



THE SYSTEM CONNECTION

Greetings:

As I pledged to do when I last wrote in this space three weeks ago, I am using today's column to provide information on actions that will need to be taken to keep all of SIU financially viable for the months ahead -- for the remainder of Fiscal Year 2017, and then beyond June 30 into FY18 -- if we are to continue university operations without any state support, either from a comprehensive budget agreement or a short-term bridge payment commonly referred to as a "stopgap."

If you are only an occasional follower of *The System Connection* who's specifically reading today due to the growing interest in the budget information which follows, let me suggest that you first go back and read my previous column for some necessary background. You can find my March 8 piece [here](#). Too, I should warn you up front that today's message is a quite long and detailed one -- regular readers know that coming from me ... that says something.

For those of you who've regularly followed along, let me just say that precious little has changed in the larger political dynamic to unfreeze this governmental abomination playing out before us at the state level. You will recall that when the bundle of a dozen "grand bargain" bills could not achieve sufficient support once voting started on them right about a month ago now, the Illinois Senate was forced to bring its attempt for an omnibus budget resolution to a halt. And that's where we still sit.

However, there *have* been a couple of subsequent pronouncements that are probably worth a mention at this juncture, simply to update everyone on where things stand presently.

Senate leadership on a bipartisan basis has said that while the earlier votes were indeed a big setback, they have not abandoned their work to still forge a budget compromise that can garner the needed number of votes to pass -- and there have been indications that votes may be attempted again even yet this week. Nonetheless, nearly all of the political intelligence available suggests this would be a very tough lift.

A second development is that the governor last week reiterated that he would not entertain signing even a stopgap funding bill without certain of his reform proposals being passed in conjunction with any temporary spending plan. According to one of Illinois' most respected political journalists, Rick Pearson, writing in last Friday's *Chicago Tribune*, "[a]ll...signs point in the same direction: A historic impasse now in its 21st month could very well continue through the November 2018 election...Whether state government can last that long without melting down is another question."

So given the information we have at this time, prudent management demands that we not reasonably assume state money will be forthcoming anytime soon. As such, SIU finds itself in the unfortunate position of having to finalize planning for another round of cuts to stabilize its financial position, make payroll and cover fixed costs, and ensure the viability of all our campuses for the remainder of the fiscal year ... and through next fall if need be.

As I stated last time, because SIUE and the School of Medicine undertook comprehensive budget reviews during the 2015-16 year, leading to significant cost reductions effectuated on those campuses beginning this year (at \$12.5 million and \$6.2 million respectively), the impact of another round of cuts for those campuses won't be as severe as those anticipated for SIUC. Still, Edwardsville and Springfield will need to decide upon a second, albeit lesser, round of budget cuts to free up additional cash for meeting operational needs.

Carbondale has been undertaking its similar large-scale financial study during this 2016-17 year, and the campus is slated to complete its academic budget review by May 1, with final prioritization recommendations from the Chancellor's Planning and Budget Council coming shortly thereafter. (A parallel process covering SIUC's non-instructional budget was completed earlier this year.)

Because of the differing circumstances between SIUE/SOM and SIUC, different assumptions guide this new round of cuts to be proposed. For Edwardsville and Springfield, the anchoring principle is to ensure a sufficient level of reductions to accommodate Governor Rauner's proposed higher education budget for FY18 -- a cut of 15% in state support for each Illinois public university (with the potential to earn back 5% in performance funding). Further, the campuses must also plan for potential additional reductions which could become necessary in the event there is NO state funding whatsoever through the Fall 2017 semester.

(It is important to note that various legislative proposals currently in play could add other new and significant costs to SIU. Numerous pension reform plans floated would have public employers picking up the state share of pension contributions for highly compensated employees. Other bills exist that would raise the minimum wage in Illinois. At this point, save for potential pension reform costs at the School of Medicine, we are not even trying to account for these other cost drivers since nothing has been enacted into law and details remain uncertain.)

The same assumptions described above apply to Carbondale as well, of course. Beyond that, though, things get more complicated. For some time, SIUC has had to manage a structural budget deficit, largely due to enrollment losses. Taken with the precipitous drop in state support the past two years, this has made for a double whammy which finally has to be addressed other than on an ad hoc annual basis. The attempt to cover these punches just for this year has led to \$21 million in reductions for the campus already.

However, that is not the end of the story at Carbondale. In the absence of any state appropriation coming in these last three months of FY17, SIUC operations will burn through about \$83.8 million loaned internally from other unrestricted funds -- from its own campus certainly, plus the School of Medicine. This cash -- along with any future borrowing to maintain operations into FY18 -- must be paid back. At the current level and assuming a 10-year payback, that is minimally another \$8.3 million in reductions that must be accounted for. Moreover ... we are at a point where it is incautious to continue accessing unrestricted cash from the School of Medicine without jeopardizing their future financial stability.

At the system level, responsibility exists to do a couple of things given a situation like this: 1) to work closely with the campuses in reviewing their financial analyses to set overall reduction targets, as well as consulting on possible avenues for meeting those targets; and 2) to make policy decisions -- including those by the Board of Trustees -- for taking any actions necessary to ensure the long-term financial viability for *all* of SIU. Ultimately, however, the particular, discrete reduction decisions are necessarily made at the campus level.

Below you will find information regarding both the amounts and general types of cuts that SIUE and the School of Medicine will be considering, largely informed by their previous budget review processes completed last year. The determination of any specific cuts to be made should be finalized no later than July 1, with implementation taking place as soon as can be accomplished.

Then, in the case of SIUC -- which already noted has a couple of months remaining before completion of its budget review process -- I am outlining recommendations which I will take to the SIU Board when it meets on April 6 for addressing the more extreme circumstances facing that campus.

SIUE - \$4 Million

- Redesign courses to increase delivery efficiencies
- Delay construction/renovation projects
- Move all research centers to self-supporting
- Increase alternative revenue sources through University Park development projects, new online programming, and expanded partnerships with local businesses and corporations

SOM - \$2.2 Million

- Consolidate academic administration across basic science and non-clinical units
- Eliminate administrative/staff positions in IT, telemedicine, and other support areas
- Reduce non-personnel operating budgets in equipment, travel, library acquisitions, and for deferred maintenance projects
- Eliminate academic support positions for research assistants, non-tenure faculty positions, and office support

- Includes savings to cover any pension cost shift for highly compensated employees

SIUC

- Consider declaration of short-term financial *emergency* under 2 *Policies C.1.e* -- but withholding any declaration of long-term *exigency* for later consideration, depending upon future state appropriations
- Identify a minimum of **\$30 Million** (i.e., in addition to the earlier \$21 million) operating cost reductions to be finalized by July 1, with implementation taking place as soon as can be accomplished -- any reduction actions requiring Board of Trustees approval should be presented for adoption at the Board's July 2017 regular meeting and cuts proposed shall not be handled on an across-the-board basis
- Authorize the Board Treasurer to loan certain unrestricted funds from the Edwardsville campus to the Carbondale campus to support the continued operations of SIUC

At this stage -- for those hardy enough to still be reading -- let me close with some final thoughts.

While all budget cuts contemplated under this new round of reductions are to be treated as permanent and recurring, it is the case that any or all cuts could be rolled back by the campuses depending upon an amount of future state appropriations that may be received -- whether via a stopgap payment or a full state budget. But neither are any cuts being unilaterally taken off the table for consideration at Carbondale (e.g., furloughs, unit or program closures, etc.) in the decision-making which will need to occur over the coming weeks.

A word needs to be shared here with SIUE especially, regarding the proposed borrowing by SIUC: The SIU budget is, and always has been, *one budget* comprised of three sub-budgets. Still, I fully understand there may be keen frustration -- if not anger -- at the fact that earlier cost-cutting efforts and strong enrollments at Edwardsville are being rewarded with that financial strength achieved now benefiting another campus ... one which has shied away from making some difficult decisions over the past many years. Please know that any further belt-tightening at SIUE will not be for the purpose of making fewer reductions at SIUC; rather, it is the existing unrestricted Edwardsville reserves that will be temporarily shown on paper to demonstrate operations "in the black" at Carbondale (i.e., there is no physical transfer of cash). Finally, at the \$30 million level, the cuts mandated from SIUC *do* account for the payback requirements, and the first claim on that payback will be to SIUE.

This is not a case where we are in danger of having all SIU campuses now becoming swamped ... pulled down to the verge of fiscal insolvency or financial collapse in an attempt to rescue one. The financial health and accreditation for Edwardsville and Springfield will not be put in jeopardy if an internal loan is made to Carbondale, and unrestricted SIUE cash will not be drawn down past a very conservative level (similar to the School of Medicine).

SIU remains ever committed to fulfilling our campuses' distinct missions around education, research, public service, outreach, and economic development -- in spite of the state budget mess we're living with. The actions we take now to carefully manage and steward our resources will ensure that *we all are here to stay* ... with the doors for each of our locations open wide and serving future generations of our students and citizens in the way that only SIU can.

Thank you for your attention and patience.

Randy Dunn

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