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**Furlough and Finance at UArizona in
the Wake of Covid-19**

**Presented by the General Faculty
Financial Advisory Committee
(GFFAC)**



Special Thanks

- **Barry Brummund & members**, Students Working Group, FSERT*
- **Jim Florian & members**, Capital Projects Working Group, FSERT*
- **Liesl Folks**, Senior Vice President for Academic Affairs and Provost
- **Joe Gerald & members**, Public Health Re-entry Team
- **Helena Rodrigues & members**, Workforce Working Group, FSERT*
- **Lisa Rulney**, Senior Vice President for Business Affairs and CFO
- **Nicole Salazar**, Chair, Operational Efficiencies Working Group, FSERT*
- **Faculty Senate**

[*Financial Sustainability Emergency Response Task Force Teams](#)

What is GFFAC?

Outcomes of the General Assembly Meeting on June 25

- **June 15:** The Coalition of Academic Justice at UA (CAJUA) petitioned Shared Governance, activating the [General Assembly](#) and the General Faculty vote to delay the Furlough until Mid-September, 2020.
- **June 30:** President Robbins agrees to delay the University Furlough Plan from July 1 to August 10, 2020
- **July 10:** Chair of the Faculty assembles an ad hoc committee (GFFAC) made up of faculty, staff, and a graduate student, including members of the CAJUA

Committee charge: This is a temporary, ad-hoc committee established to work intensely with University of Arizona administrators over the next few weeks to conduct a “deep dive” into the financials of the university, and develop a proposal to mitigate some or all of our anticipated losses via a report that outlines possible solutions/recommendations based on our analysis. Guidance for the role of this committee as a body of shared governance working in partnership with UA administration is outlined in the [Memorandum of Understanding](#). The committee will be tasked with **cooperation, communication, and education** of the university community at-large based on what is learned over the next few weeks.

GFFAC Members

- **Brian Berrellez** - SPBAC/APAC/Staff (CALIS)
- **Scott Cederburg** – Faculty (Eller)
- **Ravi Goyal** – Senator/Faculty (CALIS)
- **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 (CALIS)
- **Mayela Trevino** - Staff (CoEd)

What is the State of Arizona Law?

1992 Arizona Faculty Governance [ARS 15-1601B](#)

*The Universities shall have colleges, schools and departments and give courses of study and academic degrees as the Board (of Regents) approves. Subject to the responsibilities and powers of the Board and the University Presidents, the faculty members of the Universities, through their elected faculty representatives, shall share responsibility for academic and education activities and matters related to faculty personnel. **The faculty members of each University, through their elected faculty representatives, shall participate in the governance of their respective Universities and shall actively participate in the development of University policy.***

According to Our Memorandum of Understanding for Shared Governance...

*In an era of significant educational change, the **success of the University and the positive morale** of the faculty and administration are dependent upon continued use of the collective intelligence of the university community in planning and decision making. **Shared governance involves mutual participation in the development of policy decisions by both faculty and administration, and requires shared confidence** between faculty members and administrators. This requires extensive sharing of information and a shared understanding that faculty representatives and administrators strive always for informed mutual support through shared governance dialogue ([Shared Governance MOU](#)).*

**GFFAC's
work since
July 13**



Work at a Glance

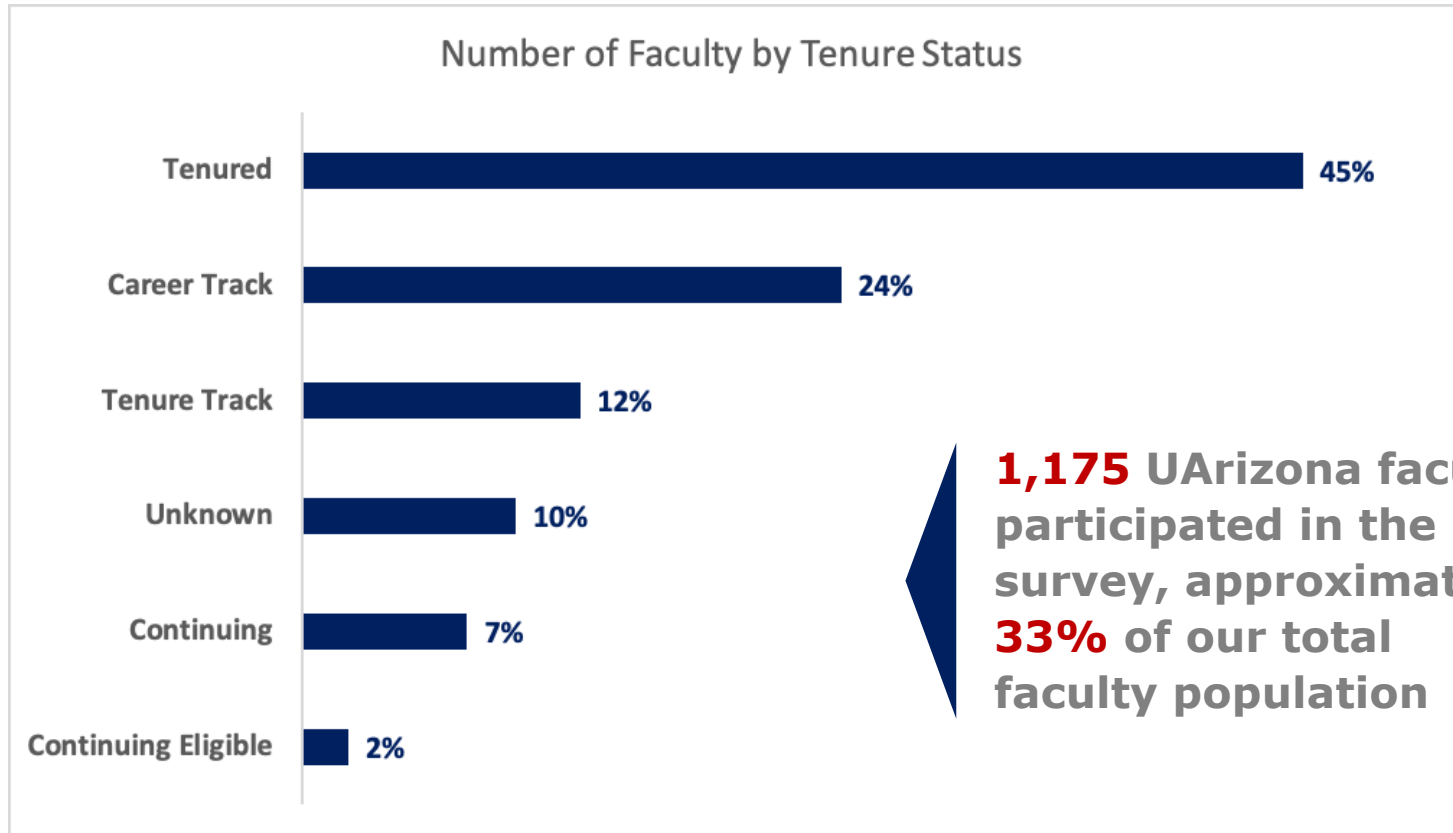
- **28 hours** of meetings as a full committee over 3 weeks
- **100+ hours** of research
- **6 hours** of meeting/Q&A time with UArizona CFO Lisa Rulney and Provost Liesl Folks
- **4 hours** of meeting/Q&A time with UArizona working groups in the Financial Sustainability Emergency Response Task Force (FSERT)
- **1 faculty & staff survey**, with nearly 4,000 responses (N=3,991)
- **1 report** (upcoming)
- **2+ presentations** (upcoming)



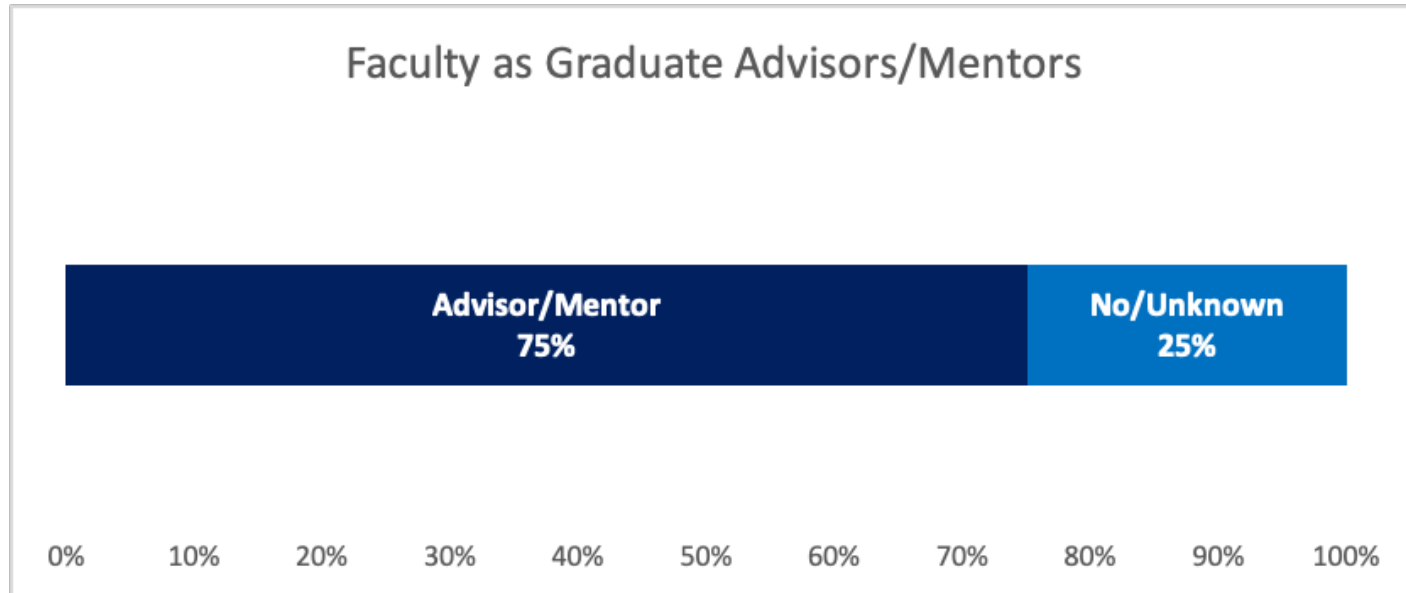
Presentation Overview/Outline

- **Survey Results**
- **Overview of UArizona Financial Situation**
- **Benchmarking and Peer Comparisons**
- **Debt and Borrowing Options**
- **Alternative Furlough Recommendations**
- **Engaging Shared Governance**
- **Recommendations**

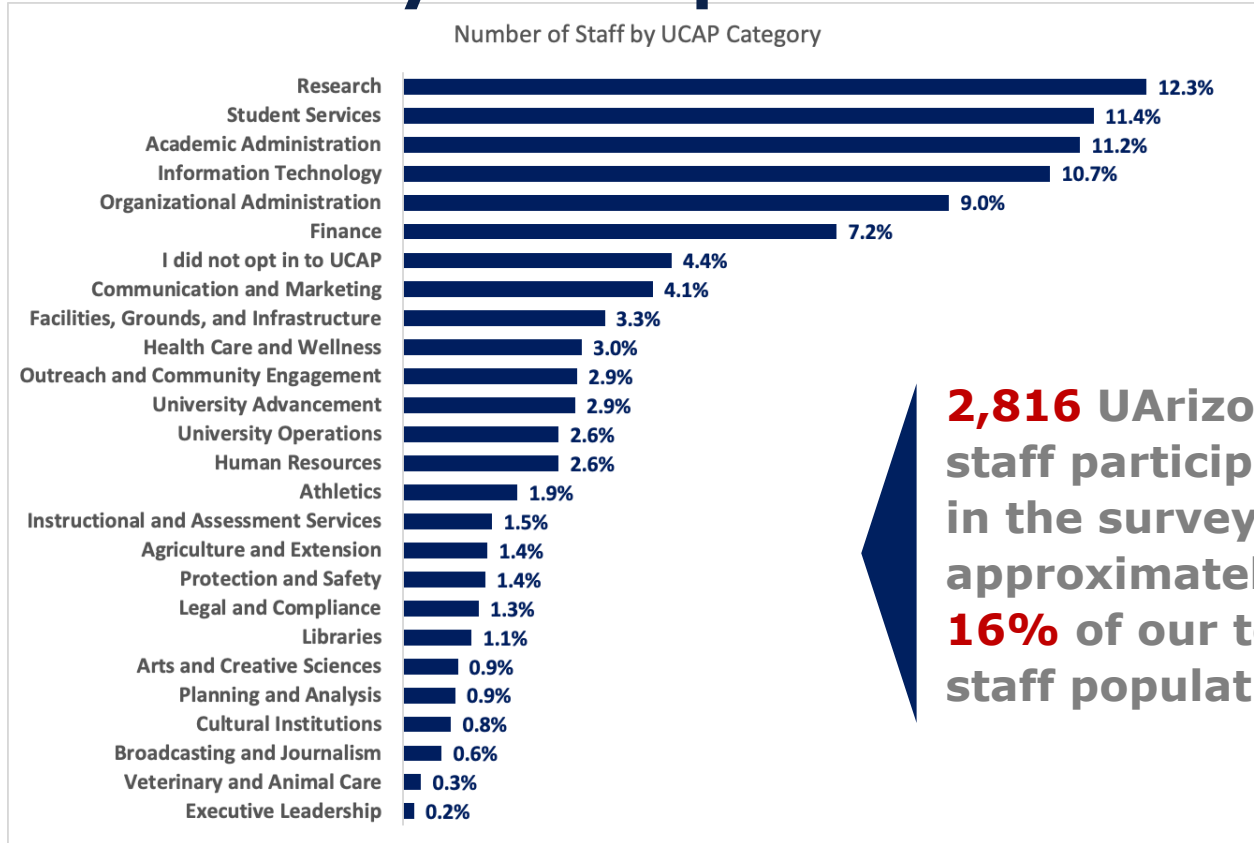
Survey Participants: Faculty



Survey Participants: Faculty as Graduate Advisors/Mentors

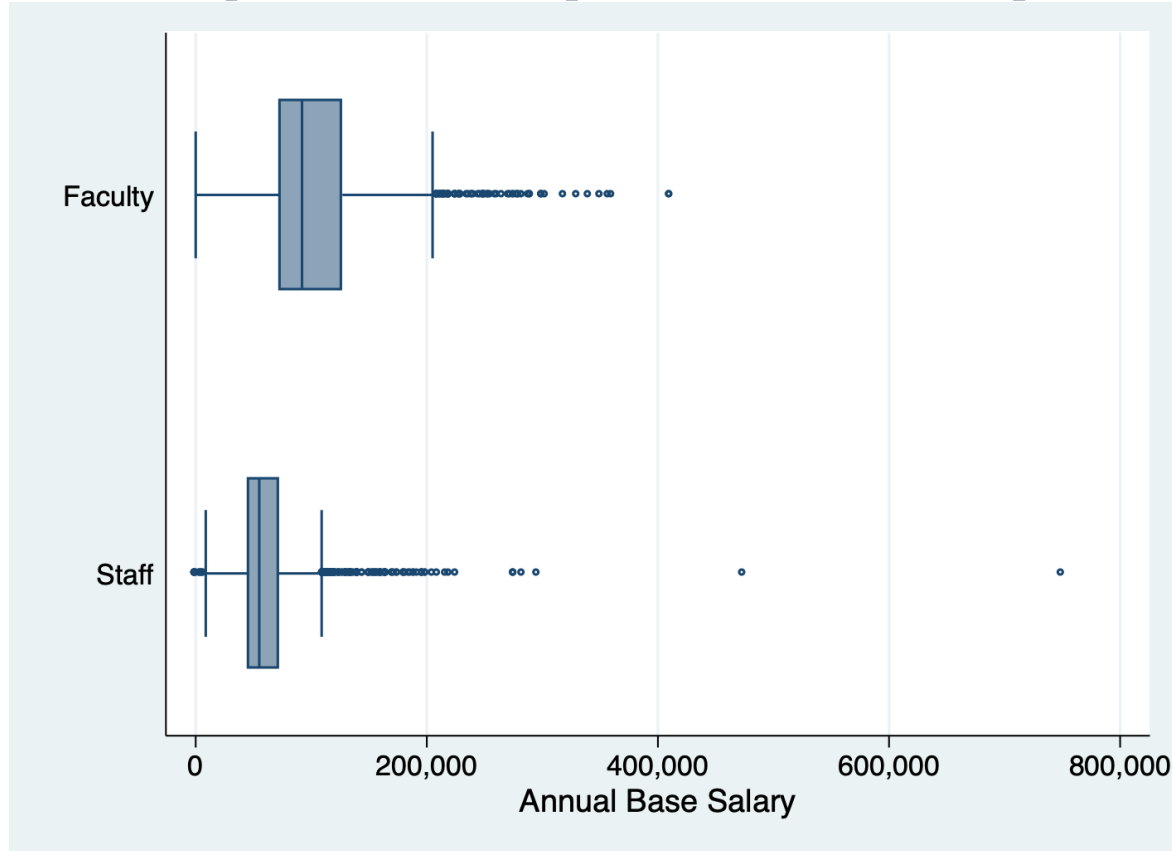


Survey Participants: Staff

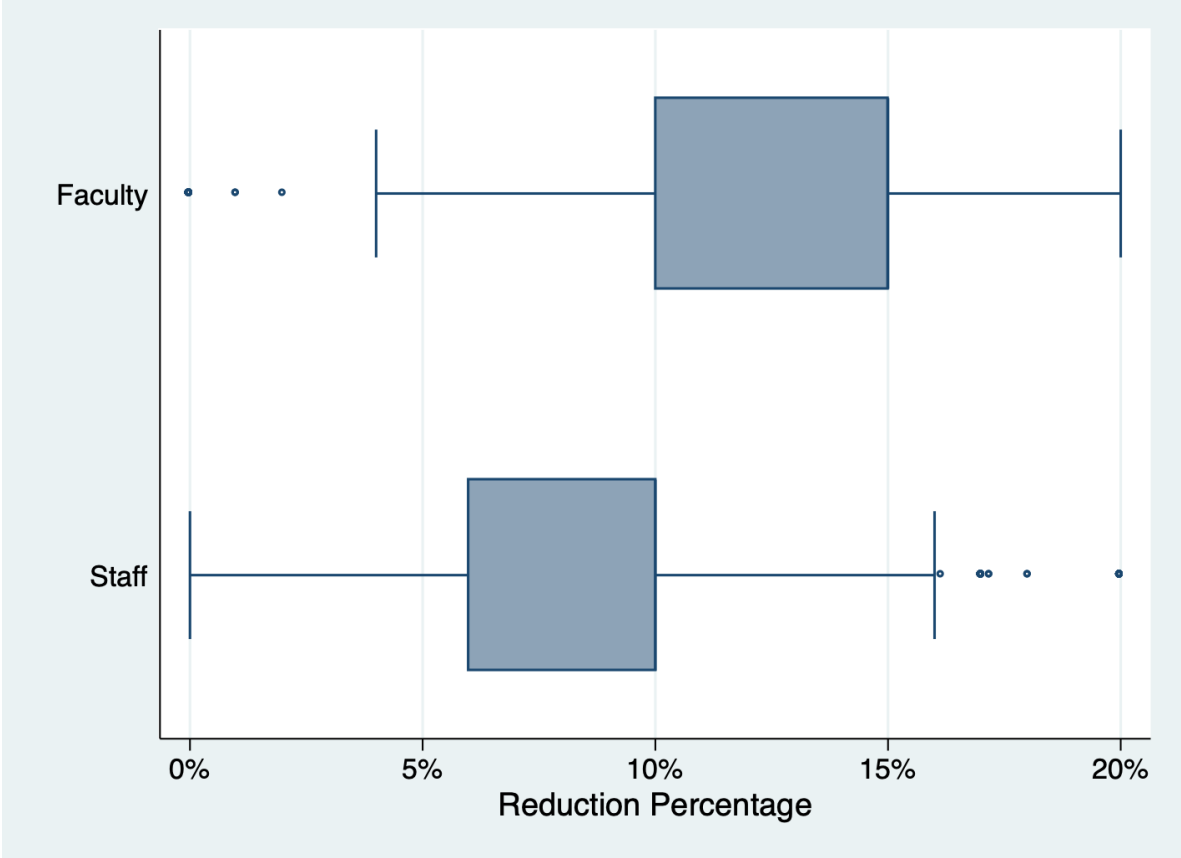


2,816 UArizona staff participated in the survey, approximately **16%** of our total staff population

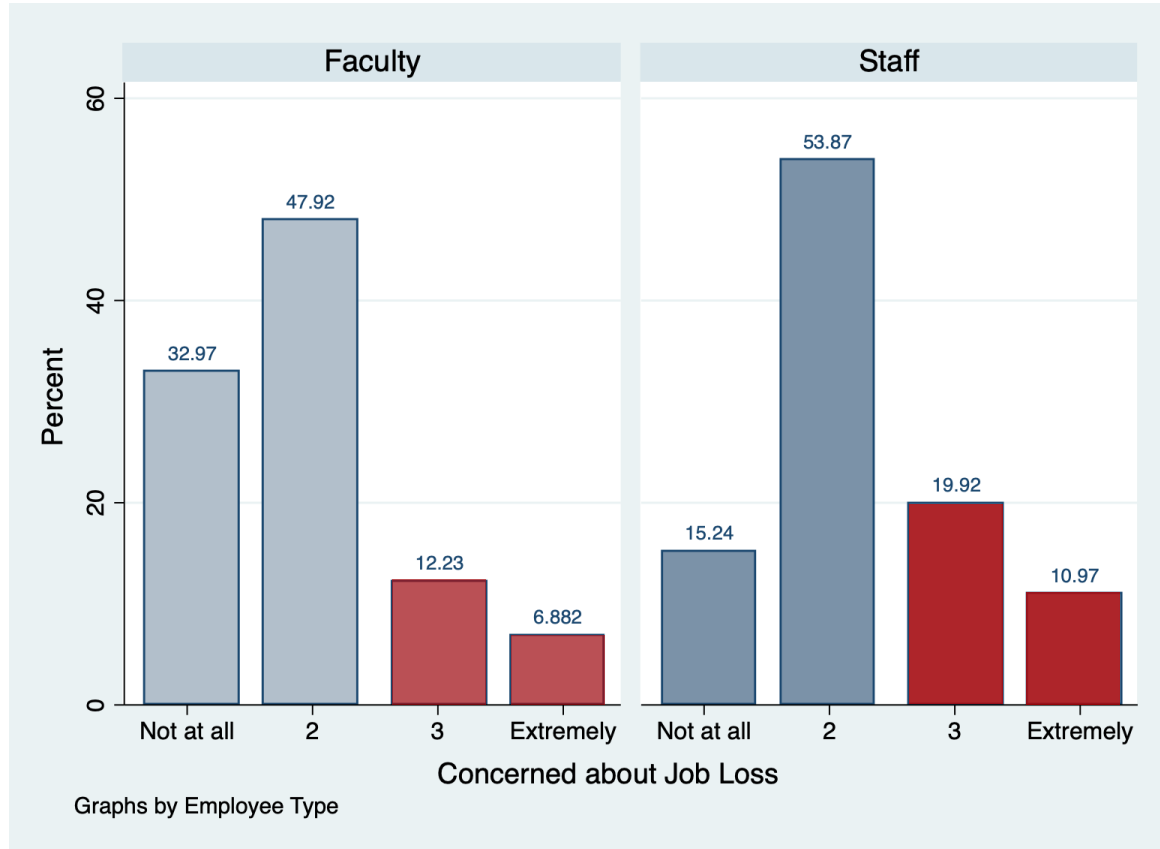
Survey Participants: Reported Salary Distribution



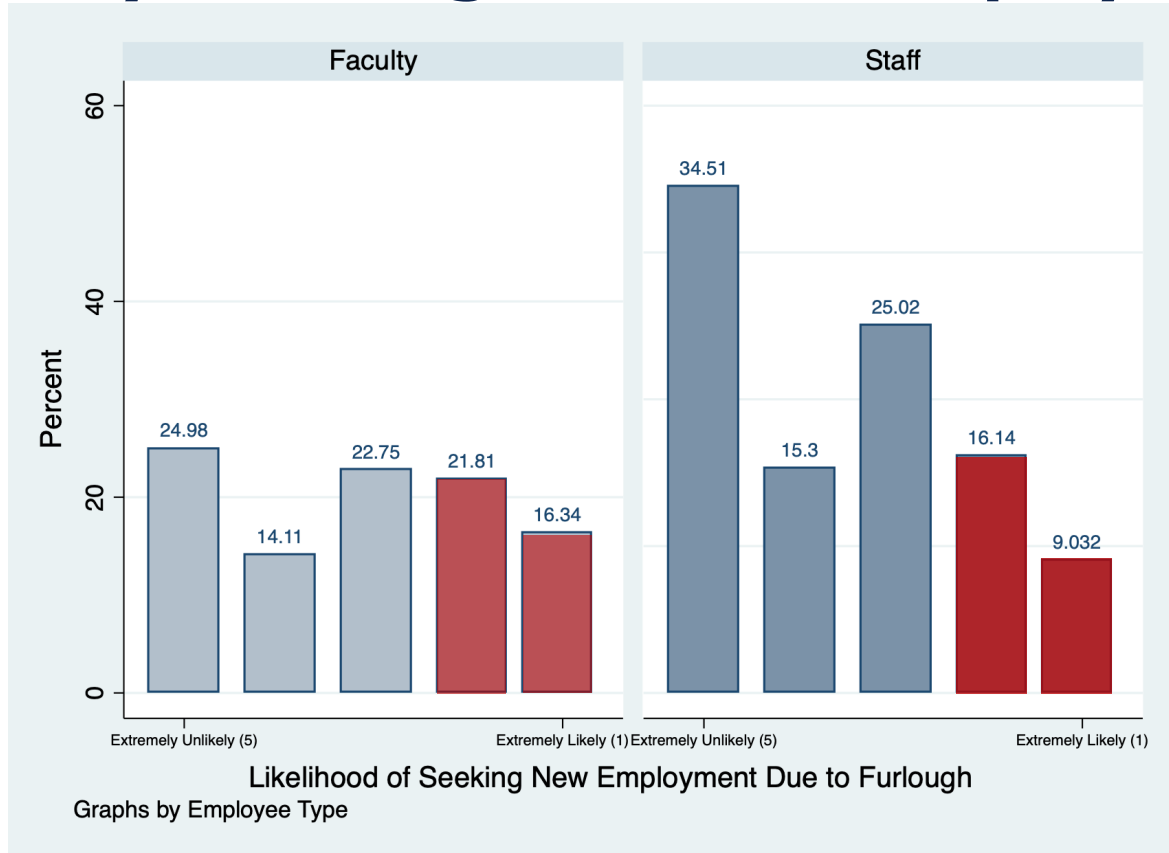
Survey Participants: Reported Salary Reduction



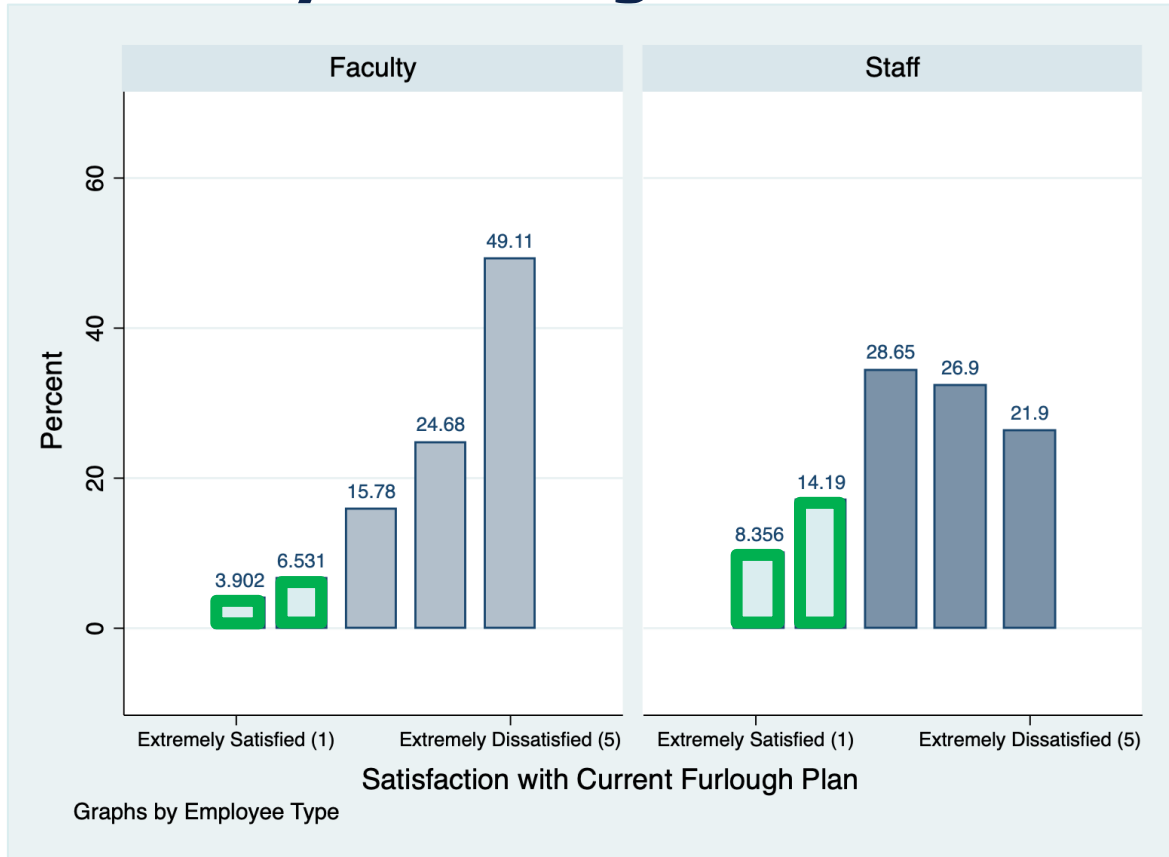
Survey: Worried About Job Loss



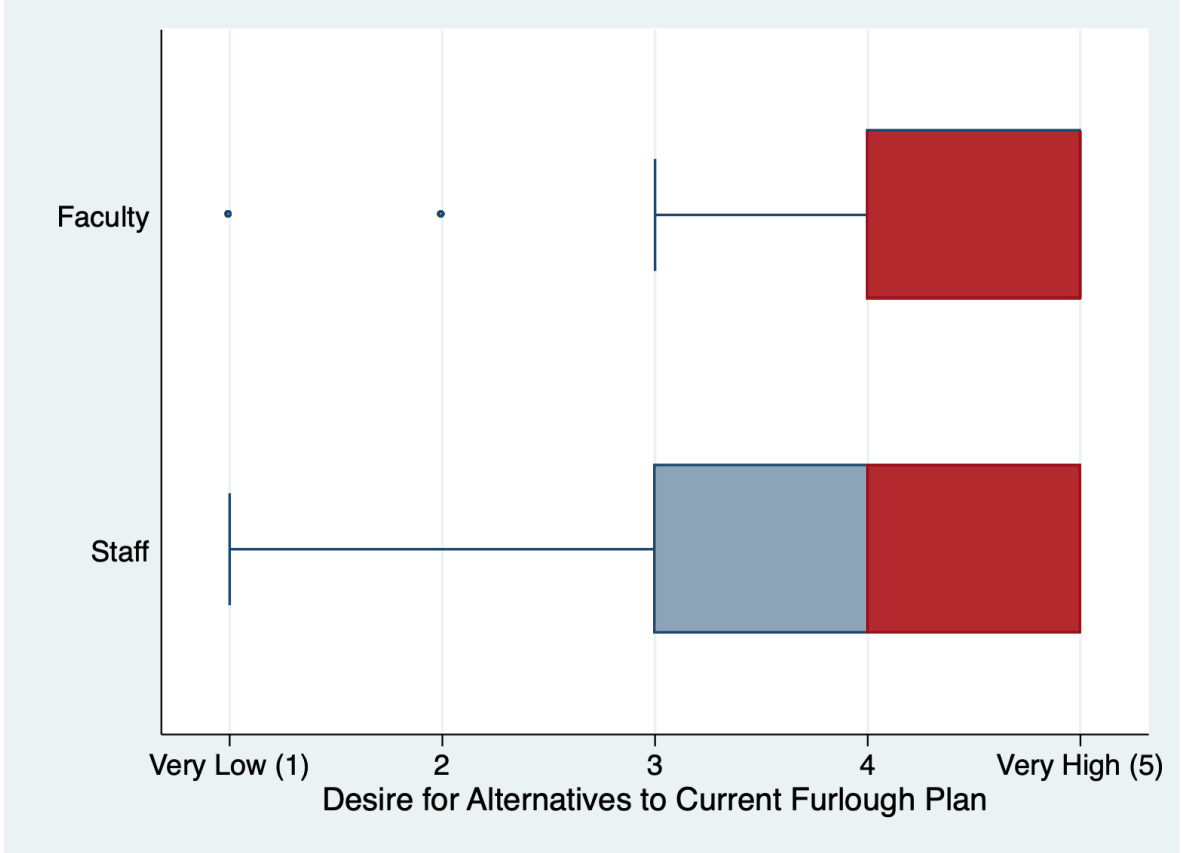
Survey: Seeking Alternate Employment



Survey: Furlough Satisfaction



Survey: Desire for Furlough Alternatives



Data Requested by GFFAC

- **De-identified UA employee salary data**, with information on base salary, FTE, grant/sponsored projects funding, and furlough rates
- **A disaggregated summary** of estimated impacts from Coronavirus crisis, including:
 - ✓ Revenue sources
 - ✓ Expenses
 - ✓ Mitigation strategies

Data Obtained by GFFAC

- **Aggregated summary** of projected financial loss using a “moderate” model scenario*

Outstanding Questions:

- ✓ What assumptions shaped the stagnant scenario models
 - ✓ What thresholds – positive or negative – determine "togglng" from one planning scenario to another?
- **Various expenditures/summaries**, including: utility expenditures, FY20 Philanthropy & Investments, FY20 Net Tuition Revenue (NTR), FY20 operating funds, state funding trends, student enrollment, alternate furlough modeling output

*e.g., [CFO Rulney, May 4 presentation to Faculty Senate](#)

Overview: Financial Situation and Solutions

- Similar to peer universities, the University of Arizona is experiencing significant losses due to COVID-19
- The *Furlough and Furlough-based Salary Programs (FFSPs)* at the University of Arizona are currently a large portion of the mitigation strategy
 - ✓ Our \$79 million FFSPs are extraordinarily large relative to publicly known furlough programs at peer institutions to date
 - ✓ Total employee-related mitigations exceed \$130 million

GFFAC believes we have the financial flexibility to cover COVID-19 losses without (or with dramatically reduced) FFSPs

- ✓ Cash reserves and lines of credit to meet ongoing cash needs
- ✓ Prioritize and make strategic decisions about available long-term alternatives

Pre-Existing* & COVID-19 Projected Losses

*Tuition & Fees Projected Loss includes \$25M tuition discounting

7/13/2020 projections from CFO Rulney	FYs 2020 and 2021 losses
Tuition and fees (net)	-\$108 million*
Investment and philanthropy	-\$49 million
Auxiliaries (e.g., parking)	-\$49 million
Athletics	-\$23 million
Research cost recovery	-\$16 million
Departmental sales	-\$9 million
COVID-19 costs	-\$27 million
Total losses	-\$281 million

Projected Loss Mitigations

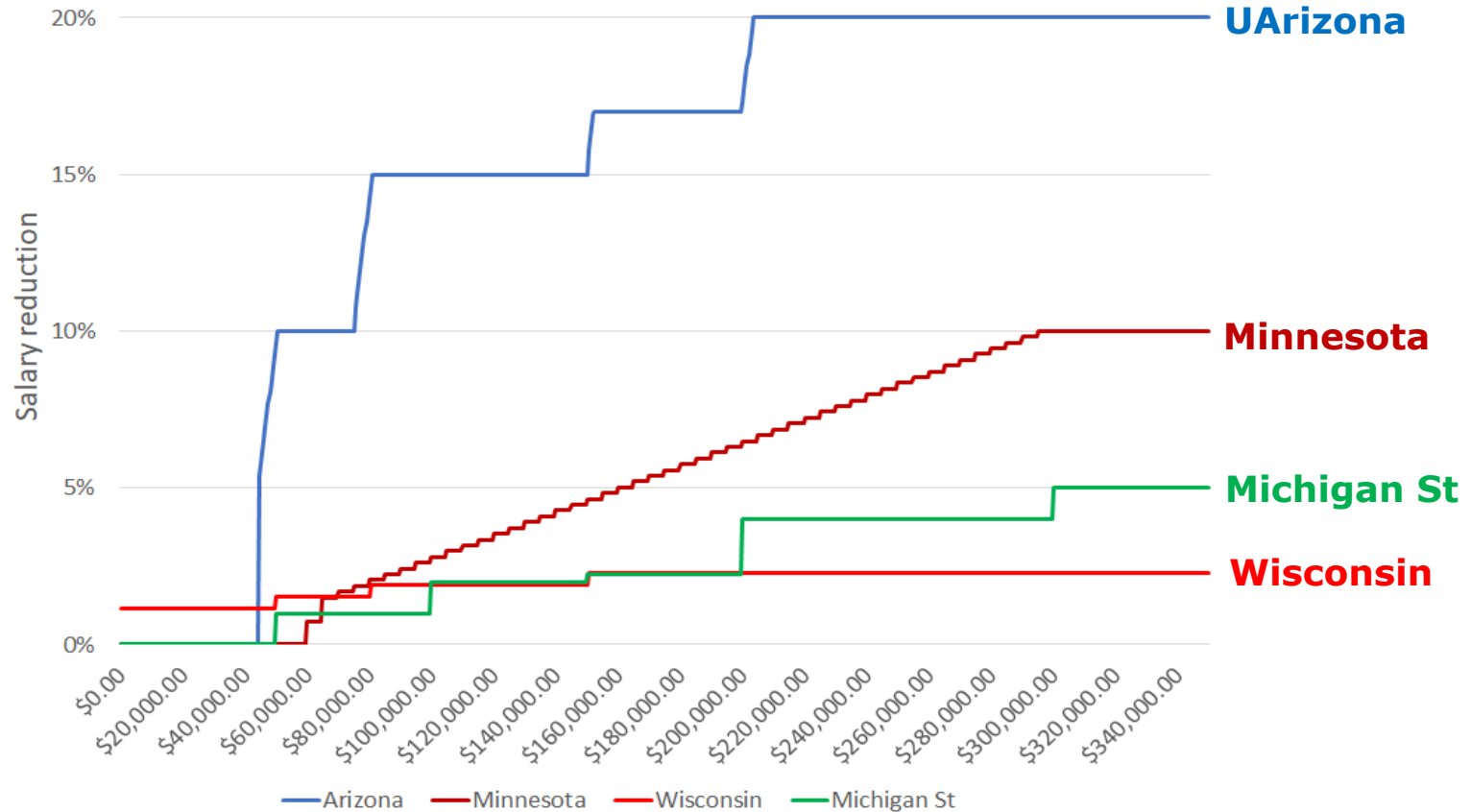
7/13/2020 projections from CFO Rulney	FYs 2020 and 2021 savings
Furloughs (updated to 7/29/2020 projection)	\$79 million
Wage freeze	\$20 million
Hiring freeze	\$7 million
Strategic plan halt	\$58 million
Postpone capital projects	\$22 million
CARES Act funding	\$15 million
Total savings	\$201 million

- ✓ Potential debt restructuring savings of ~\$60 million
- ✓ Additional loss mitigation from lower retirement contributions and payroll taxes that result from lower salaries (~\$15-20 million), natural mitigation from lower travel and utilities expenses (~\$10-20 million)
- ✓ Employee layoffs and non-renewals (at least 280 so far) also used as loss mitigation
- ✓ Total employee-related savings are at least \$130 million

Comparison: ABOR Peer Financial Strategies

Institution	Furlough/ Pay Cut	Layoff/ Non-Renewal	Borrowing/ Line of Credit	Salary Freeze/ Hiring Pause
UArizona	5.38-20%	289		x
UC System	10% Chancellors		x	x
U of Florida				x
U of Illinois			x	x
U of Iowa	50% President	15	x	x
U of Maryland				
Michigan State	Non-union: 0.5-7%			
U of Minnesota	0.75-10%			
UNC Chapel Hill			x	
Ohio State			x	x
Penn State	10% President		x	
Texas A&M			x	
U Texas Austin			x	x
U of Washington			x	
U of Wisconsin	2.3-4.6% All; 10-15% Leaders	40	x	

Comparison: Peer Institutions Furloughs (FFSPs)



Alternative FFSPs Models Generated by UArizona Faculty/Working Groups

Proposed Furlough Plans	Source	Date
Scenario A: 13 furlough days, regardless of salary ^{1,2}	FSERT Workforce	27-Mar
Scenario B: 1-10 furlough days or 5% pay cut depending on salary ^{1,2}	FSERT Workforce	27-Mar
Scenario C: 3% - 10% pay cut depending on salary ^{1,2}	FSERT Workforce	27-Mar
Graduated/Gradual Furlough Program: 1-35% pay cut depending on salary	College of Education	22-Apr
Equitable Furlough Program: 4-30% pay cut depending on salary ^{2,3}	CAJUA	21-May
Eller Plan: Borrowing and cash reserve strategies without furlough	Eller College of Management	10-Jul
UMinnesota Furlough Program: 1-10% pay cut depending on salary ^{2,4}	GFFAC	29-Jul

¹Assumes a floor of \$44.5K; ²Does not include grant or Banner derived salaries; ³Assumes a floor of \$70K; ⁴Assumes a floor of 60K

Alternatives to the Currently Proposed FFSPs

GFFAC has considered several alternatives to the FFSPs to mitigate the COVID-19 losses

- **Short-term alternatives** (0-6 months)
 - ✓ Cash reserves
 - ✓ Line of credit
- **Intermediate-term alternatives** (3-12 months)
 - ✓ Potential of ABOR and state legislature changing laws for issuing bonds
 - ✓ Potential federal stimulus funding
- **Long-term alternatives**
 - ✓ Lobbying on state allocations
 - ✓ Selling auxiliaries (e.g., parking or bookstore)
 - ✓ Selling buildings
 - ✓ Strategic decisions about spending, etc.

GFFAC believes short-term alternatives offer the university flexibility for the campus community to find and implement the best long-term solutions

Cash Reserves as a Short-Term Tool

- The University of Arizona entered the COVID-19 crisis with significant operating funds of approximately \$800 million
- Some cash reserves have already been used to mitigate COVID-19 losses
- Cash balances have declined to about \$570 million
 - ✓ Days cash on hand is currently in lower portion of ABOR's goal range
 - ✓ August will be a positive cash-flow month due to incoming tuition, etc.; increase in cash balance was \$280 million in August 2019

GFFAC believes cash reserves are a part of the solution, but they may not cover the full COVID-19 losses depending on the extent of losses.

Debt as a Cash Management Tool in a Crisis

Debt is a powerful tool for managing a large, unexpected loss

- Smooth the large one-time shock to a much more manageable problem that is addressed over a longer term
 - For example,** at current long-term bond rates, we could potentially turn a \$200 million one-time shock into an easier-to-handle \$12 million per year obligation for 20 years
- Make decisions based on best alternatives for the long-term wellbeing of the university and its employees (rather than cuts based on the largest short-term impact on cash)

Eleven of our 15 [ABOR Peer Universities](#) are using debt/borrowing as a COVID-19 financial mitigation strategy

Borrowing under Arizona State Law

- The University of Arizona's ability to borrow is governed by Arizona State Law
 - **Bonds.** Can issue bonds to "acquire projects" (ARS 15-1683). There is some flexibility due to fairly expansive definitions of "acquire" and "project" in Arizona laws
 - **Commercial paper.** Can issue commercial paper for "any costs and expenses related to a project" (ARS 15-1696)
 - **Line of credit.** Can obtain line of credit for "cash management or liquidity" (ARS 15-1682). There are no restrictions on spending for operating expenses
- No state law that says *"we can't borrow for operating expenses"*
- On all borrowing options, we work with the Arizona Board of Regents (ABOR)

Lines of Credit as a Short-Term Tool

- We are allowed to "obtain lines of credit for cash management or liquidity purposes" (ARS 15-1682)
 - ✓ ABOR meeting notes from 9/2016 about 2016 HB2271: "the availability (of lines of credit) provides a contingency should the universities ever need to address unanticipated significant negative financial circumstances"
- Examples of recent COVID-19-related Lines of Credit (LoCs):
 - ✓ **University of Michigan** (\$1 billion), **Indiana University** (\$1 billion), **SUNY** (\$3 billion), **Penn State** (\$250 million)
 - ✓ \$2M cost to Indiana for \$1B LoC; may expect about \$750K cost for \$250M LoC
- Lines of credit are tailor-made for cash management with unknown losses
 - ✓ The FFSPs have been pitched as a way to buy us time to make other adjustments, while preserving as many jobs as possible
 - ✓ A Line of Credit is a better, more flexible tool to buy us time while preserving jobs

GFFAC believes the combination of **cash reserves** and a **line of credit** is large enough to absorb COVID-19 losses as we develop long-term solutions

Bonds as a Longer-Term Tool

- Long-term bonds are a very attractive funding option due to low current interest rates
 - ✓ New bond issues by universities in first half of 2020 were ~\$30 billion versus ~\$5 billion in first half of 2019
- Potential options:
 - ✓ **Current state law:** Find all university spending that qualifies under "acquire a project" (includes, e.g., upgrading air filtration in existing buildings or adding technology to existing classrooms) to back a bond offering (or increase the size of an upcoming bond offering)
 - ✓ **Potential state law change:** UArizona, ASU, and NAU are working with ABOR and state legislature to relax constraints (CFO Rulney, July 13 communication to campus)

GFFAC believes the university should use bonds to the extent possible to spread losses over a longer period

Other Long-Term Alternatives

- Working Groups in the FSERT* have identified potential long-term alternatives
 - ✓ Selling auxiliaries (e.g., parking or bookstore)
 - ✓ Selling buildings or other assets
 - ✓ Selling buildings with lease-back
 - ✓ Improvements in operational efficiency
 - ✓ Local strategies from colleges and support units
- These alternatives take time to explore and implement
- The University's short-term financial flexibility (with cash reserves and a line of credit) can allow the campus community to work to find the best long-term solutions without being constrained to look at short-term solutions to save cash

[*Financial Sustainability Emergency Response Task Force Teams](#)

Key Takeaways

- The University of Arizona has short-term financial flexibility
 - ✓ Cash reserves and a line of credit are large enough to cover losses in the short term
 - ✓ The university has the financial flexibility to eliminate or significantly reduce the FFSPs
- GFFAC recommends **eliminating or dramatically reducing the FFSPs** and using short-term flexibility to find the best long-term solutions (rather than concentrating on short-term cash savings)
 - ✓ The FFSPs are motivated by short-term cash savings at the expense of extensive long-term damage to the university
 - ✓ Less-damaging long-term solutions are available

GFFAC & Alternative Furlough Plans: Background & Constraints

- To date, six Furlough plans have been submitted to UArizona for consideration between April and July 2020.
- GFFAC was informed by senior leadership on July 22 that there was no possibility of avoiding a furlough plan at that time
- GFFAC constraints on developing new alternative furlough plans included:
 - ✓ No underlying/disaggregated data was provided to directly design new models
 - ✓ No updated savings target was offered by senior leadership
- No furlough plan that approaches the \$79M savings of the currently proposed plan is acceptable to GFFAC without reservation amidst possible options
 - ✓ The next most severe furlough at an ABOR peer institution (Minnesota) would produce \$18M in savings for UArizona – our current plan is 4.4 times the size of Minnesota's plan.

Recommendations: Furlough Plan

- Last resort, only in combination with other mitigation tools
- Progressive "smooth curve" structure
- Floor: \$60K
- Increases in NTR* actuals trigger proportional decrease of furlough days/rates
- Review process for layoffs and non-renewals
- Enable employees to access retirement savings to offset FFSP
- Support dismissed employees in accessing Federal Unemployment Benefits
- Reversion to furlough days rather than flex days, particularly for non-administrative staff

*Net Tuition Revenue (NTR)

Shared Governance Moving Forward

**Voice of
UArizona Faculty
& Constituents**

The current furlough plan remains inequitable by intramural and extramural standards. Keeping it will irreparably degrade morale, faculty/staff/graduate student talent retention, and UArizona perceived-value among prospective students.

Increase
**stakeholder
input**

Address
inequities in
salary

**Engage Shared
Governance**

- Early on in decision-making processes
- And in conflict-resolution

Build
trust

Increase
communication

At least a \$79M funds-influx plan is needed now to offset projected FY21 losses in net tuition revenue and enable academic units (e.g. colleges) and other units to have sufficient funds for operating in FY21, starting now.

**Understanding of
UArizona Senior
Leadership**

Leveraging Shared Governance

Decisions concerning the university community at large are best made by bringing them to shared governance before executive leadership makes decisions

The [Shared Governance MOU](#) stipulates that:

- *University budgets and records of University expenditures will continue to be open to all members of the faculty and the public, as required by law (MOU, page 1, section II, item 1).*
- *In a case where differences arise between the administration and the appropriate overarching shared governance body concerning any policy recommendation in any area covered by these guidelines, the administration and that shared governance group will work to resolve those differences so as to attain an outcome that is generally accepted (MOU, page 5, item 3).*

Current & Proposed Shared Governance Engagement Strategies

- **[Current]** The MOU is currently being revised to provide explicit guidance and direction to all stakeholders in shared governance
- **[Proposed]** The [Shared Governance Review Committee](#) will be re-enacted to **create specific policy around decision making, engagement, and workflow** in partnership with administration, faculty, and staff
- **[Proposed]** Existing Shared Governance bodies will partner with administration to **re-evaluate financial mitigation strategies from here on out**, and particularly at each census date/review point (Oct 2020, Mar 2021)

Action Items for Senate

1. The University of Arizona should commit to short-term borrowing options, such as obtaining a line of credit.
2. The University of Arizona should commit to long-term borrowing options, such as issuing a bond.
3. The University of Arizona should modify or eliminate its current furlough plan.
4. The University of Arizona budget and finance team should include multiple stakeholders from shared governance (faculty, staff, graduate students) to review, evaluate, and advise on future changes to the furlough and other mitigation strategies from here on out, particularly at critical time points (October 2020, March 2021)