

February 3, 2010

Understanding our budgetary challenges

We must exercise a strategic and principled approach to responsible stewardship

As a follow-up to a recent message from me to the Marshall University Community outlining the budgetary challenges that lie ahead for all of us, I am writing to provide greater specificity concerning the dollar value of those challenges. The Governor's Executive Order No. 17-09 was issued effective December 28, 2009, prompted by a forecast of a \$120-million shortfall in State revenues. It rescinds, on average, 3.4 percent of this year's appropriations for State-funded agencies, including Marshall University. This mid-year budget reduction applies to the remainder of the current fiscal year and amounts to an immediate \$1,732,694 reduction in State appropriations for Marshall University and a \$454,939 reduction for the Marshall University School of Medicine.

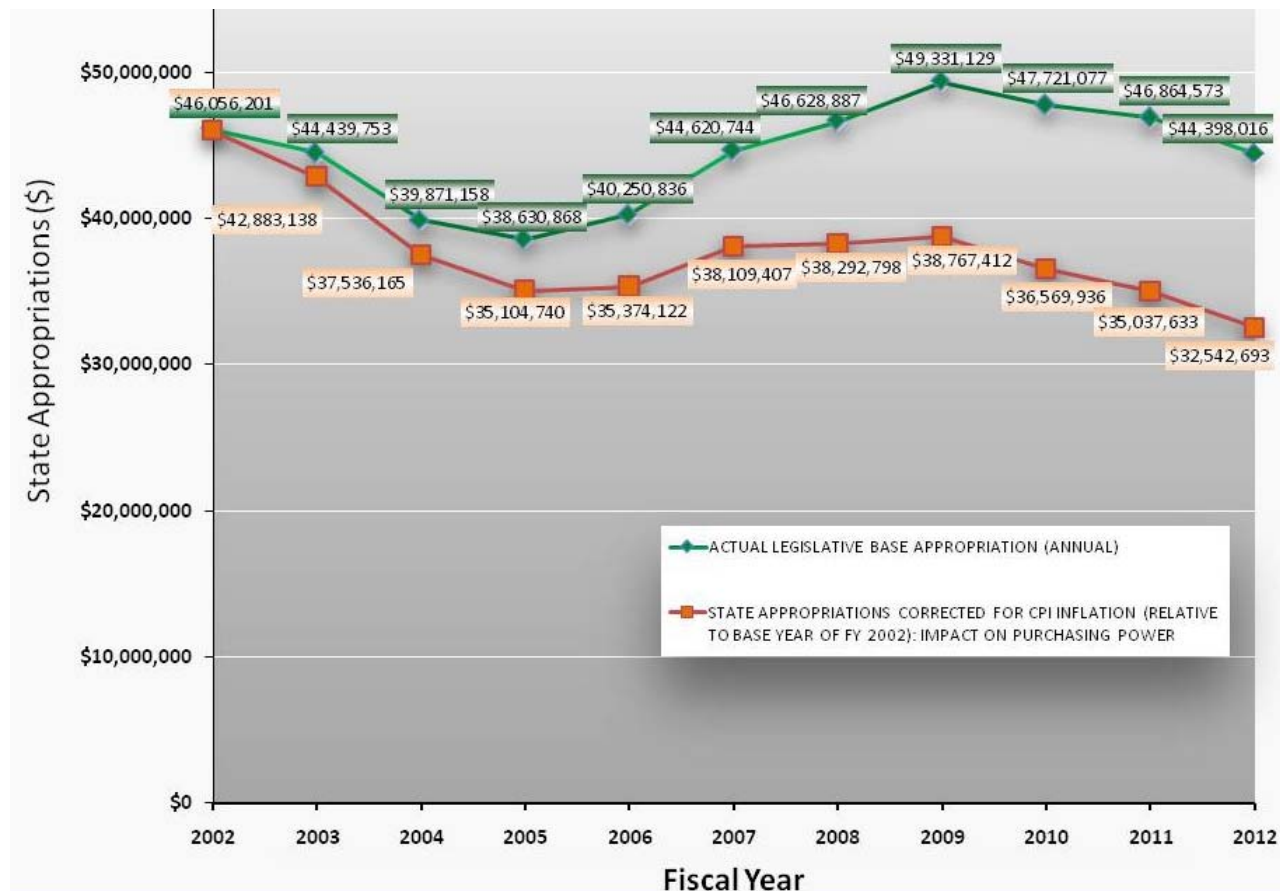
I have asked each vice president to develop an immediate plan for reducing expenses. I have directed them to protect mission-critical operations and to preserve filled personnel lines. Although we have been assured that the State will backfill this reduction this year using funds received through the Federal American Recovery and Reinvestment Act of 2009, this situation causes a *structural budget deficit* in the University's operating budget beyond the current fiscal year. Unfortunately, these federal stimulus funds are only temporary. The financial obligations to fund faculty and staff positions recur each fiscal year. We will be faced with this same situation again for FY 2011, when a 5 percent, or approximately \$2.5-million, reduction is anticipated. The challenge in FY 2011 will be further complicated by the Governor's call to freeze tuition at this year's rates.

Current State revenue forecasts for FY 2012 foreshadow a 10 percent reduction in State funding relative to our appropriation in FY 2009. This decrease in State funding will amount to approximately a \$5-million reduction in base appropriations for Marshall University. This projection does not include the School of Medicine. I will digress momentarily to dispel some rumors and misrepresentations. An "across-the-board" 3.4 percent reduction applied to all public higher education institutions in the State does not necessarily mean that each institution actually incurred a 3.4 percent reduction. Certain line items in the State budget were exempted. The actual reduction for Marshall University was slightly higher, so the actual dollar amount, rather than the percentage, is the most accurate reflection of the reduction we experienced. Additionally, when a mid-year budget reduction is imposed, we are limited in terms of where we can reduce expenditures. As a result, the impact on affected budget line items will be greater on a percentage basis. To that point, approximately 65 percent of the annual expenditures by

Marshall University involve personnel. In order to preserve filled positions in the budget and avoid layoffs, we are working to reduce expenditures in other areas.

To put this challenge in perspective, the State funding history over the past nine years for Marshall University is provided in the following graphic (Please note that FY 2011 and FY 2012 numbers are projections.). Again, these figures are exclusive of the School of Medicine. For comparison purposes, a second line (orange), adjusted to demonstrate the impact of inflation on Marshall University’s State funding, is provided as well. The figures highlighted in light orange correspond to constant dollar values indexed to FY 2002 dollars. The indexed dollar values are an indication of the decline in purchasing power due to inflation and the concurrent efficiency gains that have been achieved by Marshall University during the last decade.

Note that between FY 2002 – FY 2010, Marshall University experienced four years in which year-to-year State appropriations declined and four years in which they increased. Between FY 2002 and FY 2005, Marshall’s base funding allocation from the State was reduced dramatically by more than \$7.4 million. Base appropriations from the State rebounded between FY 2006 and FY 2009, but the University once



again is experiencing reduced State funding associated with the economic recession, which began in late 2008. **On the surface, it appears that in FY 2011, Marshall University will be funded at approximately FY 2008 gross levels with the purchasing power of FY 2005 appropriations.**

To reiterate, the specific budgetary gaps confronting Marshall University emanate from reduced State funding as follows:

FY 2010 (current): \$1,732,694 reduction in expenditures due to a mid-year reduction in State funding;

FY 2011 (forecast): \$2,466,556 reduction in State appropriations;

FY 2012 (forecast): \$4,933,113 reduction in State appropriations.

Unless proactive steps are taken now to reduce expenditures, by the beginning of FY 2012 a \$5-million *structural budget deficit* caused by reduced State funding will impact Marshall University. Even though one-time Federal stimulus funding will be used by West Virginia to backfill the reductions in State appropriations over the next 17 months, that replacement funding will end in FY 2012 and further reductions in State appropriations will occur. If we take advantage of the opportunity afforded by the backfill funding to gradually phase in the required reductions, we can create a more manageable state of affairs and avoid a devastating single-year budget cut in FY 2012. We must begin the process of exercising responsible stewardship to reduce expenditures now.

During the early years of this decade, Marshall University encountered a similar budgetary challenge. Faced with a decline in State appropriations of more than \$7 million over three budget years, we met this challenge and adjusted our operational expenditures to compensate for these significant reductions in State funding. We have done it before and now must do it again.

Sustained enrollment growth, when achieved, will help buffer the impact of the decline in State appropriations over the next few years. Further utility conservation measures across campus will also help mitigate the impact of escalating utility rate increases; however, these initiatives will not be enough and further action to reduce expenditures and redirect available funds will be required.

I ask that we take a strategic and principled approach to making the necessary changes to our annual operating budget. Across-the-board-reductions will weaken our University and for that reason, I am opposed to a “one-size-fits-all” approach. The guiding principles outlined below are presented as a means for accomplishing what must be done.

- **Principle 1. Focus on Core Activities**
The strategic commitment to advancing high quality academic and residential learning experiences for our students must remain the foremost institutional priority. This commitment, however, must be prudently balanced against resource constraints. This promise for the future will require disciplined adherence to core institutional values and priorities.
- **Principle 2. Structure Budgetary Realignments to Position Marshall University for the Future**
To the greatest extent possible, budgetary allocations, reallocations and reductions should be structured to protect direct academic expenditures that benefit student learning.
- **Principle 3. Improve Operational Efficiency**
The University has an obligation to its students, their families, and the taxpayers of West Virginia to ensure that it operates as efficiently and effectively as possible. We must work together to increase our already impressive and positive value to our state and region.
- **Principle 4. Explore and Prioritize Revenue Enhancement Opportunities**
The University must examine and assess intermediate- and long-term revenue enhancement strategies. The University must avoid the temptation to engage in ventures that are either peripheral to the University’s mission or beyond its internal competencies.
- **Principle 5. Keep Institutional Culture at the Forefront**

People and relationships are important elements of our institutional culture. Retaining our workforce with special attention toward developing and retaining high performing people in all sectors of the University must be a paramount consideration.

- **Principle 6. Foster Open, Comprehensive Communications**

Effective and comprehensive communication is essential, especially during times of rapid change. The communication plan must regularly and effectively inform our various communities, both internal and external, about the context and purpose of decisions that are made. Our commitment to quality and the core mission of the University cannot be overstated. Key to this effort is signaling and re-enforcing to important stakeholders the public value we create and advance.

- **Principle 7. Reposition the University for the Future**

The long-term repositioning of the University to optimize opportunities for the future is a key objective. All aspects of this planning process will need to consider short-term and long-term implications. For instance, short-term strategies that produce short-term gains but long-term costs should be avoided. Clear, anticipatory planning will be of paramount importance. Opportunity costs also will need to be weighed in terms of delaying or advancing certain timetables.

- **Principle 8. Implement Strategies to Reduce Unnecessary Academic Instructional Costs**

A multifaceted approach is required that will improve learning productivity and student learning gains, while reducing unnecessary costs and inefficiencies. For example, evaluating specialty courses and chronically under-enrolled courses to determine need will be important. Similarly, optimizing course enrollments, course- and space-scheduling as well as streamlining majors and section consolidations to eliminate unnecessary redundancies will also be important cost-reduction considerations.

I am confident that by working together we will achieve long-term success. Retooling our organization as we move forward is essential. It will involve each of us rethinking what we do and how we do it to achieve greater outcomes. It will require each of us to break free from the habits of time and discover new and innovative approaches. Through our diligence, we shall remain a community steadfast in our enduring commitment to serving, educating and inspiring future generations of students, advancing knowledge, discovery and innovation, and catalyzing greater economic development and opportunity. I invite your ideas, participation and commitment to this endeavor.

To share your ideas with me, please go to our suggestion page at:

<http://www.marshall.edu/president/costsavingform.asp>; or send your ideas via email to president@marshall.edu.