GENERAL FACULTY FINANCIAL RECALIBRATION COMMITTEE
"Recalibrating for greater strategic and fiscal discipline to our core missions"
Draft outline with recommendations for management's report to ABOR
12/7/23

Below in the form of a draft outline for the report that will be presented to ABOR in mid-December, are recommendations of the General Faculty Financial Recalibration Committee. Although the numbers are, we know, rough estimates, we believe they provide a useful baseline to work from in developing a plan (for a somewhat fuller treatment of some of these issues, see the attached pdf packet shared with the Faculty Senate 12/4/23). Our recommendations speak to our understanding of the working group's objectives, to provide a plan for: (a) redressing the university's annual overspending, estimated at around $45M; & (b) building back the UofA's days cash on hand above the ABOR minimum of 140 days. We would add a third objective, based on President Robbins' commitment to protect the university's core teaching and research missions, as well as to strategically position it for a strong academic and financial future.

Three major principles underlie our recommendations.
* Prioritize and protect core production units & disproportionately cut ancillary units.
* Implement any hiring freezes and cuts in a strategically targeted and limited vs an across-the-board pattern, because across-the-board actions camouflage the underlying problem (e.g., of deficit spending), and punish and compromise the productive units, and fail to strategically position us for future growth. In medical terms, treating the immediate symptom masks the underlying, chronic condition, which will otherwise persist unless it is specifically addressed.
* Establish expenditure controls at the central and college levels, and incentivize college savings and prudent and strategic resource management to ensure future growth.

Finally, we suggest prioritizing people over capital projects/expenditures/restructuring, and at the end of the outline provide two examples that have been mentioned by CFO Rulney.

<u>SCALE BACK COSTLY STRATEGIES</u>
<u>Establishing expenditure controls on central administration (saving ~$40.875M)</u>

In this section, we identify three key costly initiatives undertaken by central administration, and identified by President Robbins & CFO Rulney as being key culprits in the decline of days cash on hand. Our recommendations below include establishing expenditure controls for central administration spending. We envision setting up a mechanism by which 3 questions can & should be rigorously asked of big central initiatives, by the CFO, an executive team of deans, and the executive committee of the Faculty Senate. The questions are:
1. Why are we doing this? (i.e., does it fit who we are & what we do);
2. Can we afford to do this within our budget? (i.e., can we sustain the cost over time);
&
3. What is the realistic, not the in your dreams ROI? (i.er., there should be a business plan that is drafted, reviewed, and interrogated)
Clearly, these expenditure controls have been lacking. That is why in pursuing strategies and initiatives for five years, we have paid insufficient to no attention to the cost, have had days cash on hand decline steadily through the period, and although we met some strategic goals, we have

drained our reserves/days cash on hand below prescribed ABOR levels. To rebuild reserves, we need to implement significant expenditure controls on central administrative spending.

* Tuition overdiscounting of "merit" aid
Kasey estimates $10-12M for each of four years, which will compound.
If we call for reallocating 10% (~$1M) back to initiatives (Gary can work on that) to maintain/increase student numbers, as presented in our pdf packet, that yields:
$10M saved first year; $40 saved over next four years

* Rightsizing UAGC
Some GFFRC members can work with Ron, Karthik, Gary Packard, and Barry Brummonds, who had some good observations about IT staff at UAGC.
Estimates are that UAGC operations are $265M and that there are ~3,000 staff, of which roughly 118 are full time faculty and 1801 are part-time faculty (need latest actual numbers)
(a) Reduce administrative staff due to redundant responsibilities/titles & due to attrition by 30%
(b) Reduce overlapping programs through expedited academic programs review, starting with Business, Education, and SBS (biggest program areas and overlaps), which leads to a reduction of 15% in (part-time) academic staff, largely through attrition.
Some percentage of the students in these programs can be grandparented into UAOnline.
and in the process reduce the amount of days cash on hand needed
Target savings to model for: $20M (that's a 7.5% cut in their operations budget)

* Athletics
Athletics, with expenses around $100M, and running around a 20-30% debt annually.
Sources of increased revenues.
25% increase in tickets prices (Ticket sales have been ~$15M) so that would yield
$3.75M in new revenue
Sources of savings
Freeze coaches' salaries
(Donors to invest in football and men's basketball coaches' salary raises)
15% Reduction in athletic admin, which is between $35 and 40M, through attrition, retirement, layoffs.
$5.625M in savings
10% reduction in scholarships, which are about $15M
$1.5M in savings (with donors backfilling the difference)
Total increased revenues/reduced savings: $10.875
[We recognize that a pre-existing working group on this may have ideas for even steeper cuts]

* Provide the list of strategic initiatives, the costs, and identify if there is any possible scaling back or stopping of the associated expenses.

FREEZE & CUT SENIOR ADMIN COSTS, CENTRALLY & IN COLLEGES

As senior administrative staff have grown disproportionately over the last decade, which most other categories (tenure track faculty, grad assistants, & staff) have declined, there should be a hiring freeze for senior admin positions and for mid-level staff positions, with reduced FTE by 15% in both over 3-5 years through natural attrition without replacement. The focus here should be on staff with salaries over a particular amount.
Total savings: Estimate the salary savings with HR data from Helena on turnover and personnel expenditures for senior admin and mid-level staff positions.

We understand that senior level administrators are relatively few in number, so that the total savings will not make a large reduction in the fiscal challenges faced by the institution. At the same time, it is important not just for the optics of the situation but given the disproportionate growth of these positions, to target these levels for reduction over time, to reverse trend line.

We also understand that it is a common management strategy to try to achieve greater "efficiencies" by centralizing services. At the same time, we would emphasize that these are often limited and even false efficiencies, as there is a very clear benefit to staff being local and in touch with the faculty, students and departments/colleges they are serving. Moreover, we want to emphasize that the university has fewer staff today than prior to the pandemic, to serve many more students. The point is that the reduced FTE over time should be in senior positions, not in staff positions overall.

RECALIBRATING AIB, TO INCENTIVIZE SAVINGS & PRUDENT SPENDING
Targeting expenditure controls, and recalibrating taxes and incentives at the college level

We have heard much talk of academic colleges' overspending by ~$34M. Without questioning that figure for the moment, and without disputing that there could be greater efficiencies in some academic colleges, we would point out the following. In many, perhaps even most colleges that have been identified as overspending, they have generated greater sch and grant/revenue monies over the past several years than before.
So, what is happening?
We see at least two mechanisms and reasons.
First is the assessments/taxes (e.g., the annual 3%, the gain share tax on reserves, reduced SBAs over time, and the additional 2% this year) that are levied to collect monies for strategic allocation. This is the first priority of AIB, as indicated on the UofA website, "Ensure adequate funds centrally to meet institutional strategic opportunities." That misplaced priority undervalues the importance of sustaining the university's basic academic production units, and builds a central fund at their expense. It structures the academic colleges to be in deficit for the same and even greater levels of productivity. They literally get less for what they produce.
Second, because of the tuition discounting, there is less tuition revenue to allocate to academic colleges for their sch productivity. So, they get a declining rate of return to increased sch, on the order of 18% or so less over the past 5 years. What is the level of tuition discounting? It is in the ballpark of $30M. In other words, the over-discounting of tuition for merit aid leads to a

declining value of sch payout, and is a major contributor to colleges' "overspending." That is what Pierre, and so many others are talking about when they say this is a manufactured deficit. Why is this important?
Because as we stop spending on the strategic plan, as President Robbins indicated,
and as we scale back on tuition overdiscounting,
there is a direct effect in reducing colleges' "deficits."
We propose, then, that the meetings of CFO Rulney and Provost Marx with Deans and business officers, that this consideration be factored into the conversations about expenditure controls.

* To incentivize savings, the 15% "gain share" tax should be eliminated, and a portion of the college reserve saved from this should be put in a "lockbox" (or, in accounting terms, a "rainy day"/"sinking" fund so as not to be spent to build up institutional reserves. Provost Marx is looking to get colleges and departments to create such "reserve" accounts, and this is a perfect example of why they would be important—central admin and college leadership could more clearly track and control savings and expenditures.

* Colleges that are prudently managing their resources should be rewarded by being able to keep what they save. We particularly encourage a shift in hiring tenure track faculty at junior levels, with colleges being able to hire a junior person when a senior one leaves, and to keep the difference for reallocation/reinvestment, and have it put in the lockbox/sinking fund. So, too, with any savings that result from reduced Dean's Office personnel and other expenditures again could be saved within the college's lockbox/sinking fund, to later be reallocated for strategic academic hires.

* Colleges/units with multi-year deficits beyond x% of operations should be targeted for hiring freezes, with the freeze being lifted contingent on having 3-5 year plans to reduce the deficits.

PRIORITIZING PEOPLE OVER CAPITAL PROJECTS & DEBT RESTRUCTURING

* As a one-time measure, it makes sense to pursue the debt restructuring that CFO Rulney spoke of at a SPBAC meeting. This is a very common practice in universities. What was presented was restructuring the university's annual debt service, which will help reduce immediate cash expenses for capital projects. Rulney said the plan involves issuing debt over a three-year period, aimed at decreasing the university's cash outlay for debt-financed construction projects like the ARB and Grand Challenges for research. This approach is projected to bolster our cash position by approximately $200 million ($60M in FY24). The estimate is that the interest expenses to be around $170 million over a 25-year period. This additional cost can be offset through effective investment management over the same timeframe. It's crucial to note that while this strategy will cost us about 4% in interest, our current cash reinvestment rate stands at around 5.2%, suggesting a potential net gain from this approach.

* Also, CFO Rulney presented on 11/15 to SPBAC about a possible land sale. UofA had an offer a few months ago for $100 million for land in Maricopa City (not including what is being used by CALES).

* As in the pandemic, we would suggest compiling a list of capital projects and putting a pause on some proportion of them to save days cash on hand. We offer one minor example here of the purchase of a property on Helen that came up at Faculty Senate. Separate from the question that was raised about the price, we would pose the three questions we raise to guide expenditure controls at the central level. Why are we doing this? (are we thinking that being landlords is central to our mission?) Can we afford this? (we are short days cash on hand, are talking about layoffs, and we're buying a property?) What is the ROI? (Lisa indicated that it was a "revenue producing property," but how much revenue at what annual rate, and at what risk?).