University of Colorado Boulder

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October 28, 2021

Responses to some Frequently Asked Questions about our current College budget situation,

from the Arts and Sciences Council (ASC) Budget Committee

(Queries may be directed to Andrew Cowell (cowellj@colorado.edu), Chair, ASC Budget Committee)

1.What is our current budget situation in A&S? A&S currently has some continuing budget funds already reserved for future commitments (people who have been hired already, but won't be starting until AY 2022-23 for example, or retention packages or start-up packages for existing faculty which extend over several years, where we plan ahead for those future expenses that we're contractually committed to). When those future commitments are included with our current continuing budget commitments/spending, as of July 1, 2021 we had ***a deficit in continuing funding*** -- i.e. we were in the red and didn't have enough continuing money to cover our current and future commitments, even after all the retirements and and other permanent cuts made last year (including cuts in faculty $XQK accounts, and take-backs of any unused funds for graduate student support).

The good news is that the deficit was relatively small compared to our continuing funding -- less than 0.5% of our overall budget (though this still amounts to several hundred thousand dollars). This deficit was differentially distributed across the divisions, but the differences were minor.

2.What does "continuing deficit" mean? Under our "base budget" system, the College has a fixed "floor" of money it can count on always getting. This almost never declines (except for last year!). Because this money continues to come in year after year, it is called "continuing budget". This is what we use to pay anyone on contract (T/TT faculty, instructors, grad students with multi-year support promised to them, chairs' and directors' stipends and so forth), and also what we use to cover absolutely necessary expenses and multi-year promises we've made for things like faculty $XQK accounts for travel and research, departmental operating budgets, start-up packages, and so forth.

On top of this, the College also gets various kinds of temporary money every year from the central Campus, which we use on a one-time basis, for single-year expenses and commitments.

If we don't get the temporary money, then we just don't get to spend it. But if we don't have enough continuing money, that's a big problem, because we are nevertheless obligated (often contractually) to pay for the continuing commitments. So then we're in a continuinig budget deficit -- there's less in the College checkbook than there are unavoidable expenses to pay.

3.What do we do when we're in continuing deficit? Our only recourse is to ***borrow temporary money*** and use it for the continuing deficit. But there are three problems with this. First, that temporary money also pays for things like lecturers we need for staffing year-to-year extra teaching needs, so a deficit cuts into our ability to do that. Secondly, we *have* to pay some lecturers, because students are sitting in the classroom, waiting for a teacher, so ***we end up with a deficit in temporary funds***, that we have to repay eventually. And finally, the continuing deficit is there every single year, until enough TT faculty, instructors or students leave their contracted positions and we're no longer obligated to pay them, so ***the temporary funds deficit will pile up higher and higher every year as long as we're in deficit in continuing funds.***

4.Why are we in this situation? The ***state cut its funding of higher education last year*** due to the economic downturn (this is a major source of continuing funds for our general operating budget). Due to the TABOR law passed by voters in Colorado, the state cannot simply ramp its spending back up to the previous year when the economy improves -- there is a "ratchet" effect which limits to increase to population growth plus inflation, based on the *new baseline* of last year's recession-era budget.

In addition, ***the freshman class was well below previous years' attendance***, meaning much less tuition money (the single most important source of continuing funds). Because our freshmen live on campus, ***there is no way to easily "balloon" our new enrollments this year by large percentages*** to make up for the major decline in freshmen that occurred last year -- we don't have the hard infrastructure to be able to do that. So we're stuck with a permanently smaller-than-normal 2020 freshman (now sophomore, next year junior) class.

Finally, campus cash reserve funds (the Enrollment Contingency Fund in particular) were used to mitigate some of the budget cuts last year, so aren't available for further backfilling the continuing funding cuts.

The result was that ***the College took a 3.4% cut to its continuing funding***, from last year to this year. We were able to successfully reduce our continuing expenses by that amount through retirements plus a few other measures described above. However, additional previously-agreed-on contractually-obligated spending commitments that came on-line for the current AY have resulted in the small continuing deficit.

5.How do we get out of this deficit? The only way out of this situation is to ***avoid new commitments for continuing spending*** whenever possible and wait for our contractual obligations to decline due to departures, and/or to hope for new continuing budget from the campus. In the meantime we are effectively in ***a faculty hiring freeze.***

We know for sure that major new funds are not coming to us this year, though there has been some increase in funds and thus continuing budget ($19m campuswide this year). Because the continuing deficit is relatively small at 0.5%, we expect to be out of this situation within the next year – but major new spending would then put us right back into continuing deficit. Longer term, we are hopeful that the Campus budget remodel will result in increased income to the College, since we teach a very large number of the students on campus, so should probably be getting back more tuition dollars. But that won't kick in fully until 2023-24 at the earliest.

6.Can we borrow money (from a bank for example) to cover the deficit? No, Regents Rules allow this only for the overall campus or system, not an individual campus unit such as A&S, and it's generally a poor idea for any non-profit to borrow to cover deficits.

7.Can we tap the endowment to cover the deficit? No, the funds generated by the endowment every year are already committed to specific spending – there is no "slush fund" of money available ever year. As far as spending down the principle, that is a fundamental no-no of non-profit management.

8.Can increased ICR (Indirect Cost Recovery) from research grants help us out? ICR is paid from individual grants directly to campus, not to the College. A percentage of this ICR is then returned directly to departments as DA-ICR. Thus more grants and ICR would not directly benefit the College's budget.

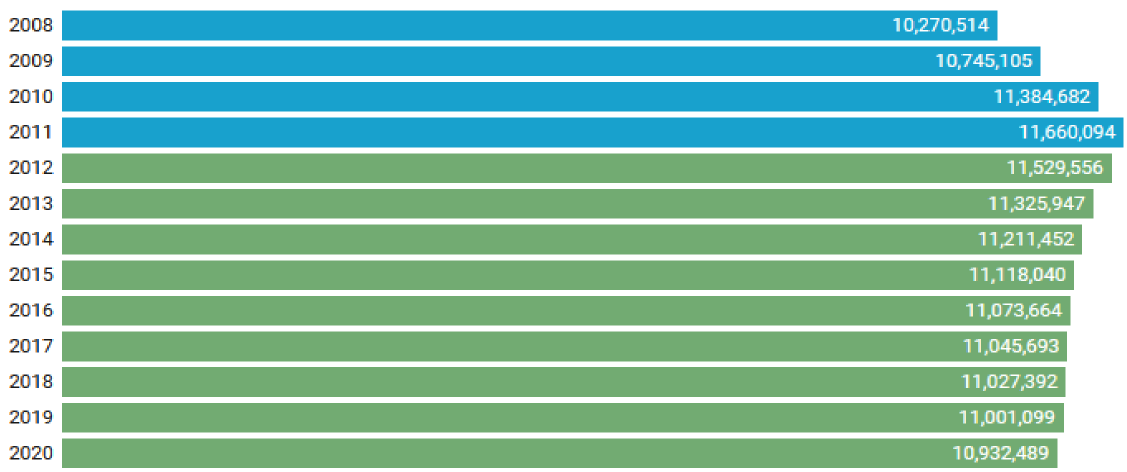
For FY21, ICR totals $116m. In theory, 29% of total ICR funds are returned to individual departments as DA-ICR. In reality, the amount is less than this, and varies somewhat by department. The ASC Budget Committee has asked for a better accounting of this discrepancy from campus. One issue here is that CIRES and LASP have special agreements with campus, made long ago, that provide them with special ICR amounts, which complicate the calculations.

The other 71% of ICR funds are held by Central Campus and then allocated to various uses, such as paying for HR, OIT, building construction, acquisitions, with some money going to the General Fund. According to Campus, these ICR funds go to cover indirect research costs, and are not available to cover cuts in other areas unrelated to research. Campus research offices around the country report that research is at best a break-even proposition for campuses financially, so more grants and more ICR would therefore not help resolve a continuing deficit. The ASC Budget Committee has nevertheless asked Campus for more details on how ICR money is spent. In particular, $30m went into the General Fund for FY21. The Campus has informed us that ***an ICR transparency project is underway***, which would potentially lead to putting all ICR money into a new type of fund (fund 11), separate from general operating money derived from tuition and state support (fund 10) in order to increase the transparency of ICR spending. Campus did provide us details showing that for FY21 $15m of ICR went to cover debt and capital costs on research facilities, and another $27m went to cover future construction, acquisitions and deferred maintenance of research facilities.

9.Can we quickly grow our way out of this with new enrollment? A big part of the budgeting process involves mid-term planning. Although predicting the future is a notoriously error-prone endeavor, ***a number of demographic trends suggest that CU's incoming classes will begin to decline sometime this decade***. Nationally, that trend began in 2011 (see graph). Because of a growing population in Colorado and strong applications from out-of-state students, CU is not projected to encounter sustained declines in enrollments until 2025. The state demographer forecasts that the number of 17-19- year- olds will peak in 2025, decline for 10-15 years and pick back up by 2040.

Enrollment Steadily Dropping

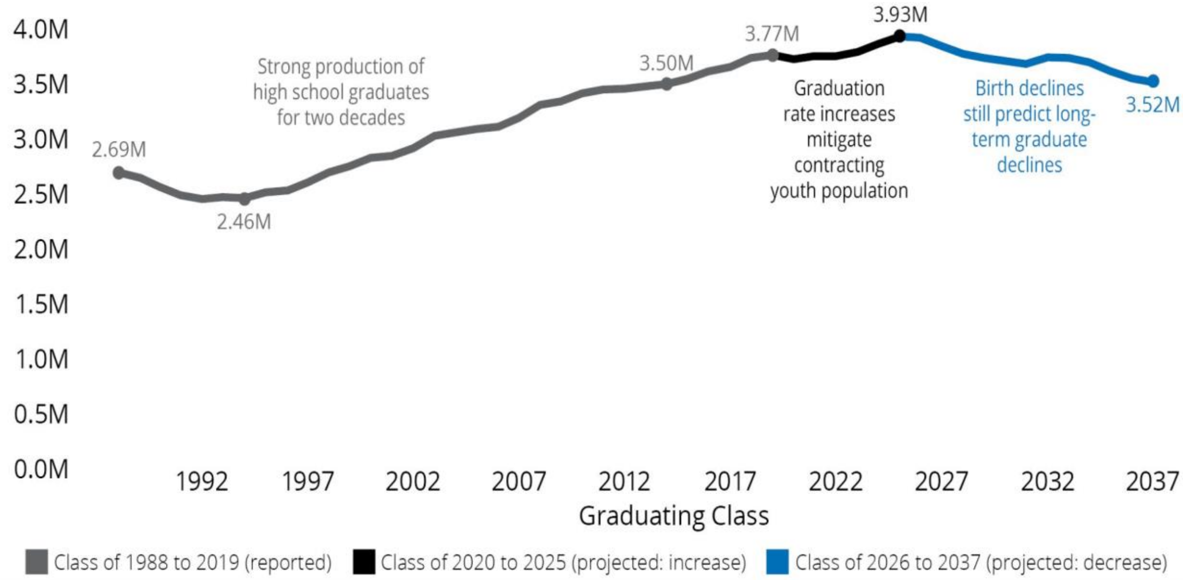
During the 2008 recession, full-time equivalent enrollment at public institutions was on the rise, but it has fallen for nine years in a row since the 2011 fiscal year.



Note: Full-time equivalent enrollment equates student credit hours to full-time, academic-year students; medical students are excluded. Chart doesn't reflect data from the District of Columbia.

Source: State Higher Education Executive Officers Association • Get the data • Created with Datawrapper

At about 4%, the projected decline in that age group is not catastrophic, but even a one percent drop in enrollment has significant consequences for the university's budget because of the lack of state funding. Furthermore, because the ratio of in-state to out-of-state students is regulated by Colorado statutes, the university can not rely on strong enrollments from out-of-state students to solve the looming tuition shortfalls. Consequently, the College of Arts & Sciences and the University as a whole must prepare for potential budgetary contractions in the coming decade.



10.Is the College getting enough tuition money back from campus? Currently we have an incremental budget model, which means that each school or college has a "base" budget that was set many years ago and each year an "increment" is added. This is a very stable budget model but is not as transparent we'd wish, and is not tied to tuition intake or student credit hours ***The current campus budget remodel progress will, for the first time, link much of each campus unit's budget resources to net tuition revenue.*** So we are hopeful that beginning in 2023-24, when this model fully kicks in, the College will receive additional revenue. But this remains to be seen. For more information, see https://www.colorado.edu/bfp/budget-model

11.Will permanently reducing administration solve our budget problems? College-level admin costs are a quite small portion of overall spending in the College, and the College is understaffed relative to AAU peers. Note that many administrators are also faculty, so eliminating their position would simply send them back to the faculty. We would still be paying their salary; the only money saved would be on the admin stipend plus any course buy-outs given for their absence from departmental teaching. Nevertheless, given the large reduction in TT positions in the College recently, it seems reasonable to ask whether reductions in admin positions should also occur. The ASC Budget Committee has not examined this question in depth recently due to larger, more pressing budget issues, but we will continue to ask questions, especially in light of College re-organization and shifting administrative responsibilities between the College and the Divisions.

12.What’s the mid-term to long-term solution to these budget constraints? It seems highly unlikely that A&S can quickly replace the majority of the faculty who have recently retired. While some renewed hiring of TT faculty or instructors can hopefully occur beginning in FY 2022-23, no one should expect that a large portion of the retired faculty can be replaced even over the next 5 years. If they were in fact to be replaced, this would put us in a very rigid budget position for the future as well. We were able to achieve the 3.4% permanent cut last year thanks to a once-in-a-generation retirement of large numbers of senior faculty. Those numbers of older faculty will not build up again for at least another decade. Additional cuts in the mid-term could well force us to cut entire programs (i.e. departments). Thus the ASC Budget Committee recommends caution in moving too quickly in rehiring or other new investments.