



Budget Reduction and Efficiency Actions—Updated March 3, 2009

Arizona State University has taken a number of management actions that result in lower cost structures and improved efficiency. These measures have been implemented both prior and in response to recent general fund reductions implemented by the state.

Reshaping University Services Delivery (FY08)

For FY08, a program was implemented that centralized common activities across campuses for improved efficiencies and more focused delivery of services. Specifically, units that delivered like services were consolidated, generating \$4.8 million in savings that were then reinvested to deliver enhanced student support services at the closest point of contact. Examples of the consolidation included:

- Eliminating campus-based academic affairs offices
- Reducing the Summer and Winter Sessions Office staffing
- Eliminating the Office of Academic Community Engagement Services
- Strengthening college-based academic advising activities
- Re-structuring extended education and University College activities
- Merging the Center for Learning and Teaching Excellence with the Office of University Evaluation

FY08 Mid-Year Budget Rescission

As a result of the continuing fiscal problems in the State of Arizona, general fund budgets were partially rescinded midyear in FY08. ASU returned \$8.2 million in general fund reductions in addition to the \$5.2 million in Phoenix College of Medicine joint planning funding. This reduction was largely accomplished by keeping open existing positions vacated and using the savings to absorb the cost.

FY09 Budget Reduction- Round One

The FY09 budget reduction that has been integrated in the FY09 Legislative budget resulted in a reduction of \$24.2 million in base funding in addition to the permanent reduction of \$5.2 million for PHX-COM planning funding.

Personnel Actions

In order to implement this reduction, ASU has made a number of staff reductions, as well as eliminating open positions permanently. With this and other budget reduction actions, more than 260 positions have already been eliminated in FY2009. Specifically:

- Approximately 100 filled staff positions will have been eliminated, and the incumbents in those positions terminated

- More than 90 vacant staff support positions will have been eliminated
- Nearly 60 vacant faculty positions will continue to be held vacant until new funding is available
- Thirteen vacant faculty associate positions will have been eliminated

General Operations Savings

In addition to the savings from staffing reductions, a roughly equal amount of savings was taken in general operating funds to complete the budget cut allocations. Much of the savings will come from reduced staffing, but also from management decisions aimed at reducing general spending. This would include reduced spending on equipment, supplies, travel and other general operating needs.

Reductions in operating spending beyond the required budget cuts were taken that were in turn used for internal reinvestment to avoid additional staffing reductions that would impact either faculty or the student experience.

Alternate Funding Sources

As a part of the ongoing focus on growth and interdisciplinary leadership, ASU has regularly reviewed all potential non-state funding sources for opportunities to offset state costs. A number of costs have been absorbed by alternate funding sources, including indirect cost recovery from research grants to support utilities and seed funds for new programs, auxiliary revenue to support tutors, and gifts. This focus will continue to be a part of the strategy that will allow ASU to make progress in moving university initiatives programs forward. However, given the economic climate in the US, ASU has been careful not to be overly reliant on the growth of these funds in basic fiscal planning.

FY09 Budget Reduction- Round Two

With the continued dramatic weakness in the State's revenue picture, in October 2008 ASU deemed it prudent to prepare for additional reductions in the State funding that would be likely to take the form of a mid-year budget rescission. Since the actual implementation of a rescission might not occur until much later in the fiscal year when the bulk of the State budget has been spent or obligated, reductions had to be implemented in advance of the actual imposition of a cut to be achievable. ASU has implemented a reduction plan that will allow the saving of an additional \$23.6 million, which is 5% of its General Fund appropriation and bring the cumulative budget reductions for FY09 to 10% of the FY08 base budget. ASU continues to examine plans for how it would accomplish larger reductions were they to become necessary.

Personnel Actions

The Provost evaluated the current academic structures of units and proposed a reorganization that results in reduced costs, better efficiency and better alignment of academic programs. The reorganization will impact 18 academic units to streamline the university's academic offerings. This action is anticipated to save nearly \$2 million in FY09 and with full implementation \$4 million annually. It will result in the elimination of two colleges and the merger of those programs within other colleges and schools. The reorganization will result in the elimination of a number of filled and currently vacant administrative support positions.

Teaching loads for the spring 2009 terms have been adjusted in every academic unit in order to reassign courses that had been planned to be taught by faculty associates to tenured faculty, tenure-track faculty, and contract faculty. This resulted in the non-renewal of about 200 faculty associates.

Beyond the lines that have already been held vacant as a result of earlier reductions, ASU has held vacant the majority of the staff lines that have become vacant since the first of the year. This is likely to impact over 100 positions before year-end. In addition, reorganization steps will be taken in many of the administrative units and in the support operations in a number of the academic units that will result in the elimination of currently-filled classified staff positions. At this time, it is estimated that this will impact 100 current employees.

General Operations Savings

In addition to the savings from the planned staffing reductions, the target will be reached by implementing additional savings in general operating funds. Given the level of reductions already implemented in equipment, supplies, travel and other general operating needs, the ability to find a large proportion of the reduction in this area has been more limited than it would otherwise be, but new actions to limit travel, drastically reduce publications, and equipment replacement have been undertaken. ASU has also reexamined its energy use practices and will achieve significant savings through the adjustment of office and classroom temperature set points for the balance of the year.

Alternate Funding Sources

ASU examined the range of the discretionary fees now in place to see which may be justifiably increased. The fee charged to students for participation in the Tuition Installment Plan has been at its current level for five years and has been increased for the spring term. Other opportunities for revenue enhancement from program expansion and cost shifting from state to local sources are being pursued. Because a number of steps were taken to achieve the FY09 round one reductions this is not anticipated to be a significant contributor to the round two actions.

Summary

Overall, the most substantial proportion of the \$23.6 million reduction target will be achieved through personnel actions (holding vacancies and eliminating positions) since the budget is heavily weighted in this way. (77% of the FY09 State budget is for salaries, wages and benefits, and 55% of that component is devoted to faculty costs.) In this planning, we expect the reductions to be weighted towards personnel in roughly this proportion, though the faculty component, being limited to faculty associate lines, will be very small.

FY09 Budget Reduction – Round Three

The revised FY 2009 State budget was enacted on January 31, 2009. It includes a total rescission of \$63.3 million for ASU from the initial appropriation for FY2009 (which as noted in the Round One section above already a reduction of \$24.2 million from the FY2008 level of funding. The Round Two reductions described above will handle \$23.6 million of this rescission, leaving an additional \$39.7 million to achieve in the five months remaining in the fiscal year as Round 3.

With this reduction, the opening FY2009 General Fund appropriation will have been reduced by 13.3% and the cumulative permanent reductions since mid-2008 will have been over 18%. In this same period of time, the ASU enrollment showed major increases: 5.7% growth in FTE students (almost 3,500 more)

in Fall 2008 ,and a preliminary 7.6% growth in Spring 2009 (almost 4,400 more FTE students in this spring than the previous spring).

To achieve the additional reduction of \$40 million beyond that planned in round two, ASU has taken a number of new actions.

Personnel Actions

Further academic reorganizations will be implemented to generate additional savings, primarily in FY 2010. Six colleges in total will be affected. Three colleges will be eliminated and the academic units and faculty will become part of other colleges.

A furlough program for all 12,000 non-student employees, ranging from 10 days without pay for classified staff, to 12 days for faculty and most staff, to 15 days for senior administrators, has been implemented. This represents a pay reduction ranging from 9.3% to 14% in the remaining paychecks this year. This significant sacrifice by ASU employees will enable the University to maintain its responsibilities to its students for the spring term. Absent this action, almost 1,650 staff members (75% of the non-classified and non-faculty staff) would have to be laid off to achieve the same amount of savings over the remainder of the year. The furlough program reduces costs by \$24 million.

Layoffs of staff members who have already received notice that their positions are being eliminated in FY2010 as part of the academic reorganizations or who were part of planning for layoffs needed in FY2010 to annualize savings may be accelerated, but carrying this out will require some level of ABOR review and approval that is not yet in place. The number of positions has not yet been determined.

The hiring freeze that has been in place has permitted exceptions for certain essential functions. That freeze will have to become even more stringent. All unit budgets are being reduced for the balance of the year to capture the savings generated.

General Operations Savings

Further reductions in non-personnel costs of travel, equipment, and supplies will be undertaken and costs that can be deferred until the next year will be postponed. Each unit has been required to return a substantial portion of the funds that were unencumbered as of January 31, 2009. There were many planned expenses necessary for regular operations that had been unencumbered, and the return of these funds will impact faculty, students, and staff. Or example, this reduction will result in the inability to upgrade aging equipment, limits on regular publications, normal minor upgrades to facilities, and academic travel plans. Overall savings are expected to exceed \$10 million from this action.

Alternate Funding Sources

Fees for transcripts and for orientation programs have been increased, generating just over \$1 million in revenue to offset reductions. Because the spring term was already underway when the new rescission was determined, it is not possible to consider other tuition of fees increases as means of offsetting the reductions.

Other Temporary Measure Required

Funds will be borrowed from balances accumulated from non-state sources to support research activities and other school and unit based programs to achieve temporary offsets to FY2009 costs. This borrowing must be repaid in FY2010 or FY2011 and so increases the cuts needed in those years. It also

represents a temporary drawdown of cash balances that weakens the ASU financial position until restored.

Summary

ASU has sustained unprecedented budget reductions in the last eight months. The scale of the cuts and the irresponsible timing of their imposition threatens the quality of the academic programs and have had to be managed very carefully, with many temporary measures required, to protect the institution. The pressure resulting from budget reductions is multiplied by the fact that ASU continues to experience solid growth in enrollment as demand for an affordable quality education expands. We anticipate even larger proportions of Arizona students to look to ASU in these difficult economic times, and this results in the difficult combination of responding to higher enrollments without new funding for those students and implementing reductions in the support available for current students. However, ASU, in planning for dealing with its budget issues, is committed to preserving its mission of access, excellence and service, and for this reason the quality of the services has been and will be the priority in planning.

FY10 Budget Reductions- Initial Planning

The State has estimated that revenues will fall over \$3 billion short of covering the expenses that were assumed in the opening FY2009 budget plus mandated cost increases in certain programs. The Legislature has started hearings on the budget and the Executive branch has starting working on plans to address the shortfall. There are many variables at play at the State level, including the impact of the federal stimulus funds, the potential for a ballot initiative to consider new taxes that have been raised by the Governor, and the potential for a ballot initiative that would allow programs protected as a result of heir having been enacted by voter initiative to be available for budget reductions. There are other variables at play at the Regents level, including the possibility of enacting additional fees and surcharges, and policy changes that would allow greater flexibility in financial aid and personnel policies. The many variables result in it being difficult to establish firm planning targets for reductions at this time, and ASU is examining a number of scenarios.

In mid-February, ASU announced a number of initial steps to work to annualize a portion of the FY2009 reductions that were handled through temporary actions such as the furlough. This included the closing of freshman admissions as of March 1 (five months earlier than normal), a number of additional administrative consolidations at the school level, refocusing of programs at the Polytechnic and West campus, and the closing of over 40 degree programs spread across all campuses. It also announced an intent to suspend the funding of new Regent High Honors (AIMS) scholarships for new students in Fall 2009. This has not been implemented and remains under study.