Tuition Advisory Council
Friday, February 19, 2021

Council Members (✓ indicates the member was present)

- ✓ Sarah Grulikowski – Student
- ✓ Niko Hatch – Student
- ✓ Leslie Eldridge – Faculty Member
- Tara Othman - Student
- ✓ Dennis Slattery – Faculty Member
- ✓ Matt Stillman – Administrator
- ✓ Susan Walsh – (Chair) Provost and Vice President for Academic Affairs
- Quinn Youngs - Student

Guests Present
Greg Perkinson, Josh Lovern, Neil Woolf

The meeting started at 9:30am.

Minutes

Slattery/Grulikowski moved to approve the minutes from the February 12th meeting with slight alterations; the motion passed, 6Y/0N/0A.

Slattery asked for clarification about mask requirements and whether faculty will be responsible for monitoring student compliance. Woolf said masks are a requirement and suggested that faculty could inform students of the requirement and if they refuse to wear masks they could participate in courses remotely rather than in-person. Walsh said it would be good to remind faculty of this. Perkinson said a PowerPoint training had been created and shared earlier in the pandemic and might be sent out again, perhaps with updates.

Perkinson provided an update on the timing of the Council's work. He said the target is to have the President's recommendation ready for Board consideration at their mid-April meeting. Working backward, it would be good for the President to have the Council's recommendation at least a week in advance of the Board meeting. Because of the timing of the two-week spring break, it would be good to have a recommendation ready by the end of winter term finals week. Walsh told Council members that this might mean scheduling a special meeting later in the term or extending one of the currently scheduled meetings.

Cost Management Strategies

Lovern displayed a PowerPoint presentation (Part 3_Planning Variables.pptx) and started by discussing what is required by HB 4141. He said the University must provide the Council with a plan for managing costs and a plan for how tuition and fees could be decreased if the university were to receive extra appropriations. Focusing first on cost containment, he described several things that constrain our ability to manage costs:

- The fact that 85% of budgeted expenses in the Education and General Fund (E&G) budget are associated with personnel,
- Labor contracts for Faculty and Personnel,
- The consistently upward trajectory of Retirement and Health costs, and
- The Supplies and Services (S&S) budget, which can act like a 'shock absorber' can only absorb smaller and smaller amounts.

Lovern discussed cost containment strategies the university can use to manage labor costs. He said these can include keeping vacant positions open or eliminating vacant positions. Such decisions require conversations about what the university can live without for the time being and how work might be able to be redistributed. He said some positions have been kept open for as long as a couple years, and the Vice Presidents are very active when it comes time to have these conversations. Lovern said furloughs are another strategy that can be used to manage labor costs. These can be tactically targeted or more universal, like the furloughs currently in place. He said the current furloughs have a lot to do with how the federal stimulus funding is coming in along with unemployment; there is an unemployment cost to having people not working, but the government is picking up that tab right now. He said we also look at opportunities to find savings through reorganization. Lovern said it has been suggested that we look at retirement incentives, but after looking into the details it was clear that, rather than reducing costs, this would actually add to our costs quite a bit. However, when someone does retire we have an opportunity to look at that position and consider the possibility of keeping it vacant or optimizing it. He said a more drastic approach would be to eliminate positions through straight layoffs or a reduction in force. These are very aggressive approaches and we don't like to go there if we can avoid it. Perkinson said when we look at the pro forma we'll be able to see how much effect we've had on costs in the last couple years using some of these strategies.

Lovern discussed OPE escalations that are difficult or impossible to control. He said health costs are difficult to control and SOU has only had the option of separating from the state's health system starting last year. It would be very difficult, but we can now legally take a look at walking away from PEBB. He said retirement is a different case; we cannot separate from PERS, and increases in PERS costs are outside of our control.

Slattery said he would be interested to know how hard we're going to be hit on retirement this year, though he understood that it is complicated because of the formula and other factors. Lovern said we received a PERS chart in October that he could share. He said he takes that chart and creates weighted averages per population. Walsh said in the interest of time it might be best to plan to discuss this for 10 minutes during the Council's next meeting. Slattery said that would be great. Perkinson said at a very high level you could normalize the PERS increase to about 26%.

Continuing the discussion of cost containment strategies, Lovern moved on to the management of Supplies and Services costs. He said one way to contain S&S costs is through reviewing contracts and said the CIO has done a great job of looking at contracts and finding savings. He pointed to one example of a software contract where we were able to save $40K after reviewing our contract. He said travel is another area for savings, though right now that is not an issue. Walsh said it may be that organizations in Higher Education will change now that we've been operating in a different manner than before. For example, organizations that put on conferences may choose to do fewer in-person experiences. Lovern said debt financing is another area where we've been able to find some savings, including refinancing some of our housing debt.

Tuition Reduction Approach

Lovern said that if SOU were to receive funding support above the current service level (CSL), then we could consider reducing tuition, though this appears to be unlikely because it doesn't look like the state plans to fund the Public University Support Fund to that degree. He said in such a case a tuition reduction would be easiest to process as a 'refund,' similar to how fees refunds worked during COVID.

Pro Forma Assumptions

Lovern discussed some of the assumptions built in to the budget pro forma. Looking at revenues, he said the state allocations in the current pro forma have been set using the latest knowledge we have and the funding model. He said the tuition rates in the pro forma are variable, miscellaneous revenue is an estimate, and the fees will be a function of this Council's work (for the building fee) and the Student Fee Committee process. He said lottery funding not indirectly influences transfers. Turning to expenses, Lovern said he has modeled +3% for each labor group as a placeholder estimate, and he factored in the OPE rates per the "Final rule 10/2/20." He said PEBB is stable, though it looks like PEBB may jump next year, and student labor increased 6.97%, tracking the minimum wage. For Supplies and Services, he said this is currently modeled at a 2.25% increase. Lovern said S&S hasn't increased in the last couple years but we need to model what that might look like.

Perkinson said one thing he highlighted to the Board of Trustees when discussing labor increases is that in the last 2 years running, the administrative team salaries have remained flat. He said this is a cost management strategy but it's on the backs of our employees. Walsh said that's a really good point which is sometimes glossed over because that group of employees are not represented by a union.

Pro Forma Demonstration and Modeling

Lovern displayed the pro forma and discussed its different rows and columns. He said tuition in the pro forma is variable based on tuition rates and also enrollment projections, and fees are related to our tuition because the fees depend on headcount and some are also related to course fees and other things. He said Raider Aid is a function of tuition: it's at least 9% of tuition. He pointed to the "Misc. Other Revenue" line and said we're showing a decline there, but we may have a return on that; it includes one-time things like lawyer payments and insurance payouts we receive. He said when he presented some of these numbers to the Board there were some questions about why labor costs appear to be increasing so much here. He said this is related to the fact that the pro forma takes into account furloughs, including faculty furloughs and the furloughs throughout the university starting last spring and now extended into March.

Perkinson said the green column shows the current year-to-date actual and projection to finish, the blue column shows the budget as approved by the Board, and the grey column shows last year's actuals. He said one interesting thing about the last two years is that the pandemic hit in spring, so there were significant modifications; revenues came down, though we were able to offset that to some degree by cutting costs. Lovern said personnel services is where a big portion of our costs are. He said he budgets a certain amount for vacancy adjustment and makes other adjustments to factor in things the model wouldn't be able to capture, like furloughs. He said our net personnel costs do grow, but it's important to remember that this is the effect of furloughs. Looking at the "Transfers" line, Lovern said this is where we're supporting other programs on campus. Getting to the bottom of the spreadsheet, Lovern showed the sliders the Council can adjust to see the effects of different scenarios.

Woolf discussed Raider Aid and explained that we give back at least 9% of our tuition revenue in scholarships for students to come here. These are merit-based scholarships students get based on their high school GPAs. Discussing scholarships more generally, he said there's Raider Aid, as well as federal, state, and foundation scholarships.

Perkinson said there are a couple significant near-term decisions that will influence the pro forma. One is additional funding we may receive as a result of the Coronavirus Response and Relief Supplemental Appropriations legislation (CRRSA). He said a working group has been meeting to talk about what are the rules associated with that funding and what might we do. He said the group hasn't landed on a recommendation to President Schott yet, but it might be firmed up a bit before this Council's next meeting.

[Eldridge left]

Perkinson said another factor that would influence the pro forma is changes to the funding model. He said the HECC's funding model working group just finished rulemaking, so we might soon have a more reliable sense of what our state allocation might be. He added that we know the Governor's recommended budget keeps the Public University Support Fund (PUSF) flat, but we don't yet know what legislators might do. Walsh said recently the Governor's recommended budget has tended to come in flat with regard to the PUSF, and then the legislature tends to come in a little above that. Perkinson agreed but said this year is a bit unusual because the state revenue forecasts are little unusual. Walsh asked about the amount of PUSF funding recommended by the HECC. Perkinson said the Legislative Advisory Council (LAC) group is pushing for $900 million in PUSF funding, and the Governor's recommendation is $837 million. He said we will see how the legislature responds. Lovern said $900 million would basically maintain current service levels. Walsh said it's important to acknowledge that these are all recommendations. There's no crystal ball to predict exactly how things will work out, and that's part of why it's so important to have this pro forma that allows us to model different scenarios. She said it's also good to remember that increasing tuition and fees by 5% or above would mean we'd have to go before the HECC to receive permission. Perkinson said another thing to remember is that the fund balance gives us a shock absorber, allowing us to make payroll for a certain period of time. We would love to see that balance go up. He said the industry recommends an ending fund balance of around 40% of operating revenue. Walsh said there's also a conversation about the possibility of the fund balance being too high, which would likely mean that the university is not investing in improving student success and preparing for the future. Lovern said he feels that 20% - 25% would be good target in an ideal world. Grulikowski asked about the current fund balance as a percentage of operating revenue. Lovern said we're projected to end the current fiscal year at 13.9%, but that's largely because of massive cost cutting, some additional support from the government, and other one-time factors. Perkinson said it also relates to not yet repaying part of some debt that we have said we will be repaying.

The meeting ended at 10:31am.