



OFFICE OF THE PRESIDENT
DR. CYNTHIA TENIENTE-MATSON

Memorandum

TO: Members of the University Resources Commission

FROM: Cynthia Matson, President

A handwritten signature in cursive script that reads "Cynthia Teniente-Matson".

RE: Budget Decisions for FY2021

DATE: August 31, 2020

cc: President's Cabinet

As FY20 comes to an end, it's certain that it will be a year characterized by its challenges. Still, in the face of these challenges, we saw resilience and tremendous flexibility to adapt and make changes necessary to continuing in our academic mission. The pandemic created difficulties but it has been gratifying to see how well the campus has responded to all the changes. Nonetheless, COVID-19 ultimately has also had a profound impact on our FY21 budget.

This past spring, in anticipation of a volatile economic outlook and uncertainty for the upcoming fiscal year's enrollment projections, the remaining FY20 budget underwent significant revision. Everything was reviewed, including vacant positions, strategic plan spending, enrollment growth, and several other areas, to tighten control over mission critical expenditures and increase reserves going into the FY21 budget planning cycle.

The A&M-System received a letter from the Governor's office in June, responding to the economic challenges the pandemic brought to our state budget and announcing a 5% cut to appropriations for both FY20 and FY21, totaling \$2.38 million. It was timely that the University had reviewed all budgeted funds for the upcoming FY21 budget plan, as those actions provided flexibility to address this request for an appropriations "clawback."

I appreciate the deliberations and scrutiny by the URC during this past academic year. URC membership was expanded to address the changing environment in which we now operate, and I believe this will serve us well going into the next legislative session that begins in January 2021.

One of the challenges we will face in planning for fiscal years beyond FY21 is the legislative rider on current state appropriations, added in the final legislation from the previous session, which calls for incremental reductions of our non-formula funding over time. The non-formula allocation for Expansion Funding now has a mandated phase-out at 25% per biennium (maximum of 4) or when enrollment reaches 6,000 full-time student equivalent, whichever comes first. These reductions impact financial decisions and budget planning going forward.

Because of the significant challenges presented by the pandemic and the resulting economic conditions, meaningful actions were taken to stabilize finances, including:

- Each Division underwent a review of their FY20 budget for the return of funds to build reserves; this resulted in nearly \$2.4 million of budget reductions.
- There are no new funding allocations in the FY21 budget. Rather, several reductions were necessary and mainly accomplished through the elimination of vacant faculty and staff positions that totaled \$3.2 million.
- FY21 debt service of \$825,000 was deferred to FY22.
- The Athletic Fee scheduled to begin in Fall 2020 was delayed until Spring 2021. In addition, both the Recreational Sports Fee and the Student Services Fee were reduced, and operational adjustments provided the flexibility to meet the reduction.
- Tuition and fee rates were budgeted to increase by the 2.6% Higher Education Price Index (HEPI), but the FY21 budget was modeled with no enrollment increase.
- System assessments were temporarily reduced for FY21.

Under its revised charge, the URC will assist in providing broad recommendations for the allocation of new resources based on established priorities. Unfortunately, there were no new budget allocations available, as we continue to address challenges and to provide resources for the previous commitment to our bridge-to-base absorption. Your discussions on the various budget assumptions were used to formulate the FY21 budget and the recommended budget that was adopted by the Board of Regents this summer. Additionally, the President's Cabinet provided input related to many of the significant actions taken on the FY21 budget.

As I examine our prospects for the next biennium, it is clear that we must act strategically and deliberately to responsibly grow our enrollment and seek alternative resources because of the shrinking state resources. The budget assumptions are outlined below.

I applaud each Commission member for your role in guiding our actions and providing advice that serves the betterment of the University. Thank you for your continued support of the shared governance process.

| FY 2021 Significant Budget Assumptions and Impacts | Periods Impacted | Amount | Increase (Decrease) in FY 2021 Budget |
|--|-------------------------|---------------|--|
| Actions Taken in FY 2020 | | | |
| Reduction of O&M budgets to strengthen reserves for FY 2021 | FY 2020 | 2,463,000 | - |
| Reduction of state appropriations ① | FY 2020 | (452,000) | - |
| FY 2021 Budget Impacts | | | |
| Revenues | | | |
| Reduction of state appropriations ① | FY 2021 | | (1,869,000) |
| "Right-sizing" tuition and fee budget for actual enrollment in FY 2020 | On-going | | (2,798,000) |
| Additional tuition and fee revenue (HEPI increase) ② | On-going | | 780,000 |
| Athletics Fee - NEW | On-going | | 1,325,000 |
| Student financial assistance, net of discounts | On-going | | (1,052,000) |
| Gifts, grants and investment income | On-going | | (264,000) |
| CARES Act institutional and minority-serving institution aid | FY 2021 | | 350,000 |
| <i>Fees waived due to COVID:</i> | | | |
| Athletics Fee not charged in Fall 2020 | Fall 2020 | | (600,000) |
| Recreational Sports Fee reduced by 30% for Fall 2020 | Fall 2020 | | (182,000) |
| Student Services Fee reduced by 10% for Fall 2020 | Fall 2020 | | (93,000) |
| Reduction of Revenues | | | (4,403,000) |
| Expenses | | | |
| <i>Elimination of vacant faculty and staff positions to cover:</i> | | | |
| Reduction of state appropriations | On-going | | (1,935,000) |
| Increases in bridge-to-base budget | On-going | | (1,197,000) |
| <i>Reduction of budget to reflect reduced fees:</i> | | | |
| Recreational Sports | Fall 2020 | | (182,000) |
| Expenses funded by Student Services Fee | Fall 2020 | | (93,000) |
| Reduction of TAMU System assessments | FY 2021 | | (65,000) |
| Increases in Athletics expenses covered by new fee | On-going | | 725,000 |
| Increases in benefits and utilities covered by reduced O&M | On-going | | 867,000 |
| Salaries and wages covered by reduced O&M | On-going | | 2,432,000 |
| Reduction of O&M expense and debt service | On-going | | (3,339,000) |
| Scholarships, net of discounts | On-going | | (1,497,000) |
| Reduction of Expenses | | | (4,284,000) |
| Net Effect of Significant Items | | | (119,000) |

NOTES

- ① The reduction of state appropriations for the 2020-2021 biennium is \$2,387,677. We allocated \$452,256 of the "clawback" to FY 2020, with the remainder coming from FY 2021.
- ② The FY 2021 budget assumes essentially level enrollment compared to FY 2020. Thus, the only increases in budgeted tuition and fee revenue result from the HEPI-driven increase in rates. This increase is being used to cover increases in utility expenses due to Classroom Hall opening in Fall 2020, and to fund bridging certain on-going expenses from one-time funds to base funding.