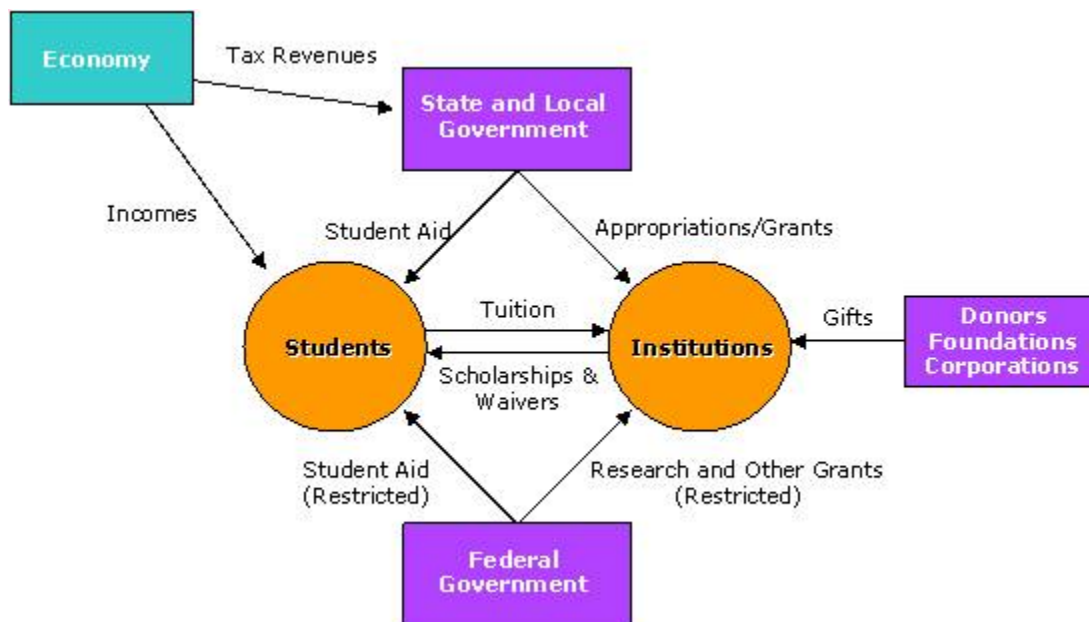
Following a few introductory comments from Dr. Stauffer, time will be turned over to Paul Morris, Assistant Commissioner for Budget & Planning, who will provide a primer on fund accounting together with an explanation of budget categories and issues that we face. Carson Howell, Budget & Policy Analyst in the Governor's Office of Planning & Budget, and then will describe how the Budget Request is compiled in the Governor's Office and the role of that office in the Budgetary Process during the Legislative Session.

Next, Spencer Pratt, Fiscal Manager for the Legislative Fiscal Analyst's Office, will speak for a few minutes regarding the role of the Legislature – the Analyst's Office and the various Legislative Committees – in setting State budgets relative to higher education.

USHE 2010-11 Budget Request [Agenda books (tab U)]

Hopefully, understanding the processes more completely will provide helpful context during the 2010-11 USHE operating budget discussions that will follow the presentations. The process is relatively lengthy and complex, and at times it is difficult for individual campus needs to come to the fore. Over the years, the System has attempted to collectively move the institutions forward through the Budget Request process; an effort we will continue with during this and future years' requests.

We Are All in This Together

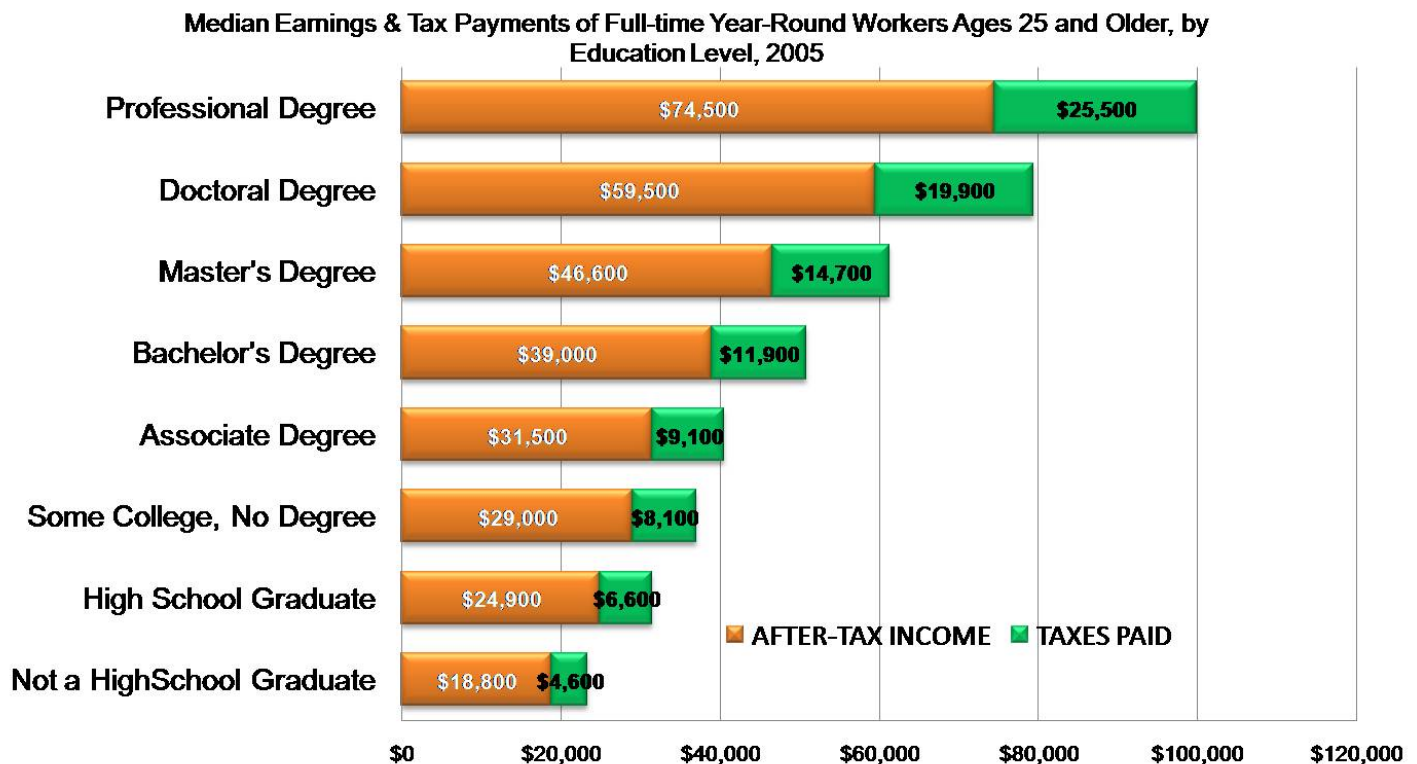


Of great importance in this entire discussion is the point that, “We Really Are All in This Together”. Everything is inter-related and everything is impacted by the economy:

- **State Economy:** Tax Appropriations come directly to campuses as an important revenue source, and State Aid to students comes indirectly to campuses as a revenue source.
- **Income of Students & Parents of Students:** Income levels impact the ability of students to afford educational opportunities.
- **Federal Economy:** impact on research and other grants allocated directly to institutions and Financial Aid to Students.
- **Donors (Individuals, Foundations and Corporations)** –the ability to donate is predicated on their economic condition

So the economic environment has a clear and significant impact on the revenues available to public institutions.

Higher Education is an Investment in the Economy

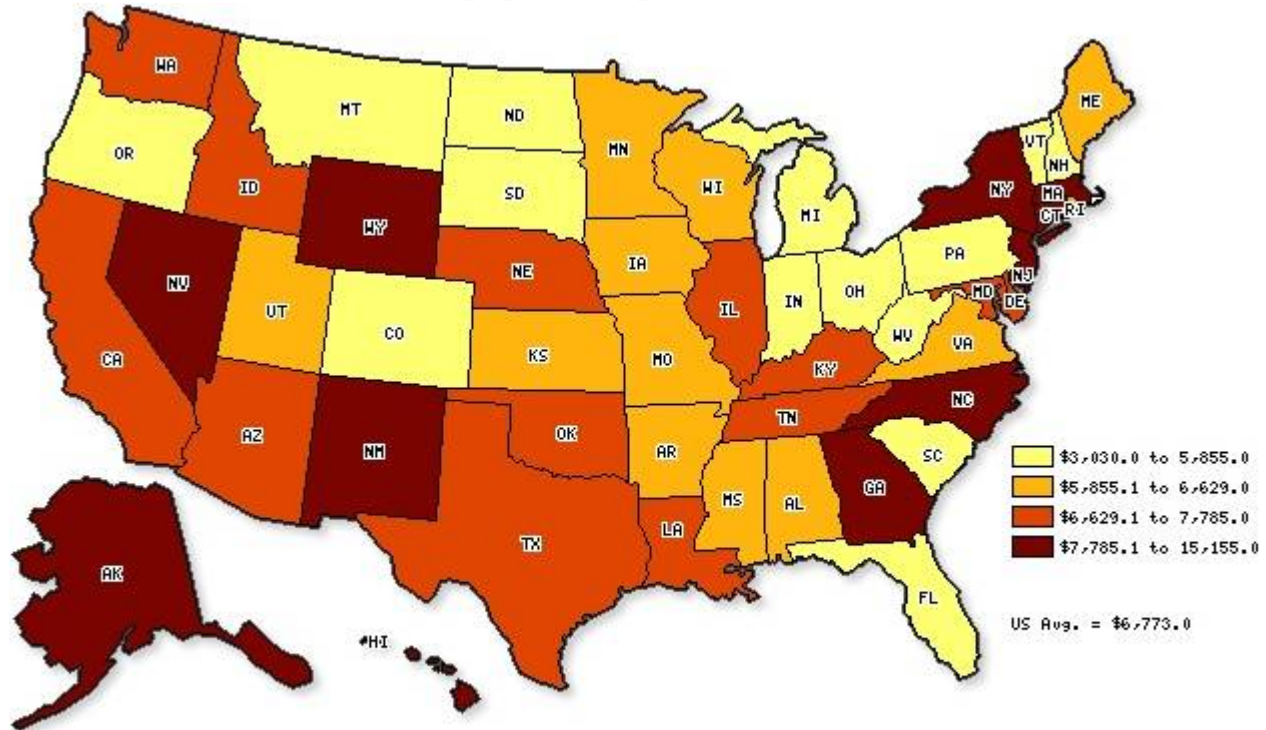


While the last slide discusses how the various revenue streams available to higher education are impacted by the economy, this slide displays the completion of the feedback loop: In return” higher education clearly has a positive impact on the **future** economy”. An investment in higher education pays great dividends to the State long-term.

Higher education is both a significant private good and a significant public good. As a private good, the higher the level of education an individual has, the better the quality of life and higher income they have. As a public good, significant additional tax revenues for the state are provided by an educated citizenry, and when combined with fewer “social costs” to the state (prisons, welfare, health care, etc.)

The economic impact of higher levels of education is indeed significant.

State Support per FTE - 2007



Source: State Higher Education Executive Officers (SHEEO)

As a bit of context – others will “fill in the blanks” on this issue later in the presentation – State support for higher education in Utah is somewhat below the national average, though not enormously so.

USHE institutions, by most measures of productivity, are collectively among the more productive providers of higher education in the country.

The state of Utah and USHE institutions are challenged with providing quality support for education in an environment where more than one member of a family might be a college student at the same time...a scenario that impacts both the level of operational support and the ability to pay.

Budget Challenges

- **State Support**
- **Increasing Enrollment**
- **Increasing Tuition**
- **Salaries (Competitive Salaries)**
- **Utilities (Volatility)**
- **O & M Appropriations**
- **Donations**
- **Research Funds**

Paul and others will likely fill in more details during these presentations, but here is a broad-brush look at a few of the budget challenges facing the USHE in building the 2010-11 Operating Budget Request:

- **State Support** – elevating Utah to the national averages. Even \$100/student closer to the national average multiplied by 100,000 students is significant (\$10 million)
- **Increasing Enrollments** – enrollments increased substantially last year. And we will –probably see an increase again this year. Across-the-nation, the same scenario plays out. Enrollments and demands on institutional and state services increased at precisely the same time states have been less able to fund them.
- **Increasing Tuition** – quality is costly. Even with paradigm shifts, quality costs. As a result, tuition rates continue to rise, outpacing inflationary increases as state appropriations can't keep pace with need. This impacts access, time-to-graduation, etc.
- **Salaries** – the goal is to get OCHE institution's salaries to 90% of the average salaries for their peer positions nationally. This is a long-term problem. In the short-term, people will put up with almost anything during difficult economic times.
- **Utilities / O&M** – these are essentially fixed costs and no inflationary increases are likely to be forthcoming. Little of higher education's budget is discretionary – once salaries and utility costs are removed.
- **Donations** – ask any of the Presidents or institutional advancement officers; this is a very difficult time for fund-raising.
- **Federal Funds** – there are some bright spots with ARRA (Federal Stimulus) funds, but overall it is still a very difficult time to garner additional research and other federal funds, and the ARRA funds will provide only a one-time boost in revenues.

Paul Morris, Assistant Commissioner of OCHE, will now look at some of the details regarding the USHE budget and budget process. The following slide summarizes the sources of funds involved in funding the higher education budgets of our institutions.

USHE Budget 101

All Sources

- State Appropriations
- Dedicated Credits (Tuition & Fees)
- Government Grants & Contracts
- Sales of Education Services
- Sales of Auxiliary Services
- Gifts
- Research
- Hospitals
- Other Income

State Appropriated Funds - (State Appropriations and Dedicated Credits)

Typical State Appropriated Funding Sources

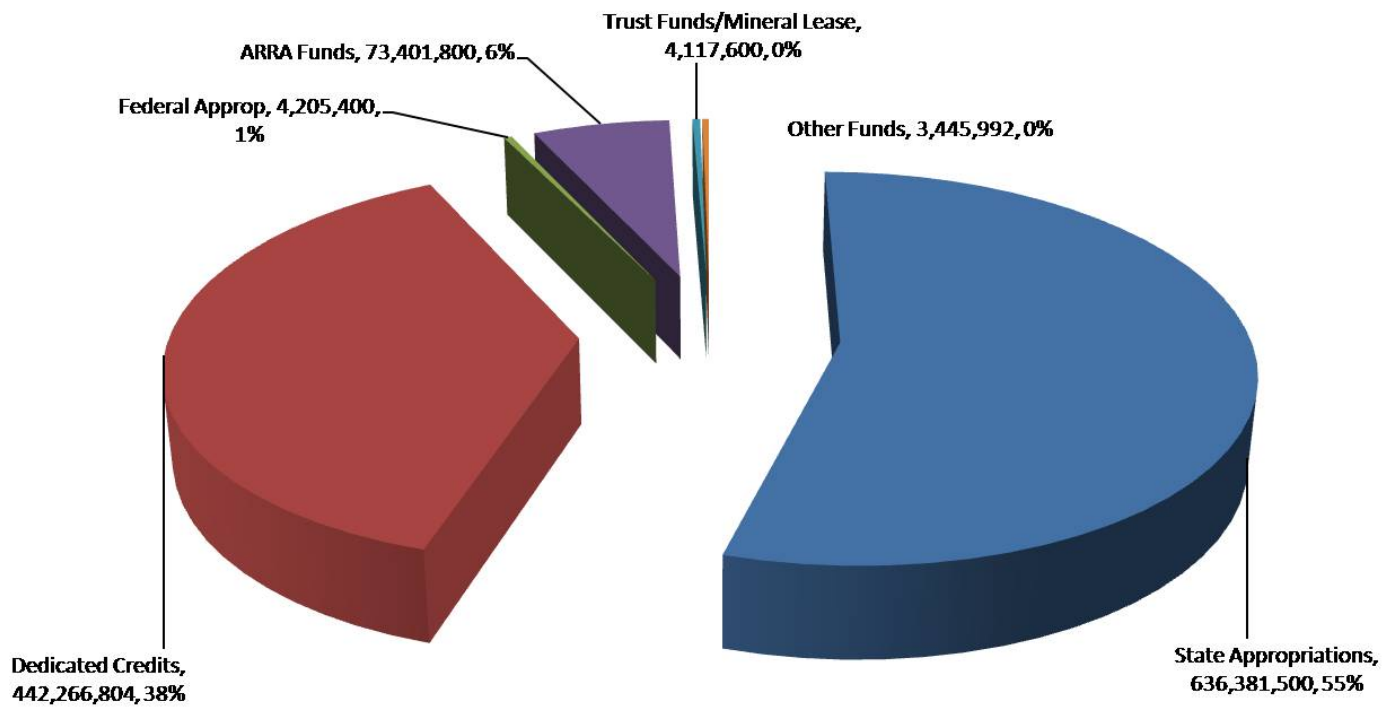
- State Appropriations
- Dedicated Credits (Tuition & Fees)



Primarily, state appropriated funds support the Education and General operations of the campuses. However, institutions have other “appropriated lines” such as the School of Medicine at the University of Utah, branch campuses at Utah State University and Educationally Disadvantaged Funds at all campuses. All appropriated funds are included in the budget numbers that follow

Funding Sources by Category

Appropriated Funds - Budgeted Funding Sources by Category \$1,163,819,096



State Appropriations are funds provided by the State of Utah primarily from the General Fund and the Education Fund (Uniform School Fund).

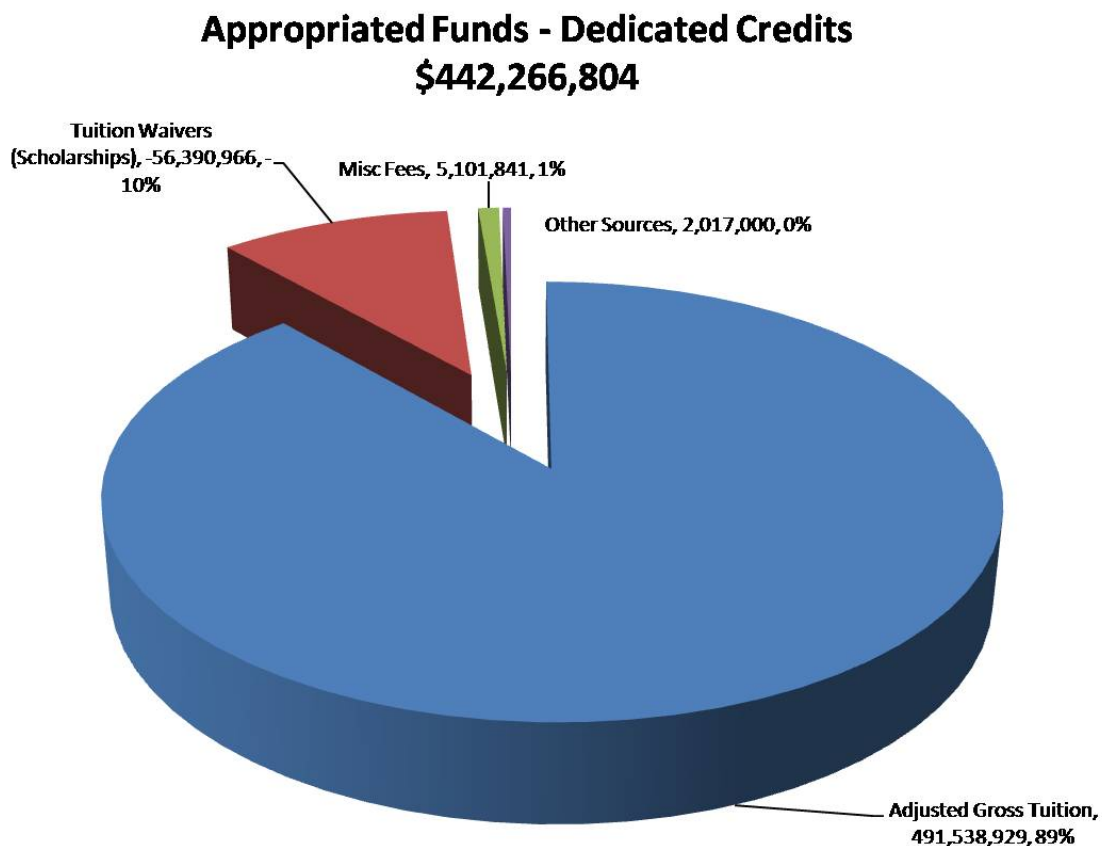
Dedicated Credits, in the higher education context, is a fancy term for tuition and miscellaneous fee collections. It is important to note that tuition and fee collections are retained on the campus providing the educational service.

How large is the USHE appropriated budget for the current fiscal year? The answer, based on this year's A1 budget reports submitted by the campuses in June, is \$1,163,819,000. By far, the two largest contributors to the budget are State Appropriations and Dedicated Credits. Of important note are the ARRA funds, which replaced one-time state appropriations, of \$73,401,800.

Earlier we noted that "dedicated credits" is a fancy term for tuition and miscellaneous fees. It is important to understand that dedicated credits are "net tuition". Simply, net tuition is the amount of funds we actually plan on collecting from students. Net tuition is calculated by subtracting tuition waivers from gross tuition.

This chart displays the commitment of the legislature and the institutions in providing educational opportunities to students:

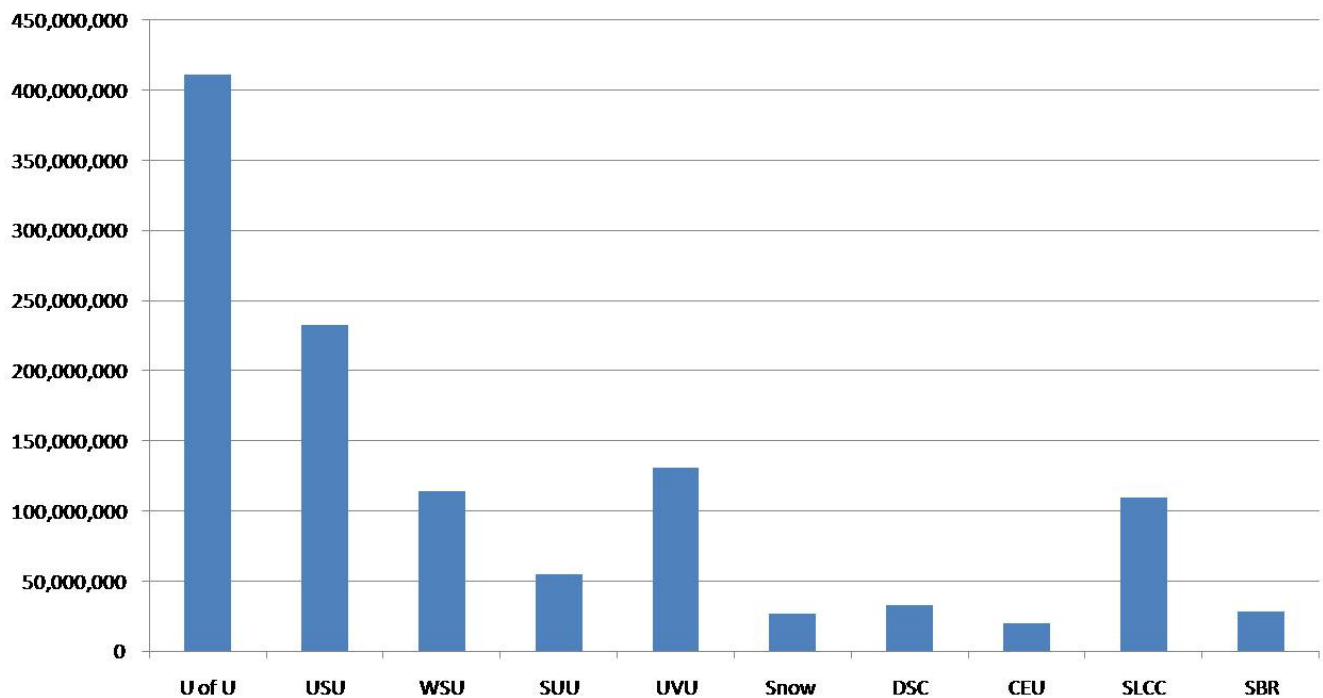
Dedicated Credits = Net Tuition



This slide shows how the “state appropriated” budgets are allocated among the USHE institutions:

Institutional Share of State Appropriated Budgets

Appropriated Budget by Institution



Typical Expenditure Classifications

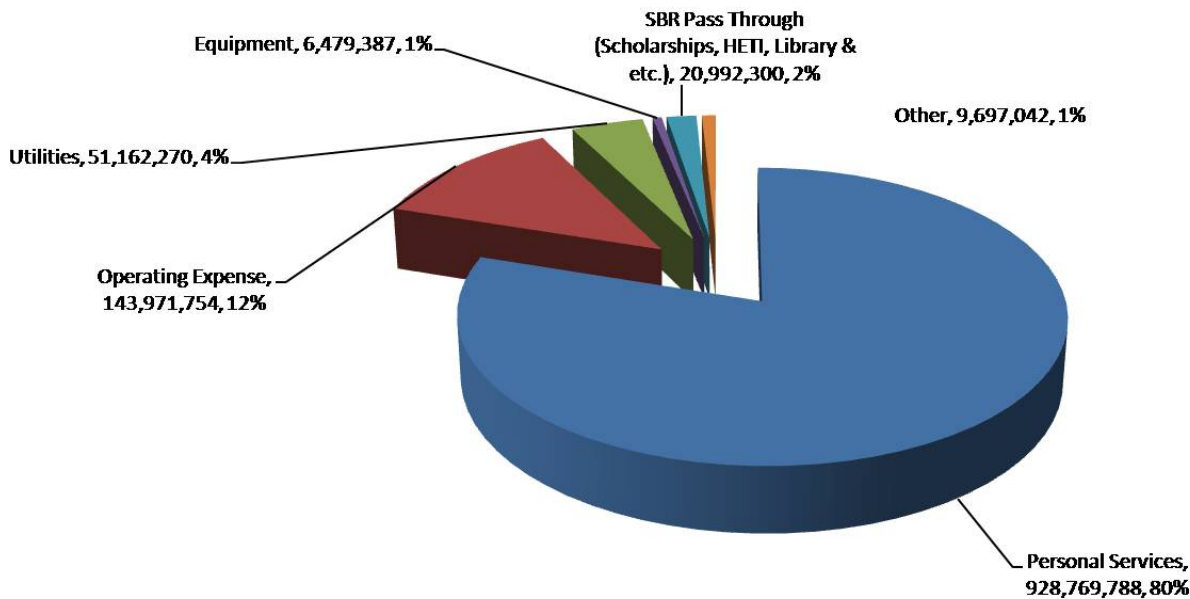
- Personnel Services
- Operating Expenditures
- Utilities
- Equipment
- SBR Pass Through
- Other

Now that we understand the size, sources and distribution of the state appropriated budgets, let's look at how they are spent:

- **Personnel Services** = Salaries, Wages and Employee Benefits
- **Operating Expenditures** = all of the supplies and services expended within the appropriated funds.
- **Utilities** = Electricity, natural gas, water and sewer
- **Equipment** = Functional equipment for labs and classes as well as office equipment for faculty and staff.
- **SBR Pass Through** = primarily financial aid and scholarship funds, and also includes items such as funds to support the hearing impaired programs and the engineering initiative.
- **Other**

We are Talent-Intensive

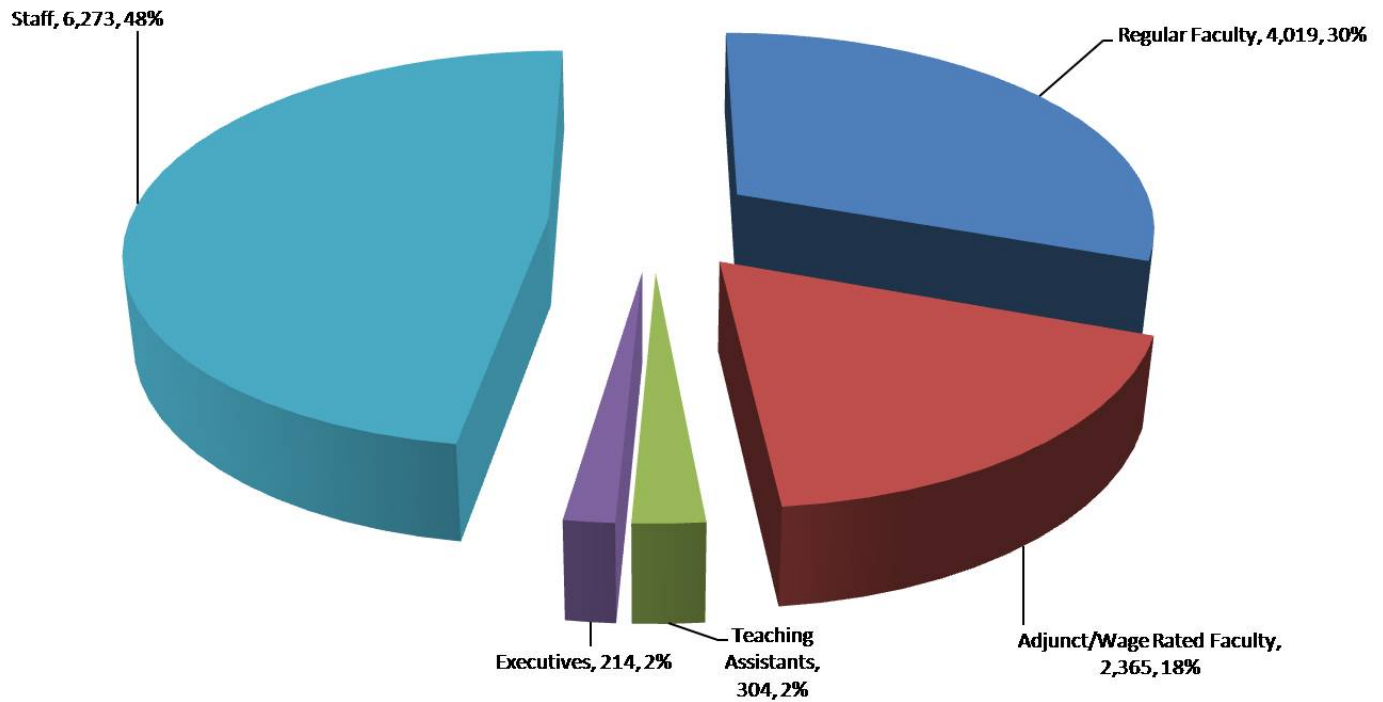
Appropriated Funds - Budgeted Expenses & Pass Through by Category \$1,161,072,541



It is no secret that we are talent intensive. In fact, 80% of our appropriated budgets support the faculty and staff that make our institutions great! As far as the budget is concerned, this has been a challenge as we have prioritized the effort to get Higher Education employees to 90% of the national average salary for their positions. To give you some perspective, a 1% salary and benefits increase requires approximately \$9 million dollars. The compensation funds are divided fairly evenly between faculty and staff - about a 50/50 split.

Talent by Category

Appropriated Funds - Budgeted Personnel FTE by Category
Total FTE 13,175



Budget Feedback Items

Budget Feedback Loop

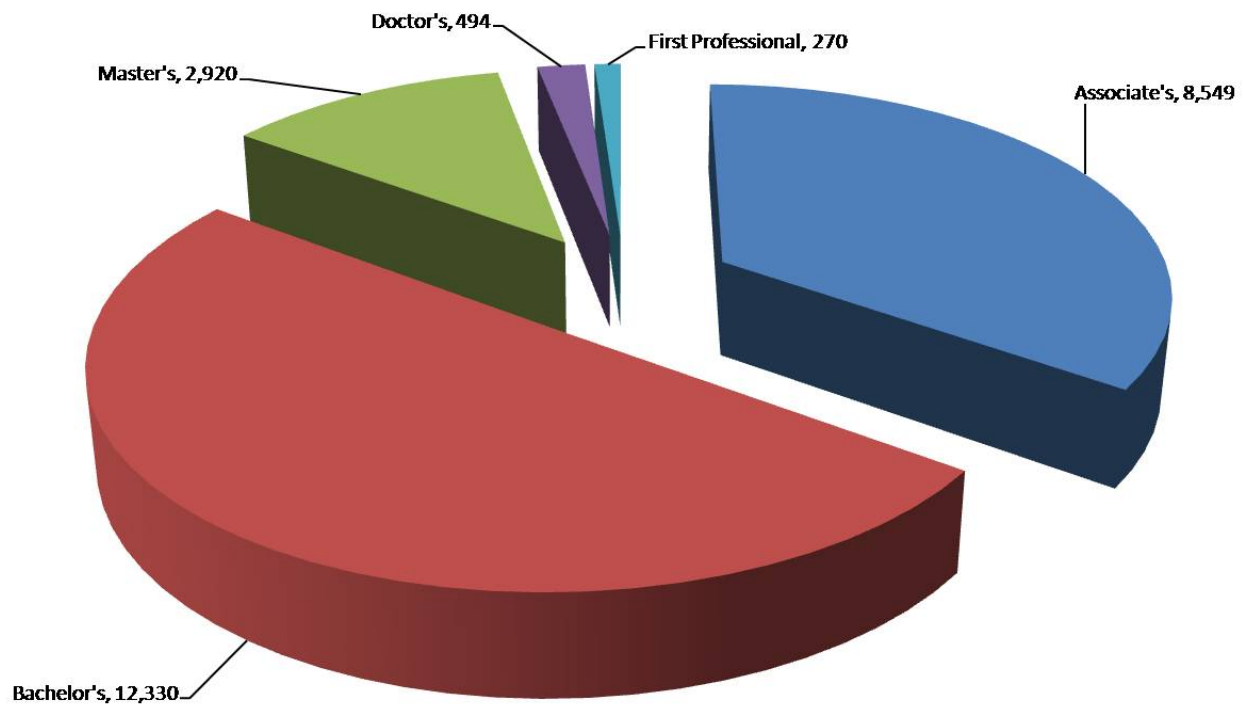
- What Did We Really Buy
- Higher Education is an Investment
- Budget Cuts
- Reductions in Personnel
- Does Tuition Cover the Costs?
- Family Share of Funding Public Higher Ed.

What Do We Really “Buy” With the State Appropriated Budgets?

First, we “buy” educated individuals that have much to contribute to society. This translates into degrees, which are shown in this slide:

What Did We Really Buy?

24,563 Degrees Awarded 2007-2008



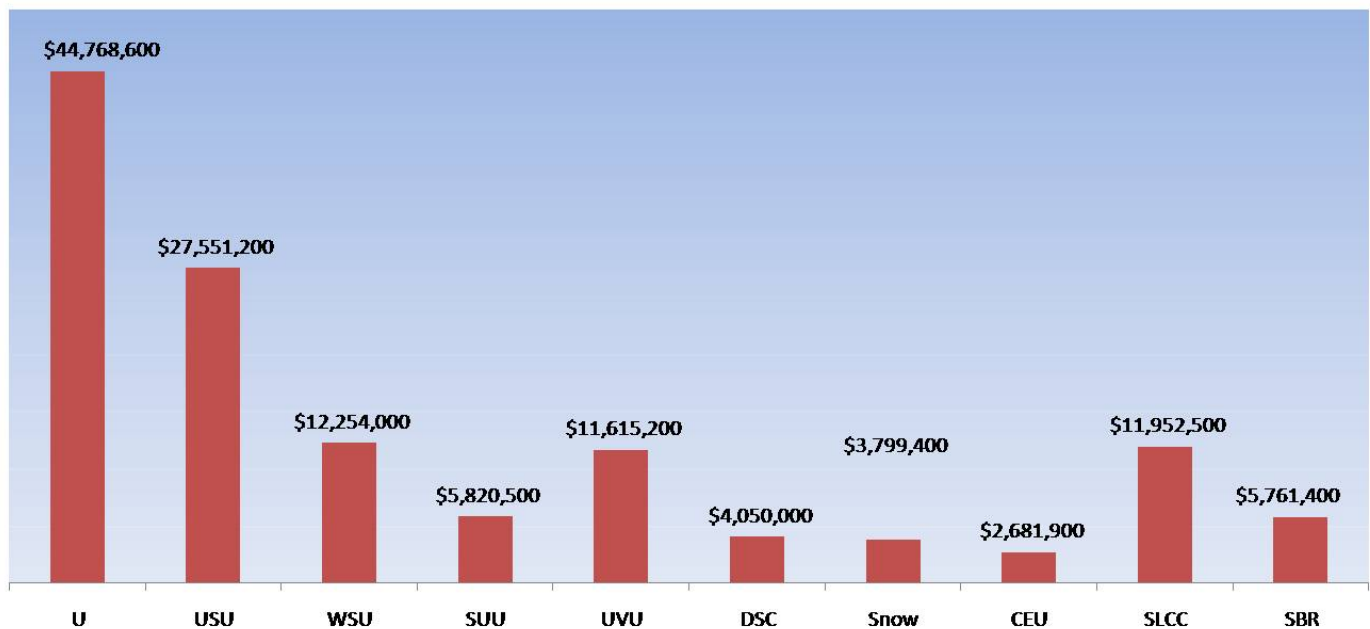
But it is not just degrees, it is training for life.

Surviving With Less

Budget Cuts! The base budget has been cut by 17% or \$130 million dollars for FY 2009-10. The only way to “restore the budget” is through new state appropriations. This slide shows the amounts of the on-going reductions by institution.

Surviving with Less

**\$130,254,700 in On-Going Budget Cuts
FY09 & FY10**

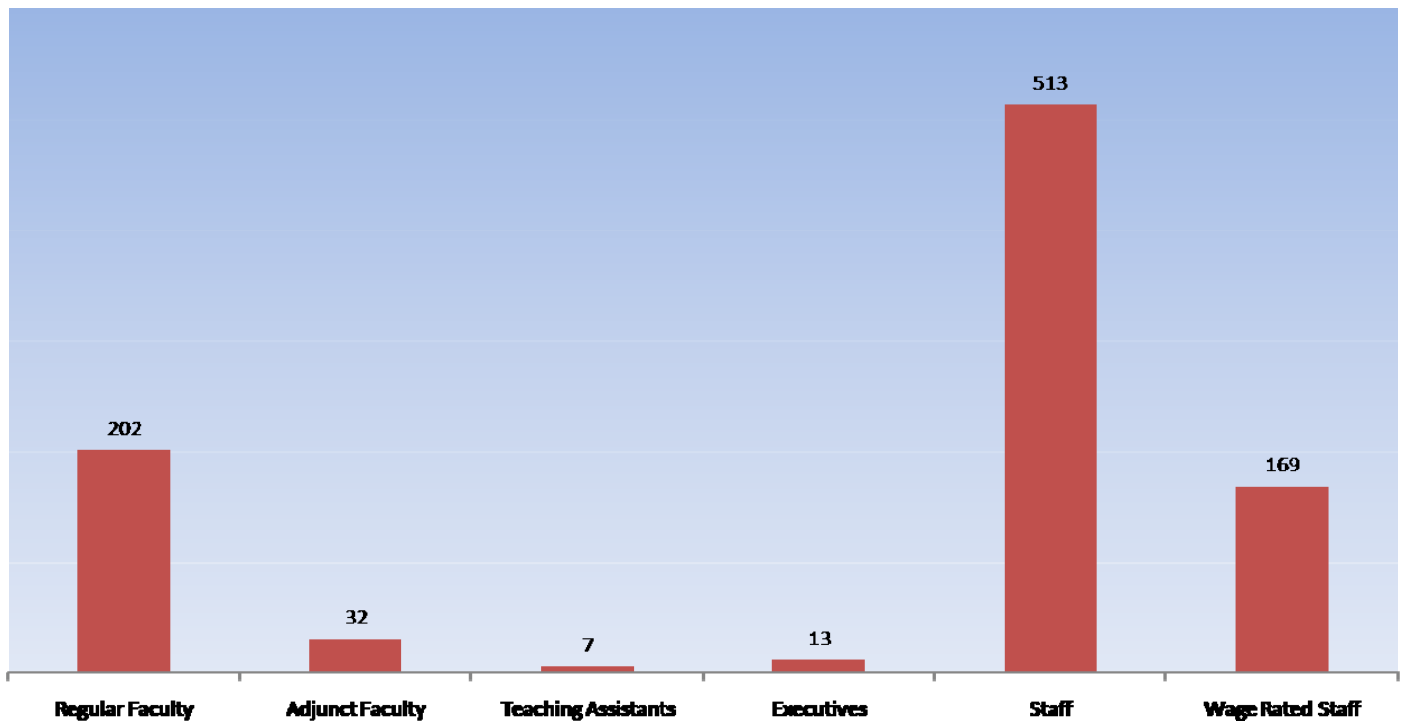


Since 80% of our budgets are related to compensation, the personnel category takes the bulk of the cuts. The next slide shows the breakdown of position cuts by personnel category:

Surviving with Less

936 Reductions in Personnel

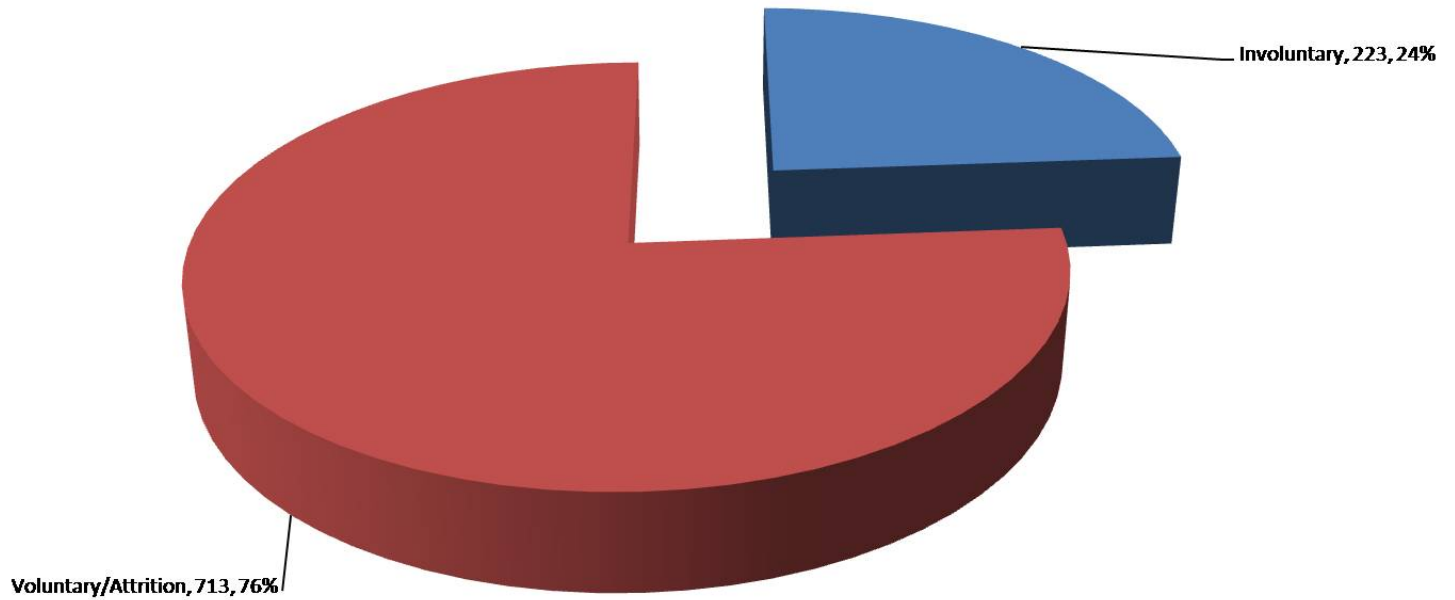
Budget Cuts Implemented as of June 30, 2009



Although cutting personnel is “heavy lifting” campuses have done their best to find ways to take some of the “sting” out of the process through the elimination of open positions, early retirement, severance incentives, etc. This translates into the mix of voluntary and involuntary reductions as shown in the following slide:

Surviving with Less

How the Personnel Cuts Were Implemented

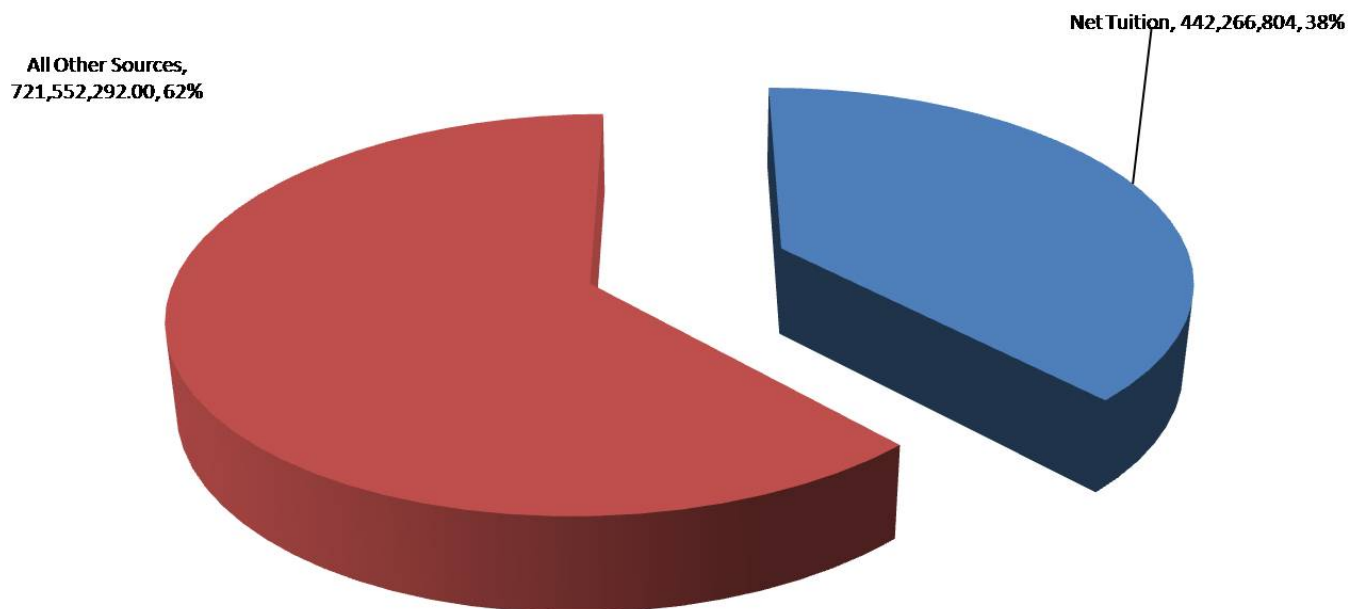


Increasing Enrollments

Although it is still too early for solid numbers, our campus presidents have reported that enrollments are up substantially. In difficult economic times, students know that education is a solution. Certainly the additional tuition dollars from increased enrollments can help institutions with seat capacity, but the additional tuition collected will not cover the total increased costs, especially in light of the budget cuts.

Increasing Enrollments

Does Tuition Cover the Costs?



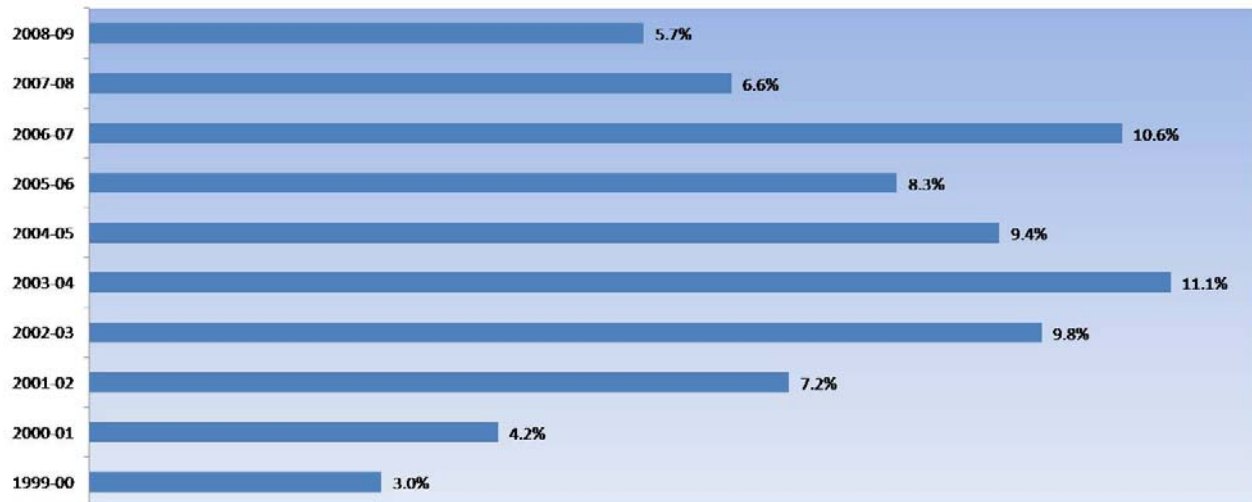
Tuition Increases

Without additional state appropriations to cover the costs, tuition generally increases. This chart shows the system average tuition increases over the past ten (10) years. Like interest, the increases compound on an ever increasing base. But, overall Utah's tuition rates for colleges and universities are still a great deal!

Tuition Increases

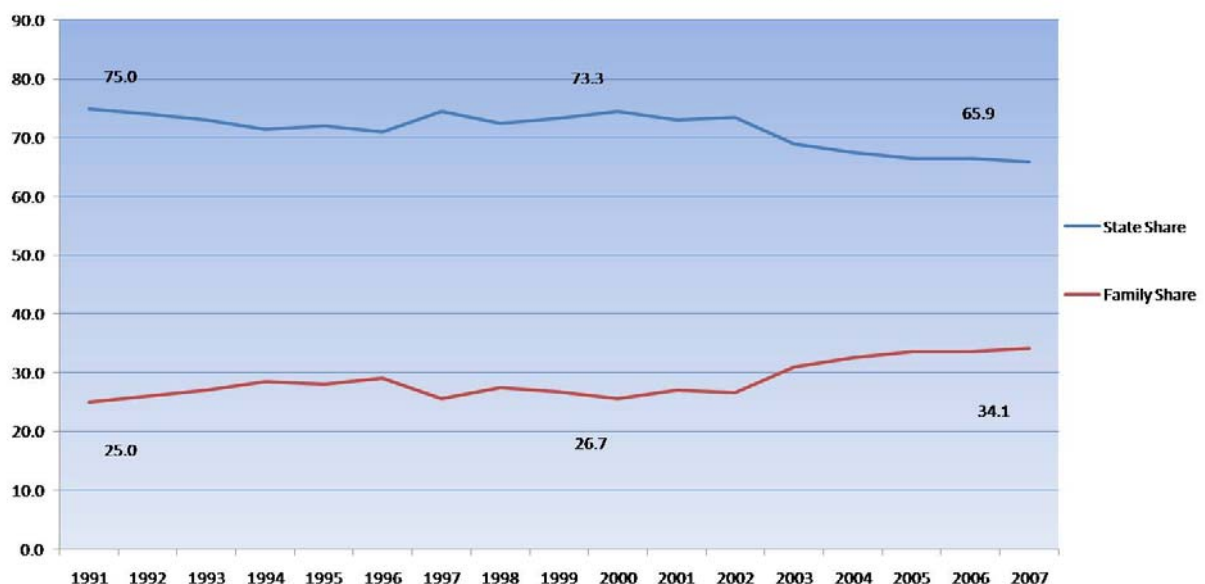
Family Share of Educational Expenses

USHE "Simple" Average Tuition Increases



The current trend is that the family shares in the cost of higher education. As a previous chart indicated, the system average is currently 38% tuition compared to 25% in 1991.

State & Family Share of Funding for Public Higher Education, 1991-2007, Utah



The budget request that follows is the result of the work of the State Board of Regents, Council of Presidents, Business Affairs Council and the Budget Officers. The categories and amounts of the request were discussed at length and will be presented following this budget primer. Depending on the outcome, the finalized budget request will be presented to the GOPB and the Legislature for consideration in the upcoming legislative session.

Budget Request Process

- USHE Budget Process
- Governor's Budget Process
- Legislative Budget Process

