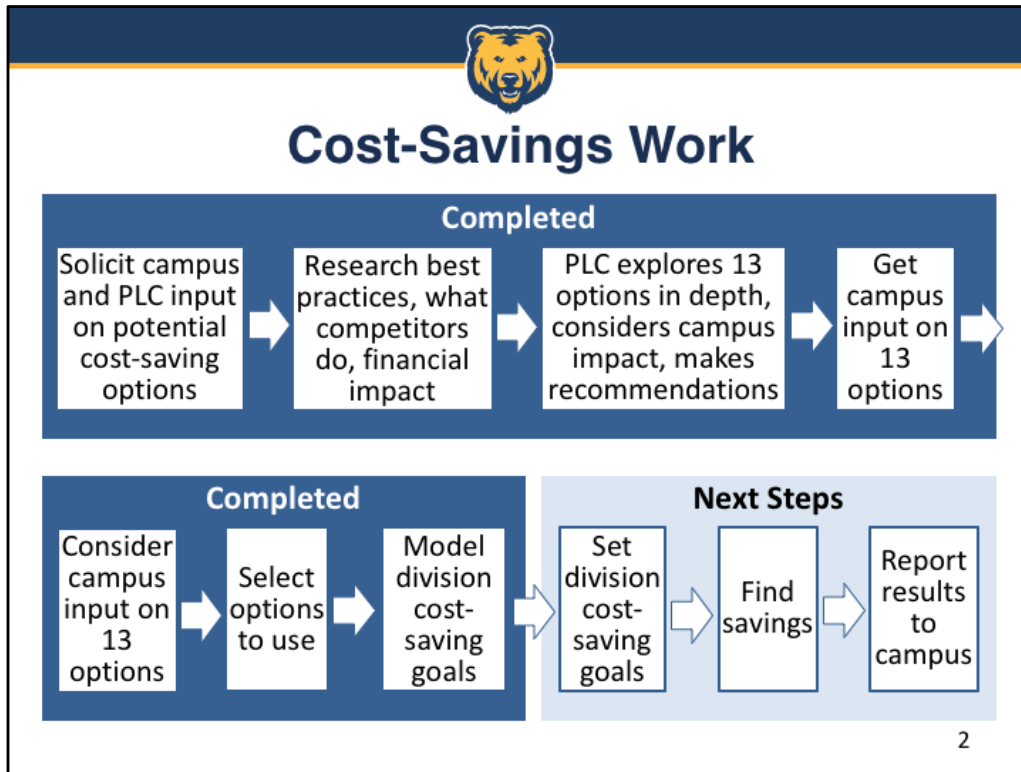




Cost-Savings Update

January 28, 2019

UNC



This is an overview of our work to permanently resolve UNC’s longstanding \$10M structural deficit.

We solicited ideas about cost savings this fall, and the President’s Leadership Council narrowed them to a list of 13, which we shared with the campus.

We spent many hours last semester assessing each option—looking at best practices, comparing UNC to peers, and looking at the options’ potential savings and impact. After much deliberation, the PLC made recommendations.

Then we collected campus input a couple of weeks ago at an open forum and through an online form. Our Social Research Lab compiled the feedback and provided a summary report, which is on my website.

I’ve read the comments—all 169 pages—and I want to talk with you about my thinking on which university-level cost-saving strategies to adopt and how to set division-level goals to get us all the way to \$10M.



Four of 13 Options to Be Implemented

1. Furloughs	7. Outsourcing/shared services
2. Extend computer refresh	8. Unit-level reductions
3. High-deductible health plan	9. Faculty workload
4. (A) Insurance contributions	10. Layoffs
4. (B) Retirement contributions	11. Contracted services
5. Tuition waivers	12. Travel restrictions
6. Faculty early retirement	13. Athletics cost-reductions

3

Here are the 13 options the PLC explored in detail. After considering all of the feedback, I have decided to move forward with the 4 that are highlighted.

The first 3 highlighted options are university-wide approaches:

- Increasing the employee contribution to health insurance,
- Modifying our employee/dependent tuition waiver benefit,
- And offering a faculty retirement incentive.

The fourth is about empowering the VPs and Deans to make the kinds of decisions that really can't be made effectively at the university level.

The next 3 slides are an overview of the university-wide options we are implementing, but I'm going to spend most of our time today focusing on the thinking behind the division-level goals.



Faculty/Exempt Health Insurance

- Increase faculty/exempt health insurance contribution from 35% to 40% on 7/1/19
- Does not apply to classified staff; state controls classified benefits
- Traditional plan will increase ~\$420/year for individuals, ~\$1,150/year for families
- Estimated savings of ~\$680,000/year
- Health insurance is a significant cost; 27% increase in total cost since 2013

4

This doesn't apply to classified staff because the state determines their benefits.

The faculty and exempt staff contribution to health insurance will increase from 35% to 40% on July 1.

This means your cost will increase about \$420 per year for an individual premium or about \$1150 per year for a family premium.

Unfortunately, health insurance is a significant cost for UNC, and that's why we are making this change. The total cost of our health insurance has increased 27% since 2013.

Making this change will save UNC almost \$700K each year.

But I recognize that this is effectively a pay cut for employees. And as I have said to you before, I am committed to finding a way to address faculty and staff salaries as we move forward.



Employee/Dependent Tuition Waiver

- Only CO public univ with 100% for dependents
- Keep for current employees; change for new
- Now require FAFSA/scholarship application

	Dependents	Employees
Hired on or before 6/30/19	100% undergrad tuition waiver for remainder of employment Eliminate grad tuition waiver unless enrolled by 8/30/19	Waive tuition/fees for up to 9 undergrad or grad credit hours/year
Hired after 6/30/19	50% undergrad tuition waiver No grad tuition waiver	Waive tuition/fees for up to 9 undergrad or grad credit hours/year

5

We are the only public university in Colorado that offers a 100% waiver for dependents. But many people across our campus expressed tremendous concern about changing this.

I heard you. For current employees, we are keeping the dependent waiver at 100%—for as long as you're employed at UNC.

For anyone hired after June 30th the dependent waiver will be 50%. We anticipate that this could generate about \$350K per year after about 5 years.

We're also going to eliminate the dependent waiver for graduate classes, but we will make an exception for anyone who is enrolled by next fall.

I feel strongly about the importance of providing professional development for employees, so we will continue to waive tuition and fees for up to 9 credit hours per year, for undergraduate or graduate courses.



Faculty Early Retirement Incentive

- Vacancies must remain unfilled or be filled at lower salary to generate savings; not effective for staff
- Not a guarantee; decisions must benefit UNC
- Offer 50% salary plus 18 months of health insurance benefit for faculty with 20+ years
- Little savings in first year; could save ~\$1.2M/year in out years, depending on how workload is addressed

6

To generate savings, we have to keep vacant positions open or fill them at lower salaries. That's why this is not effective for staff. For tenured faculty, we can find savings by using adjunct or contract renewable faculty, filling positions at a lower faculty rank, redistributing workload, or changing class size.

Tenured faculty members with at least 20 years at UNC (including this year) can apply for the retirement incentive. This is not a guarantee. Decisions have to be made in the university's best interests. For example, we need to make sure we don't lose too many faculty from the same department.

The offer will be 50% of your current base salary, and UNC will continue to pay 60% of health insurance costs through COBRA for 18 months. You can also use the dependent tuition waiver until May of 2020.

Savings will depend on how many faculty participate and how we address their workload. Paying out the financial incentives will limit savings in the first year. But after that, we could save as much as \$1.2M per year, depending on how workload is addressed.



Division-Level Cost-Saving Goals

- Hope to generate ~\$1.5M with currently planned changes and will identify remaining ~\$8.5M at division level
- Empower VPs and deans to manage our resources
- Moving toward decentralized budget
- Guiding questions will create consistency and keep us focused on what matters most — students and their success

7

With the changes we plan to make, we hope to generate about \$1.5M per year over the next few years.

To ensure that we fully address our \$10M structural deficit, we also need to identify about \$8.5M at the division level.

I am a big proponent of decentralizing the budget. And I want to empower the VPs and deans to make the kinds of decisions that can't be made effectively at the university level.

We are working on tools to help guide decisions at the division level, and Michelle and I will be working very closely with each VP. This will include some guiding questions for decision-making.



Guiding Questions

- Making students and their success a priority?
- Made every effort to limit human impact?
- Effect on the rest of the university?
- Effect on equity, diversity and inclusion?
- Sustainable?
- Enough homework?
- Engaged the right people?

8

Our first priority is our students and their success. We also know that our faculty, staff and administrators are critically important to fulfilling this promise to students. We have to keep this front and center as we find savings.

Next fall, we will come together as a campus to affirm our values and articulate our vision for the future of UNC. The work we're doing now is a stepping stone to that long-term thinking.

Here are the guiding questions:

- Are we making students and their success a priority?
- Have we made every effort to limit the human impact?
- Have we considered the effect on the rest of the university?
- How will this affect our work to support diversity, equity and inclusion?
- Is this sustainable?
- Have we done enough homework?
- Have we engaged the right people?



Assumptions in \$8.5M Goal

- \$4.2M state funding increase
- 0% undergrad tuition increase, 3% fee increase, 5% grad tuition increase
- 50 more new freshmen, total undergrads down 2%, total grad enrollment down 4%
- \$1.7M in cost increases (\$500K benefits, \$200K utilities, \$1M other)

9

The \$8.5M total for division-level cost-saving goals is our best approximation, given what we know now. We may need to adjust next fall, when we know more. Here are the assumptions we've made:

We will receive \$4.2M more in state funding next year, as Gov. Polis has proposed.

A caveat of that increase is that we can't raise undergraduate tuition.

We are also starting to discuss the funding formula with the state, which could change our state funding.

We've assumed about 50 more new freshmen next year, as modeled by Huron; undergraduate enrollment down about 2% overall, and total graduate enrollment down 4%.

We've also assumed about \$1.7M in cost increases (\$500K fringe, \$200K utilities, \$1M other).



Division-Level Goal Setting

- Two absolutes: students are top priority and every division must identify savings
- Looked at 3 models
 1. Across-the-board
 2. Staffing investments roll-back
 3. Functional expense benchmarks
- Asked Huron to review our work

10

How to set division goals totaling \$8.5M has been a topic of much discussion. We started with two absolutes: students and their success are the top priority, and every division must find savings.

Then we created three different models for assigning a goal to each division. We also asked for feedback from our Huron consultants, who are experienced in cost-savings work.

I'll walk you through the models. But I also want you to know that we are working on a document that clearly explains all of this, which I hope to share with the campus later this week.



1. Across-the-Board

	FY19	Reduction	
President	\$1.1M	5.3%	\$56K
BOT/General Counsel	\$579K	5.3%	\$31K
Academic Affairs without Colleges	\$27.9M	5.3%	\$1.5M
Colleges	\$77.2M	5.3%	\$4.1M
Campus Community and Climate	\$24.8M	5.3%	\$1.3M
Finance and Administration	\$36.4M	5.3%	\$1.9M
Alumni and Development	\$3.2M	5.3%	\$170K
University Relations	\$3.4M	5.3%	\$179K
Athletics	\$9.2M	5.3%	\$485K
Subtotal			\$9.7M
Vacancy Savings	(\$10.1M)	11.9%	(\$1.2M)
Total	\$173.6M	4.9%	\$8.5M

11

The first model is a classic across-the-board model, which would require each division to cut 5.3%. Across-the-board reductions aren't appropriate because they are not strategic, but looking at this model gave us a good sense of the magnitude of savings needed.

I want to point out that we've taken some things out of the base budget numbers used here. Because these goals are intended to empower leaders to make good decisions about the things under their control, we removed some big-ticket items that aren't under their control, like facilities costs. The document we're working on will explain this in detail.

This is also a good place—because you will see this throughout the slides—to note that we are actually identifying \$9.7M in savings in order to reach our \$8.5M goal. You can see this at the bottom right corner of the slide. This is because our budget currently assumes \$10M in vacancy savings, and we will generate less vacancy savings as we eliminate positions. We estimate that vacancy savings will go down about \$1.2M.



2. Staffing Investments Roll-Back

	FY19	Roll-back	Remainder	Reduction	
President	\$1.1M	–	\$20K	1.9%	\$20K
BOT/Gen Counsel	\$579K	–	\$11K	1.9%	\$11K
AA w/o Colleges	\$27.9M	\$16K	\$519K	1.9%	\$535K
Colleges	\$77.2M	\$3.5M	\$1.4M	6.4%	\$4.9M
CCC	\$24.8M	\$1.3M	\$436K	7.1%	\$1.8M
Finance & Admin	\$36.4M	\$226K	\$673K	2.5%	\$899K
Alumni & Dev	\$3.2M	\$44K	\$59K	3.2%	\$103K
Univ Relations	\$3.4M	\$266K	\$58K	9.5%	\$324K
Athletics	\$9.2M	\$980K	\$153K	12.3%	\$1.1M
Subtotal	\$183.7M	\$6.4M	\$3.3M	5.3%	\$9.7M
Vacancy Savings	(\$10.1M)				(\$1.2M)
Total	\$173.6M	\$6.4M	\$3.3M	4.9%	\$8.5M

12

The second model rolls back all of the increases in personnel—not raises, but new personnel expenditures—going back five years.

This fall, I heard lots of questions and concerns about growth in staffing as enrollment declined—that was the impetus for thinking about this model.

This approach would require divisions to identify from about 2% to 12% in savings.

As you can see, rolling back the investment in staffing only generates \$6.4M, so the remainder is assigned across-the-board.

That's just one of the problems with this model. I have some equity concerns because the range from 2% to 12% is so wide. Reducing any division's budget by 12% in one year is also inherently problematic. And rolling back everything we invested in really doesn't make sense. Some things were good ideas, such as addressing students' concerns about campus climate. And we had little choice but to invest in bolstering our Title IX and Athletics compliance.



3. Functional Expense Benchmarks

	Current \$/SFTE		
	Peers Median	UNC	% of Peers
Instruction	\$6,888	\$7,644	111%
Research	\$701	\$310	44%
Public Service	\$436	\$179	41%
Academic Supt	\$1,611	\$1,980	123%
Student Services	\$1,046	\$1,838	176%
Institutional Supt	\$1,711	\$1,457	85%
Auxiliaries	\$2,962	\$3,419	115%
Oper/Maint Plant	\$1,500	\$1,005	67%

13

The third model is the one we're going to use. It looks at IPEDS data for functional expenditures—in areas like instruction, research, student services and institutional support. IPEDS is the Integrated Postsecondary Education Data System, which collects data from colleges and universities in a way that allows us to compare ourselves with similar institutions.

This model compares our spending per student FTE to the eight peer institutions we identified in 2011 for enrollment planning and CDHE performance reporting. We also looked at our nine Colorado competitors.

We made two adjustments to the division base budgets to make these comparisons more meaningful.

1) We moved Intercollegiate Athletics from Student Services to Auxiliaries. IPEDS allows it to be reported either way. We've long reported it as student services, but that's not what most of our peers do so we followed their lead.

2) We removed facilities costs from the six main functional expenditure areas, where IPEDS allocates them on a pro rata basis, so we could account for them separately.

The chart shows how we compare to our peers. Our greatest outlier is student services, at 176% of the median of our peers. On instruction, we spend 11% more than our peers. Academic support is about 23% higher than our peers, and institutional support is about 15% lower. We also spend almost 60% less on research and public service than our peers.



Functional Reductions Logic

- Room for error in IPEDS comparisons, so do not attempt to align precisely with peers
- Look at ranges; move outliers toward median

<85% of Peer Median \$/SFTE	+/-15% of Peer Median \$/SFTE	>115% of Peer Median \$/SFTE
0% Reduction	5% Reduction	Sliding Scale Reduction gradually increases as expenditure increases

14

The next step was to decide how much we should reduce the functional expenditures that are way out of line with our peers.

The IPEDS comparisons aren't perfect—there is some leeway for institutions to categorize things differently. So rather than working to precisely align with our peers, we're looking at ranges and trying to move the greatest outliers toward the median. We also want to make sure every division is identifying savings.

We considered functions where we spend within 15% of our peers to be the middle range—those that aren't dramatically higher or lower than our peers. We applied a 5% reduction to these—Instruction, Institutional Support and Auxiliaries.

For functions where we spend 85% of our peers or less, we didn't apply a reduction—Research, Public Service, and Operation and Maintenance of Plant. This level of spending probably suggests a need for future investment.

Where we're spending 115% of our peers or more, we've used a sliding scale to gradually increase the reduction as the expenditure goes up. The document we'll be sharing has a detailed chart of this sliding scale.



Spending per SFTE After Reductions

	Current \$/SFTE				New \$/SFTE	
	Peers Median	UNC	% of Peers		UNC	% of Peers
Instruction	\$6,888	\$7,644	111%	5%	\$7,262	105.4%
Research	\$701	\$310	44%	0%	\$310	44.2%
Public Service	\$436	\$179	41%	0%	\$179	41.1%
Academic Supt	\$1,611	\$1,980	123%	5.78%	\$1,866	115.8%
Student Services	\$1,046	\$1,838	176%	12.8%	\$1,603	153.2%
Institutional Supt	\$1,711	\$1,457	85%	5%	\$1,384	80.9%
Auxiliaries	\$2,962	\$3,419	115%	5%	\$3,248	109.7%
Oper/Maint Plant	\$1,500	\$1,005	67%	0%	\$1,005	67.0%

15

These are the functional reductions that result from the logic I just described, and how they would change our relationship to our peers' spending.

As you can see, we will still be spending well more than our peers in several categories.

But these reductions by functional expense categories still aren't division-level goals. If we want to set division goals, we need to know two things: how much we want to reduce total spending for each function, which is shown here in yellow, and how much each division spends on each function.



Percent of Functional Expense by Division

	Pres	BOT/GC	AA w/o Colleges	Colleges	CCC	Fin & Admin	Alumni/Dev	Univ Relatns	Athletics	Central	Total in millions
Instructn			9%	91%							\$79
Research			73%	27%							\$0.42
Public Svc			77%			23%					\$0.23
Acad Supt			65%	28%		7%					\$16
Stdnt Svc			43%	3%	48%	5%		1%			\$16
Inst Supt	4%	2%	8%		3%	59%	12%	12%			\$27
Aux					57%	12%			32%		\$29
OMP			6%	1%		93%					\$16
Vac Savgs										100%	(\$10)

16

Because UNC isn't organized along IPEDS functional expense lines, the model breaks apart expenditures by division. For example, you can see that are student services expenditures in Academic Affairs, Campus Community and Climate, and Finance and Administration. And institutional support expenditures are spread across most of the divisions.

We also split the budgets of two divisions to provide more clarity about what we're spending where. The Academic Affairs budget is divided into college and non-college expenditures. And the Intercollegiate Athletics budget has been separated from the University Relations budget.

The column on the right shows our total expenditures by function. We broke down the total by division using the percentages here. For example, we spend \$79M on Instruction. 91% of that is in the colleges, so about \$72M. The remaining 9% of Instructional spending, \$7M, is in the rest of Academic Affairs.



Total Reduction by Division (\$)

	Pres	BOT/GC	AA w/o Coll	Coll	CCC	Fin & Admin	Alumni Dev	Univ Relatns	Athletic	Central	% Cut	\$ Cut
Instruct			360k	3.6M							5%	3.96M
Rsrch											0%	
Pub Svc											0%	
Acad Sup			590k	250k		60k					5.8%	900k
Stdnt Svc			880k	60k	970k	110k		10k			12.8%	2.03M
Inst Sup	50k	30k	110k		40k	800k	160k	170k			5%	1.36M
Aux					820k	170k			460k		5%	1.45M
OMP											0%	
Vac Sav										(1.2M)		(1.2M)
	50 K	30 K	1.94 M	3.91 M	1.83 M	1.14 M	160 K	180 K	460 K	(1.2) M		8.5 M

This shows how the total reduction to be made for each function breaks down by divisions.



Total Reduction by Division (\$)

	Pres	OT/GC	Acad w/o Coll	Coll	CCC	Fin & Admin	Alumni Dev	Univ Relatns	Athletic	Central	% Cut	\$ Cut
Instruct			360k	3.9M							5%	3.96M
Pub Svc											0%	
Acad Sup			590k	250k							5.8%	900k
Stdnt Svc			880k	60k							12.8%	2.03M
Inst Sup	50k	30k	110k								5%	1.36M
Aux											5%	1.45M
OMP											0%	
Vac Sav											0%	1.2M
	50 K	30 K	1.94 M	3.9 M	IV	IV	K	K	K	IV		8.5 M

9% of \$3.96M = \$360K

For example, we're going to reduce Instruction by \$3.96M—that's 5% of our total spending on Instruction. As we saw on the last slide [slide 16], 9% of Instructional spending is in the non-college part of Academic Affairs. This allocates a reduction of about \$360K to them (9% of \$3.96M).



Total Reduction by Division (\$)

	Pres	BOT/GC	AA w/o Coll	Coll	CCC	Fin & Admin	Alumni Dev	Univ Relatns	Athletic	Central	% Cut	\$ Cut
Instruct			360k	3.6M							5%	3.96M
Rsrch											0%	
Bus Affs											0%	
Acad Sup			590k	250k							5.8%	900k
Stdnt Svc			880k	60k							12.8%	2.03M
Inst Sup	50k	30k	110k								5%	1.36M
Univ Affs											5%	1.45M
OMP											0%	
Vac Sav												1.2M
	50 K	30 K	1.94 M	3.9 M	M	M	K	K	K	M	2)	8.5 M

9% of \$3.96M = \$360K

65% of \$900K = \$590K

43% of \$2.03M = \$880K

8% of \$1.36M = \$110K

Total \$1.94M

The non-college part of Academic Affairs also has spending in three other categories—Academic Support, Student Services, and Institutional Support. We know from the last slide [slide 16] that they make 65% of our expenditures on Academic Support. We're reducing Academic Support by \$900K, so 65% is about \$590K. Their spending for Student Services calculates to about \$880K and spending on Institutional Support is \$110K

Their cost-saving goal is the sum of these, at the bottom of the chart—\$1.94M.

The next slide shows a simpler version of this.



Division Cost-Saving Goals

President	\$53K	5.0%
BOT/General Counsel	\$29K	5.0%
Academic Affairs without Colleges	\$1.94M	6.9%
Colleges	\$3.91M	5.1%
Campus Community and Climate	\$1.83M	7.4%
Finance and Administration	\$1.14M	3.1%
Alumni and Development	\$161K	5.0%
University Relations	\$178K	5.2%
Athletics	\$459K	5.0%
Vacancy Savings	(\$1.2M)	
Total	\$8.5M	

20

As you can see, the division goals range from 3.1% to 7.4%, with more than half of them very close to 5%. There is no perfect way to calculate this, but I believe these are equitable. They require every division to identify savings, and don't ask too much of any one division.

Part of the challenge as we do this work is how we keep supporting the things that are most important to us, like student success. Even though we're spending 76% more than our peers on student services, we have talked at length about how much we can realistically reduce this. One of the things that will help us is the creation of a division of student affairs. I do believe we can reduce our student services budgets without reducing our focus on student success because we will find significant savings by centralizing these functions. One of the task forces has done a lot of work on this.

Another detail worth noting is that I have been very clear with the VPs that they should make use of vacant positions and natural attrition. Any layoffs will have to be very carefully considered. This goes back to the guiding question about making every effort to limit the human impact of these decisions. I will be meeting with each VP to go over their draft plan before it is finalized, and asking all of those guiding questions.



Next Steps

- Finalize goals later this week
- Meet with each VP to discuss draft plan
- VPs submit savings to budget process by March 8
- Report results to campus in April
- Discuss FY20 proposed budget with BOT May 8