REPORT OF THE

President

to the
Slippery Rock University
Council of Trustees

Friday

June 10, 2005
Quarterly Report
To the Slippery Rock University Council of Trustees
Friday, June 10, 2005
By President Robert M. Smith

In a departure from previous quarterly reports, I am devoting almost the entirety of this report on the fiscal events facing Slippery Rock University in the coming months and through the next two years. My hope is to inform the Council members of the circumstances of our budget and the challenges we are facing for the next 18 months.

Before I begin the description and analysis of our fiscal affairs, I want to acknowledge my grateful appreciation for the service of Dr. Robert Marcus as Chair of the Council for the past two years. Dr. Marcus has been a vigorous voice for the university and a tenacious advocate. His devotion to the students of Slippery Rock University has been unquestioned. His two years as chair have taken us through a difficult period into one of the most promising eras in the university’s history. As your new and inexperienced president, I have appreciated Dr. Marcus’ leadership and steadfast friendship.

I also want to note for the Council’s information three important events from the last three months involving personnel. Dr. William Williams accepted our invitation to be the provost for the university. Following more than two years as interim provost, Dr. Williams has proven himself an able leader of our academic mission and a visionary guide for academic excellence. Dr. Paula Olivero accepted our invitation to be Assistant Vice President for Student Life. Dr. Olivero has been an invaluable leader over the past year in the development of our new housing complex and is a nationally recognized student life leader in enrollment management theory and practice. Ms. Tina Moser received her Bachelor of Sciences degree. Ms. Moser has been an inspirational example of the nontraditional student who successfully juggles the role of administrative manager, spouse, mother, and dog owner. We are very proud of all three of these members of the Slippery Rock University family.

On June 9, the university and the Slippery Rock University Foundation closed on the financial package for $79 million of bonds to begin the construction of Phase I of the new student housing complex. This construction project represents the largest single housing project to date in the Pennsylvania State System for Higher Education and, we are told, when coupled with Phase II, is the largest of its kind in the nation. When finished in 2009, we will have replaced 2,200 of our 2,800 residential beds.

It is hard to adequately describe the significance of this project to the transformation of the university. Located in the center of the campus, this project compellingly proves that students are the focus of the campus and that the total emersion within a living-learning environment is the core of becoming a truly educated person at Slippery Rock University.
We achieve our dreams for this university within the fiscal reality of our budget. What follows is an analysis of our current and projected budget and the challenges to realizing our dreams for Slippery Rock University.

We essentially receive revenues from three sources: Tuition and fees collected from students; a state appropriation received from the Pennsylvania State System of Higher Education as our allocation from the approved appropriation from the State Legislature; and other incidental revenues such as interest on investments and auxiliary services. About ten years ago, the state allocation was approximately 60% of the total revenues. Now it is closer to 38%.

Our expenditures are primarily focused on personnel as we are a very people intensive operation. Almost all of our personnel are represented by collective bargaining agreements which prescribe the salaries and benefits to be paid as well as many other working conditions that increase the costs of personnel.

This year's budget allocation (FY2004-2005) from the legislative appropriation is 95% of the appropriation received in 2000-2001. That year, the Pennsylvania State System for Higher Education budget was not increased. In 2001-2002, the budget was cut by 3% and cut by 5% in 2002-2003. Last year was a modest increase to SRU of 1.9% to the previous year's budget.

Yet, we have grown by 12% in those years to serve many more students. The gap between our revenue and mandated expenditures last year left us with a shortfall of $1,076,730. We would have had more than a $3 million shortfall if the Board of Governors had not approved a last-minute increase in tuition. We quietly balanced our budget through reductions in management positions, non-contractual assignments for faculty, and a new phone system that significantly reduced our phone maintenance operating costs.

This coming fiscal year (the one that starts July 1, 2005), presents serious challenges. The single greatest factor in play for 2005-2006 is the Governor's desire that no tuition increase be approved. This expectation (announced in April) was a surprise to our planning and had immediate devastating implications when combined with the inadequate state appropriation. The projected budget shortfall resulting from these decisions was more than $4 million as shown in the following table of our anticipated expenditures and revenue for 2005-2006.

<table>
<thead>
<tr>
<th>Table 1.</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditures:</td>
<td>Revenue:</td>
<td></td>
</tr>
<tr>
<td>Compensation:</td>
<td>$71,425,268</td>
<td>Tuition (0.7%)</td>
</tr>
<tr>
<td>Utilities:</td>
<td>$2,581,640</td>
<td>Student Fees</td>
</tr>
<tr>
<td>Operating budgets</td>
<td>$11,588,000</td>
<td>State appropriation (2.3%)</td>
</tr>
<tr>
<td>Capital expenses:</td>
<td>$1,256,000</td>
<td>Other (interest, aux, etc.)</td>
</tr>
<tr>
<td>Other (auxiliary):</td>
<td>$2,530,000</td>
<td>TOTAL:</td>
</tr>
<tr>
<td>TOTAL:</td>
<td>$89,380,908</td>
<td>Budget shortfall:</td>
</tr>
</tbody>
</table>

The following graph shows the representative components of our expenditures. You can quickly see that salaries and benefits are $4 of every $5 of our budget and almost all of those are
contractually determined. Contractually obligated salaries and benefits will increase next year by $3,533,449 or 86% of the projected shortfall. Of those salaries and benefits, health care costs are the fastest growing component, comprising $1,575,000 of the increase or 45% of the total compensation increase.

The following chart shows among our employee groups where the increases for 2005-2006 occur. Since the faculty component (APSCUF) is the largest single employment group (approximately 400 employees), the largest increases occur among them.

The increases for 2006-2007 are even more severe. Based on no tuition increase, the total shortfall next year could be $8,943,770. Mandated compensation comprises $5,322,567 of that total with health care costs representing $1,869,770 of the total. The following chart shows where the increases are projected for 2006-2007.
You can readily see that balancing the budget for 2005-2006 requires careful consideration of a number of factors including the projected problem for 2006-2007. The most obvious factor is that we have to reduce costs and do so immediately where strategically feasible and then set in motion a series of strategies for reducing costs in 2006-2007. One of the major cost categories that must be considered is personnel. Just looking at the data shows that you cannot decrease other categories by $4 million since there is not enough money in hand to remove and still operate the university.

The next factor to observe is the where among personnel you can reduce. As the chart below shows, the largest category and the source of the largest increase in personnel costs is the faculty.

However, the faculty is the primary source of revenue so every faculty position eliminated represents less opportunity to teach students and, thereby impact revenue. Consequently, any strategy to reduce the faculty has to be fine-tuned by improvements in class size and workload.
assignments so that we do not set off unintended reductions in our budget triggering further cost cutting spirals.

As we come closer to the end of the fiscal year and the moment of decision for our budget, we have focused our decisions on two primary goals: (1) We remain committed to our long range goal to enhance the value of the Slippery Rock University degree; and (2) We remain resolved to gain control over our own destiny through strategies that create independence from the erratic and political sea changes of the appropriation process.

As for the first goal, we have worked very hard to enhance the academic reputation of Slippery Rock University and have invested significantly in gaining stature in the national academic community. We cannot let our efforts be wasted by not continuing investment in academic quality and the student experience. For the second goal, we have to significantly step up our efforts to acquire more funds through our Advancement work and income from our strategic lines of business such as the Regional Learning Alliance.

We have also used four guiding principles to aid our decisions to balance the budget:

(1) Recognize this is a political problem, not an economic problem. The “crisis” was created by a decision to not consider increases in tuition. Our students did not ask for that decision. In fact, a student poll conducted by the campus newspaper showed students approve of a tuition increase if it means they do not lose important academic services. The “crisis” was not created by a shortfall in tax revenue either. Therefore, we believe this is a short term problem. We do not want to make a short term decision that seriously impairs our long term goals. In fact, as of this report, we are betting that the Governor and the Board of Governors will reach a middle ground on tuition and fees before the end of the summer.

(2) Don’t damage core values and functions. We believe we have to keep a sharp focus on our core values and functions and make cuts in areas that are not central to the university’s main mission and vision. This requires careful consideration of who we really are as Slippery Rock University. For example, one statement I have made is that we cannot eliminate academic programs and then retain twenty-three varsity athletic programs. To do so would make the wrong statement about our core values.

(3) Don’t reduce revenue potential. Often the easiest way to reduce the budget is to not fill vacancies since no one actually loses a job. However, our vacancies are primarily in faculty positions and those are necessary to retain revenues as well as meet our primary function. Of necessity, some faculty positions have to be eliminated but, hopefully, we are making those cuts where productivity is low and the program is not central to our mission.

(4) Have confidence that, together, we can persevere. Belief in our ability to persevere during difficult times is critical to morale and cooperation in a crisis. Nothing could move us faster into a downward spiral than loss of confidence in our decision-making. One of the great strengths of our campus is that we have demonstrated repeatedly in the past five years that we have resolve in the face of challenges. We have courage in the face of adversity. Together, we turned our enrollment crisis around. Together we began a climb up the ranks of
the performance indicators. Together, we overcame the disruption of a change in leadership. Together we are confident we can overcome this financial test of our resolve.

In holding to our goals and applying our strategies, we have made a number of decisions leading to a combination of increases in revenue and decreasing costs. We have agreed to add more enrollment this coming fall than we originally forecast but well within stabilizing at 8,100 students. We have eliminated or deferred approximately $2 million in a combination of personnel savings and capital expenditures. In every case, these are reductions that do not impact the student academic experience. In several cases, we have cut in a way that allows us to restore later in the event of unanticipated consequences to one of our goals or principles.

We have also begun the conversations that will have to be held in earnest in the coming year about the budget for 2006-2007. Even with a tuition reprieve for this year, we face ballooning increases in 2006-2007 that cannot be wished away nor easily resolved without the collaboration of our entire campus.

Here we stand at our greatest moment in our modern history with evidence of our potential rising out of the ground all around us and springing from the voices of our students and our constituents. Here we stand at one of our greatest challenges to cope with shrinking resources without losing our potential. Yet, you will find a spirit on our campus that still proclaims “This is a great time to be at Slippery Rock University.”