CALIFORNIA STATE UNIVERSITY EAST BAY

ACADEMIC SENATE

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COMMITTEE ON BUDGET AND RESOURCE ALLOCATION

23-24 COBRA 5
October 30, 2023

TO: The Academic Senate

FROM: Committee on Budget and Resource Allocation (COBRA)

SUBJECT: 23-24 COBRA 5: 23 – 24 Budget

PURPOSE: For Information to the Academic Senate

BACKGROUND INFORMATION:

Presentation by Vice President of Administration & Finance/CFO, Myeshia Armstrong, on the 23 – 24 Budget. COBRA 5 summarizes this information.

ACTION REQUESTED:

For Information to the Academic Senate.

Presentations by VP, Administration and Finance and CFO

Vice President of Administration & Finance/CFO, Myeshia Armstrong, presented to COBRA the 23 – 24 budget at its meeting on October 25th 2023. CFO Armstrong shared her slide presentation which can be accessed here. In summarizing her presentation, reference will be made to the slide number in the shared document.

CFO Armstrong started by outlining the scope of her presentation (slide#2) to summarize the challenges we are facing in the current fiscal climate and areas to focus planning. This included considering our limited reserves, the reallocation plan for the Chancellor's Office, enrollment decline, the structural deficit, and the ongoing contract negotiations. She referenced the President's convocation address and that the campus needed a reality check as to the challenges of our current fiscal situation. To illustrate this, she presented a slide (#3) showing actual operating revenues and expenditures for the past 5 years. In any given year these lines should be very close together but with revenues exceeding expenditures. This was the case until 2021 but in 2022 revenue declined significantly and expenditures rose. The spike in revenue in 2020 and 2021 CFO Armstrong referenced as the 'pandemic bloat' as higher education received Federal assistance through the Higher Education Emergency Relief Fund (HEERF). This spike in revenues led to a surplus that was transferred into university reserve funds. In terms of revenues and expenditures, our expenses are now exceeding our revenues.

In slide#4, CFO Armstrong presented the reserve balances for the past 5 years. Between 2018 – 2020 the reserves held around $45-47M but with the HEERF funds transferred to reserves rose to a peak of $85M in 2021-22 In 2022-23 the reserve funds declined and part of this was due to having to allocate monies to the Applied Science Building as costs escalated, due to increased construction costs, above the funds acquired through donors. Also, reserve funds were used to cover salary increases (7%) through collective bargaining agreements not covered by the Chancellor's Office. CFO Armstrong stressed that reserves are 'one-time' funds and good budget planning is not contingent on reserves. While we do currently have a healthy reserve fund, decisions need to be made to address the pending reallocation from the CO and enrollment decline. One-time reserve funds can be used to ameliorate some of the fiscal gaps we are experiencing, but should not form the basis of fiscal planning. In slide#5, a breakdown of where the reserve funds are held was provided. We are mandated to hold these funds in specific categories that range from encumbrances we are legally obligated to fill to funds to cover emergency facility repairs to catastrophic events to economic uncertainty to financial aid. Having between 3 to 6 months of reserves to cover operating expenses is a matter of sound budget planning.

In addressing the CO reallocation plan (slide#6), CFO Armstrong noted that the CO acknowledged that enrollment decline is system-wide and nationwide. East Bay's current target is 12,522 CA resident FTES and while we haven't met this target in several years we have been funded to this level. The reallocation plan is designed to fund campuses at their actual CA resident numbers. CFO Armstrong highlighted that the plan would make **permanent** cuts to those campuses below the identified enrollment threshold to reallocate to campuses that have the capacity to grow. Based on current enrollment patterns there is a divide between Southern California (growing) and Northern California (declining). The reallocation will begin in Fall 2025 and involves a 5% cut (equates to a loss of $5.3M to the campus) with further cuts in subsequent years if a campus falls below the revised target it is funded at (slide#7) through further enrollment decline.

With declining enrollment and lower revenue and increased expenditure the budget deficit has grown. In slide#8, the budget deficit is presented for the last 5 years. The deficit has grown each subsequent year as revenues have fallen below expenditures. There are factors that we have to consider when looking at the size of the deficit such as the early exit plan that was offered. Fundamentally, from a budget perspective, we need to ask why is it that our revenues and expenditures are not in sync?

CFO Armstrong now turned the presentation over to University Budget Officer (UBO) Monique Cornelius to explain the 2023-2024 university budget and also provide a look at future budgets based on certain assumptions around enrollment and the reallocation plan. The campus general fund allocation (state appropriations from the CO) was $124M in 2022-23 and was broken down into several budget lines (see slide#10). Of concern is the growing costs of benefits and health premiums as well as liability and property insurance premiums. After adjustments, the general fund went from $124M to $128M. Slide#11 provides detail on the total revenue sources projected for 2023-24 and final approved operating budget. Total revenue is projected at just over $227M and expenditures at $231.5M with a projected deficit of about $4.5M. In explaining some of the numbers in slide#11, (UBO) Cornelius highlighted the increase in revenue for non-resident students. As summer wasn't under self-support there was reduction in the cost allocation plan (the reimbursement from Extension for university services rendered) of $7.6M. The reduction in uses for the divisions primarily reflects $3M from closing vacant positions. In addition, using marginal costs[1] each division saw their budget cut (see slide#12). This ranged from 4 – 6% and totaled $7M. In central, which houses costs such as benefits as well as insurance and retirement costs, costs increased.

The budget allocations by division and central are provide in slide#12. Of note here is that central accounts for 44% of the total budget with academic affairs at 38% and the other divisions accounting for the remaining 18%. Central includes benefits, financial aid, utilities, risk premiums, postage, communications, and commencement for a total allocation of $102M. As shown in slide#14, benefits account for 64% of the costs with financial aid the other significant amount (21%). Slide#15 shows how the $129M of the budget allocated is disbursed across divisions. The largest portion goes to Academic Affairs (54%) followed by Administration and Finance (26%).

UBO Cornelius next presented budget scenarios for 2024-25 and 2025-26. She emphasized these are projections based on a number of assumptions that may need to be modified over time. These are presented in slide#16 and compared to the current fiscal year as presented slide#11. One assumption is that the collective bargaining will settle at a 5% increase of which 2% will be funded by the CO and the campus would have to cover the remaining 3%. This would increase the deficit from a projected $4.4M for this fiscal year to $7.7M as the increase would be retroactively. Enrollment in these scenarios is projected to be flat. Also taken into account is the cost reallocation from the CO (a reduction of $5.3M) and the tuition increase of 6% (projected an increase of $5M). Over the two projected years the deficit would increase to $11.7M in 24/25 and to $17M in 25/26. While these projections are based on assumptions that could change, it does emphasize the potential scale of the problem and the need for concerted planning.

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[1] The marginal cost of instruction is calculated based on services directly affected by enrollment and has several components including instruction, academic support, student services, institutional support and plant and operations. Each department within one of those categories and the reductions were made by division based on their share of marginal cost categories.

CFO Armstrong returned to revisit the reserves. She noted that the projections show an increasing deficit (see slide#17). Given the size of the projected deficit and the diminishing of the reserves, further highlights our current fiscal reality and the need to make some tough decisions. What is needed now is to strategize how to address the fiscal situation and how we best serve out students and ensure their success. CFO Armstrong posed the question how do we perhaps downsize our operations? Reallocate resources to some of those areas that would encourage and promote enrollment activities? She then covered a memo that President Sandeen sent to the campus articulating a series of principles for budget reductions. CFO also referenced the budget tiger team the President formed. She also stressed that in any reductions we need to minimize the impact on student success, including recruitment, access, retention, persistence. and completion of degree. CFO Armstrong highlighted several initiatives currently underway to reduce costs that included closing buildings to save energy costs.

The meeting was then opened for questions from the committee and the floor. The first asked about the large jump in the deficit in 2021. This was explained as resulting from the Budget Act of 2020 that included a $299M decrease in the general fund to the entire system with East Bay's portion being $9.3M. In 2021 that cut was restored but offset against further enrollment declines. The second question addressed the cost allocation plan and the drop of $7.7M in 2022-23. It was explained that this drop in revenue was from moving summer 2023 to stateside from self-support. The committee asked, given how the budget is constructed, and that a significant portion of expenditures are salaries and benefits, where is there potential to reduce costs without adversely impacted work and the human cost associated with that? Are there any initiatives underway to diversify our revenue stream which seem overly reliant on enrollment especially at a time when nationwide enrollments are declining? Is account being taken of the deferred maintenance costs and the need to upgrade facilities? While the Compact agreement with the Governor be honored given it was made contingent on enrollment growth? How do we get the whole campus engaged in these conversations?

In response, CFO Armstrong noted that the Tiger Teams are looking at more creative solutions to attracting students to the university. One of the initial recommendations was a hiring chill and closing positions that weren't mission critical and had been unfilled for some time which reduced the deficit by $3M. With regards to facilities, discussions surrounding additional resources for facilities are being explored at the Chancellor's Office for a potential state bond measure. The Budget Tiger Team is revisiting offering another early exit program. This would initially have a cost but longer-term lead to cost savings. CFO Armstrong agreed that we need to diversify revenue and also look for cost savings through efficiency gains across all operations. She highlighted the escalation of utility costs (increased by 62% due to rising costs of energy) and that we need to explore ways to reduce those costs but some strategies (e.g., solar panels) take several years to pay off. It was reiterated that the projections for the future were based on assumptions that could change and to a degree were 'worse-case-scenarios'. The President is advocating, along with the other campus Presidents that will be impacted by the reallocation plan, with the CO to roll back the reallocation plan.

In a follow up question, it was asked whether there could be a point at which downsizing could lead to a situation where the feasibility of the university could be questioned? How might this play out with the other campuses in the region which are also experiencing deficits? How do we compare to those campuses? Is there value in some sort of collective or collaborative approach between the 3 campuses in the Bay Area? CFO Armstrong in response noted that there are conversations underway about shared services.

Clarification was sought on how the guiding principles for budget reduction were developed and the application of those principles. The response was that the guiding principles were developed at the cabinet level and to be expansive and cover many facets and to generate a thoughtful process. It was stated that we know these discussions will be hard and lead to some painful decisions. CFO Armstrong remarked that the HEERF funds that allowed us to build reserves was perhaps a blessing in disguise in that those funds can be used to temper some of the difficult choices that will have to be made. The reserves though cannot be viewed as a permanent fix. This led to a question as to what should be the size of the reserve and what, if any, restrictions are placed on those funds with specific reference to closing the deficit in covering instructional costs for the Spring 2024 schedule. CFO Armstrong responded that there are mandatory requirements we must meet and referred back to slide#5. She also referenced again the need to cover the escalating construction costs for the Applied Science Building that while initially the costs were covered though donor funds, she believed these fell short by about $15M. We should have 3 – 6 months of operational expenses in reserve. The goal is to have a budget where revenues cover expenses.

A follow up question about what shared services with other regional campuses came from the floor. CFO Armstrong indicated these could include information technology services, human resources. financial aid, and dispatch services. She believed there were one or two other areas and would need to double check on what those were.

Next, clarification was sought on what each division actually cut in terms of operational expenses and what were the impacts? In terms of Administration and Finance CFO Armstrong said it was looking to avoid and eliminate duplication and consolidate services. As examples she described changes in custodial operations and consolidating operations to be able to shutter some buildings (e.g., ensuring classes are scheduled to maximize the use of space in any given building). A pilot program over the summer explored this strategy

A question was asked around the use of marginal cost of instruction to adjust divisions budgets and whether it was taken into account that by reducing the Academic Affairs budget fewer classes would be offered and as a result students wouldn't enroll and tuition would decline exacerbating the shortfall in revenue? In response, CFO Armstrong asked Deputy Provost Hernandez for an update on where things stood for Spring 2024. He briefly reiterated earlier presentations to the campus as to the fiscal situation for Spring and a proposal to reduce the Spring 2024 schedule by 33% which would lead to a $1.4M deficit in Academic Affairs. The schedule that went live earlier in the week fell short of that target and ended up 13% below Spring 2023. Deputy Provost Hernandez stated that he will in due course be discussing this in detail with CFO Armstrong.

With no more questions from the committee or the floor, COBRA thanks CFO Armstrong and UBO Cornelius for their presentation and for providing information on our budget situation. It is important that the university community is aware of the situation and it was good to see so many people at the meeting today. The more informed we are, the better the likelihood of making sound decisions. CFO Armstrong thanked the committee for its work and also extended her thanks to UBO Cornelius for her work. She also noted that while we are facing a challenge, we will get through this. We are on high alert, not crisis mode at this time. We know that there are decisions that are required, and we have the drive to see it through. If you have any questions, please feel free to contact me. I'll be more than willing to provide any information that you're seeking.