

## Managing the Recession

### 1. Recurring vs. Nonrecurring Reductions

- a. Recurring or permanent reductions require ECU to return state appropriations on a permanent basis. Once a reduction is implemented, the state appropriation is not available in future fiscal years. **The result is a permanent reduction to the budget.**
- b. Non-recurring or one-time reductions require ECU to spend less in a fiscal year but do not permanently reduce our level of state appropriations. The full state appropriation is available in the next fiscal year. **The result is a temporary reduction to the budget.**
- c. Management of non-recurring reductions differs from management of recurring reductions. There are several sources to fund non-recurring reductions which tend to be generated annually:
  - i. Lapsed salary funds generated by the normal employment flow (retirements, resignations and new positions, etc.)
  - ii. Unspent operating budgets
  - iii. "Carry forward" of one-time state appropriation from the previous year
  - iv. Tuition revenue in excess of projections
  - v. University contingency funds

All of these sources can be used to meet the non-recurring reduction without permanently reducing ECU's level of state appropriation.

Recurring reductions are more difficult to manage because the reductions create a permanent loss in state support. Managers must identify ways to permanently reduce the state support they receive while supporting the institution's strategic priorities, the administrative infrastructure and institutional mandates. This is further complicated by the fact ECU is experiencing exceptional enrollment growth. Recurring reductions are also more complicated because the "reduction in force" process is time consuming and includes one-time additional costs.

### 2. Managing the 2008/09 Reductions

- a. Early in the fiscal year, ECU implemented a \$2.4M recurring reduction. The reductions were distributed proportionately to each division. Each Vice Chancellor had the flexibility to identify how and where the reductions were taken. The decisions were made in the context of the guidelines from UNC General Administration, the need to support the university's strategic priorities, and the need to meet administrative infrastructure needs and institutional mandates. The UNC General Administration Budget Reduction Guidelines directed that the reductions could not be taken in enrollment growth funds or need

based financial aid. It also broadened the areas that should be considered to include core activities.

- b. ECU also implemented a non-recurring reduction in 2008/09. Since the Governor is responsible for balancing the budget and state revenues are well below projections, we were directed to hold back or return 7% of our allotted state budget for this fiscal year. We met this obligation from:

Lapsed salaries and benefits	57%
Operating funds	15%
Revenue over projection	13%
Contingency funds	12%
2007/08 Carry forward	3%

In addition to meeting the reduction, the non-recurring pool of funds was used to make strategic priority investments and meet prior commitments.

### 3. The Picture for 2009/11

- a. It is difficult to predict the final financial picture will be for the next biennium but here is what we do know:
  - i. Revenues continue to significantly lag behind projections. This is expected to be a multi-year situation.
  - ii. The Governor will release her budget in mid-March. ECU provided budget reduction scenarios of 3, 5 and 7%. We anticipate a 7% (\$20M+) reduction in the Governor's budget for ECU.
  - iii. President Bowles is asking for the budget reductions for the UNC system to be capped at 5% and be non-recurring. He has also asked for continued full management flexibility to manage any reductions. His funding priorities are:
    - 1. Need based financial aid
    - 2. Enrollment growth
  - iv. Tuition and fee increases are capped at 4.5% at least for 2009/10.
  - v. The final impact of the federal stimulus package is still unknown.
- b. ECU leadership has taken the following steps to approach the biennium and beyond:
  - i. Developed hypothetical reduction plans as directed by the Governor. We continue to revise these plans.
  - ii. Created the University Budget Task Force to:
    - 1. Promote open and transparent communication
    - 2. Obtain budget reduction and revenue generating ideas from university community

- iii. Created a Legal/HR working group to identify the issues associated with managing the financial situation such as furloughs, salary reductions, early retirement incentives and reduction in force. The working group will also develop tools to train supervisors regarding these matters.
  - iv. Identified strategic funding priorities (must fund) to be funded according to a 5 year plan with recurring and non-recurring funds
  - v. Submitted operating and capital priorities for the expansion budget
  - vi. Submitted funding requests for the continuation budget
  - vii. Implemented a plan to use tuition increases to provide need based financial aid and support our student retention initiatives
  - viii. Committed to developing a plan to use future graduate tuition to support graduate students and the graduate school
  - ix. Implemented a plan to use the proceeds from our capital campaign to fund priorities such as access scholarships and endowed chairs/professors
  - x. Continued to require our auxiliaries to develop 3 year financial plans to oversee program growth and to reduce the need for fee increases.
  - xi. Worked with foundation leadership to plan for reduced endowment and unrestricted fund support
- c. We continue to prepare for the worst by identifying ways to increase productivity and efficiency while retaining the proper level of internal control. The following are examples of actual and potential actions:
- i. Revise the current faculty workload policy
  - ii. Identify and implement consolidation of services e.g. information technology, marketing and human resources.
  - iii. Identify and eliminate underperforming programs e.g. music and education
  - iv. Reduce service levels e.g. housekeeping, grounds maintenance, courier<sup>i</sup>
  - v. Increase energy conservation efforts
  - vi. Reduce middle management e.g. federal relations position, associate provost position, service learning center position, BSOM academic affairs administrator position,
  - vii. Combine positions e.g. associate vice chancellor and assistant dean positions
  - viii. Merge centers e.g. Health Disparities and Health Information systems
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