UNIVERSITY OF OREGON
College of Arts and Sciences

April 8, 2015

To: CAS Department Heads and Managers

From: W. Andrew Marcus, Interim Tykeson Dean
Gordon Taylor, Associate Dean for Finance and Administration
Sherri Nelson, Director Finance and Budget Development

Re: Overview of CAS's Budget Environment, CAS's FY16 Budget, and the FY16 Departmental Budgeting Process

Introduction:
The memo briefly describes CAS's current budget situation and sets out the principles and procedures that will be used in determining department and program budgets for FY 16. These principles and procedures reflect last year's and this year's input on CAS's budgeting process from department heads and managers and CAS staff.

CAS's Budget Environment:
As you are aware, CAS recorded an operating loss of approximately $12.0 million for FY14, due to declines in student enrollments, resource reallocations from Central Administration to address strategic needs, and rising costs (principally compensation and benefits for faculty, staff, GTFs and students). At the present time, CAS anticipates that it will record an operating loss of approximately the same amount – before the adjustments described below – for FY 15 and additional, although smaller, operating losses from FY16 through FY19, which is the end of our current forecast period.

Last year, CAS applied all of its then-available central carryforward balances to fund its operating deficit for FY14. In anticipation of another operating deficit in FY15, we also changed CAS's departmental budgeting process last year, effectively guaranteeing the necessary recurring budget for all units in exchange for collecting departmentally held unrestricted carry forward funds. This change in CAS's budgeting process allowed CAS to *recharge* its unrestricted central carryforward balances while simultaneously allocating the necessary recurring operating revenues to *all* departments. In a number of cases, this new procedure actually led to *increases* in recurring, annual department budgets because it eliminated the need for departments to cover recurring costs (e.g. GTF budgets) with salary savings, carry forward from other years, or course release funds. This new approach has helped to stabilize departments' recurring budgets, which are no longer dependent on salary savings or other sources to address standard annual expenses.

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In total, last year's change in CAS's budgeting process allowed CAS to rebuild its unrestricted central carryforward reserves by approximately $8.0 million, which we recognized would be needed to address additional operating deficits in FY15 and into the future. Unfortunately, however, CAS's expected FY15 operating loss – roughly $12.0 million – will more than use up CAS's newly-recharged unrestricted central carryforward funds, leaving CAS with both an unfunded operating shortfall for FY15 and no further unrestricted central reserves to cover our cumulative college-wide annual operating deficits going forward. In the midst of these projections, however, there is also some good news!

Because this financial outcome has been known for some time, CAS has been in active discussions with Central Administration regarding how its operating deficits can be appropriately addressed, both for FY15 as well as into FY16 and beyond. On both fronts, the good news is that Central Administration has taken significant steps to add additional one-time funds to CAS for FY15 and has committed to adding additional recurring funds to CAS's budget beginning in FY16, including providing cost savings through a generous funding commitment for startup expenses for faculty hired next year and later. We very much appreciate Central Administration's willingness to work closely with us to address CAS's budget shortfalls – and thank our administrators for their commitment to continue to do so moving forward.

FY16 Departmental Budgeting Process:
These new funding commitments from Central Administration will significantly reduce CAS's expected annual operating deficits in the FY16 – FY19 period, but our revenues will still be short of covering our full operating costs. In short, we still have some hard work to do.

Accordingly, as we plan department budgets for FY16 in CAS's challenging financial environment, the Deans' Office will be using the following guidelines:

- **Allocations** will be based on two overarching principles:

  - Our budgets will continue to prioritize people. Departments should receive the funds necessary to cover the cost of the faculty and staff required to meet their standard instructional needs.

  - We will continue to invest for the future with thought and intention. Searches for faculty or staff must serve the strategic needs of both the unit and the College.

    CAS will only automatically fill faculty lines that: (a) will be funded by external funding (e.g. cluster hires, strategic initiative hires); (b) were committed to in previous years; (c) represent continuations of existing searches into another year; or (d) are replacements for faculty denied tenure or contract renewals. Outside these limited categories, new faculty lines or replacement hires will require a letter of justification that addresses how the line serves the strategic needs of both the unit and the College. Given CAS's budget constraints, open lines will not be automatically refilled. Staff replacements and proposals for new staff positions will be treated similarly.

- **The budgeting process** will have several components:

    - Overall process: We will follow the same procedure as last year, with contract faculty, OAs and classified personnel budgeted by name, and GTFs budgeted by terms (term numbers previously communicated). Budgets will be developed for each unit in discussions with the Dean's Office staff, with mid-year discussions to assess the need for midcourse corrections. Requests for faculty or staff lines in FY16 should be made at departments' upcoming budget meetings with the Associate Deans. Each new line request should be accompanied by a justification that addresses how the proposed new line will contribute to student needs and success and how the position will raise the bar for research excellence at UO. **Requests to fund adjuncts will need to justify the instructional need beyond the TTF/Career NTTF currently provided.**

      Because of CAS's overall budget situation, it is unlikely that any midyear *increases* in departments' FY16 budgets will be authorized except in exceptional circumstances.

    - Course buyouts and salary savings: As we did in FY15, course release funds and salary savings, regardless of source, will continue to be held centrally, and CAS will provide departments with funding assistance for the cost of replacement for faculty on leave or who are offering courses in other units (e.g. the Honors College). All replacement of faculty on leave must be discussed with and approved in advance by the Associate Deans.

    - S&S: In FY16 we are going to modify the formula we used to allocate S&S funding to departments last year. For FY16, the S&S allocation formula will be based on departmental characteristics, including number of faculty, staff, GTFs, etc. In the large majority of cases, it is anticipated that this new formula will generate S&S allocations that are very similar to FY15 budgets. It is our expectation that non-personnel costs will be covered out of S&S funds or departmental discretionary funds (e.g. Foundation funds, summer revenues). Given CAS's present budget circumstances, additional funds for items such as graduate or faculty travel will not be provided by CAS. Use of S&S funds is at the discretion of the department.

    - Summer dividends: The majority of the net revenue generated by summer courses will continue to be available for departments to use at their discretion. The dividend rate for this coming summer will be determined and announced following summer settle up with central budgeting, which we hope will occur in October, 2015

We will soon be in touch with you and your department manager to set up your department's initial FY16 budget discussion. Thank you in advance for your help as we continue to work our way through CAS's tight funding situation.