

COVID-19 updates

See our [health and safety guidelines \(/return-to-campus/health/if-you-feel-sick/\)](/return-to-campus/health/if-you-feel-sick/), and our plan to [return to campus \(/return-to-campus/\)](/return-to-campus/).

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President Gary L. Miller's remarks before the Board of Trustees on Aug. 12

08/12/2020

Thank you, Mr. Chairman.

As you know, because of the great uncertainty we face due to the COVID-19 pandemic, at its July meeting, this Board extended temporary spending authority to us so we could have more time to develop an FY21 budget for your consideration. We are very grateful for that extension.

I want to report to you today that working with many committed faculty and staff, the administrative team is presenting a budget that if circumstances allow, will move The University of Akron through this crisis and into a sustainable future.

However, as my team and I will explain, most of the uncertainties we faced in July are still with us. In addition, primarily because of recent actions by the Akron-AAUP, we face a new uncertainty for which we must plan.

The budget we are recommending is what we believe is the most likely scenario based on what we know now. This budget was being revised nearly up to the time of this meeting. There is little doubt in my mind, based on the pace of events surrounding these very, very unusual and unique circumstances, we will need to revise this budget in the fall.

Before Steve Storck, John Wiencek and I answer your questions, I want to make

some general comments and then walk carefully through this budget proposal.

GENERAL COMMENTS

As you discussed with me when I interviewed here, it is very important to you that we adhere to the principles of shared governance as we work to chart a path for the future of The University of Akron. The two principal shared governance groups at the University are the Faculty Senate and the University Council. I have enormous respect for the faculty and staff who serve on these important groups. I note in particular their work last semester in our strategic planning process and more recently in our reorganization of the academic units. As I have my entire career, I will continue to work with these important bodies.

Nevertheless, I feel compelled to comment on the two resolutions passed by the Faculty Senate last week directed at this body. These resolutions not only mischaracterized the role of this Board, they also unjustifiably condemned your work as uninformed and intentionally misguided.

I want to say very publicly to the Senate and to this community: There is no group now working on the challenges we face that is more engaged, courageous, informed and wise than this Board. Nor is there the slightest doubt of your love for this institution and its students and employees. You are ultimately accountable to the State of Ohio for the welfare of this great university. No one has more responsibility for our future than you. I appreciate your work.

You were very clear when you invited me to join The University of Akron that it was your expectation we would apply all of our energy and creativity toward securing a strong financial future for this institution.

Prior to COVID, we had implemented a number of important initiatives designed to move the University forward. With great participation by faculty and staff we began an accelerated strategic planning process. We believed we were on track to meet our goals within a three to four-year period.

The fallout from the COVID pandemic changed all that.

It compressed our financial challenges into the current fiscal year. We cleared campus and moved to online instruction last spring at great cost. Unprecedented COVID-related decreases in enrollment and SSI, coupled with the great uncertainty

of the immediate future made it clear that if we failed to act decisively and immediately, the University would be placed in financial peril in the current fiscal year.

Because of this, and fully appreciating the uncertainty we face, Mr. Gingo, Mr. Scala and this Board directed us to take actions that would create an FY21 budget having as small a draw on reserves as possible while preserving the academic quality of the University and its historic focus on engagement with the Akron community.

This Board is well aware that our task is not just about the FY21 budget. You also charged us with taking actions that position the University for the future.

Everything we've seen since last March indicates that – without a doubt – we are at an historic moment in American higher education. We not only have to have a budget that gets us through this year but, because of the enormous changes on the horizon, we must put ourselves in a position to operate in a much different environment for many, many years into the future.

Two examples of this uncertainty relate to our most important revenue streams: tuition and state support of instruction (SSI).

- The COVID-induced enrollment decline we are experiencing this fall cannot be overcome in a single year. Any decline in enrollment in a fall semester stays with us for four years.
- We have been cautioned to plan for the potential of additional declines in SSI in this fiscal year. But, even if the current depressed level stays the same this year, it is highly unlikely it will be increased in subsequent years. We will live with dramatically reduced state funding for many years to come. It would be irresponsible, indeed, reckless, for us to anticipate anything else.

There should be no doubt in anyone's mind in the University community that we not only face a crisis of the instant, we also are facing a fundamental reorientation of nearly every aspect of higher education. This is not just about balancing an annual budget. This is about how we will prosper in the new environment we face.

As I will demonstrate clearly in a moment, because of the great changes afoot, not taking the strong actions we have taken this year would not only place us in immediate financial difficulties, it would also surrender our chance to create opportunities for this community in the future.

I want to turn briefly to another topic.

Over the past six months I have witnessed incredible courage by faculty and staff who—when faced with unprecedented change and living in isolation—have found ways not only to continue educating students, conducting research and performing the many jobs that make a university like UA move, but also understanding and accepting the great challenges we have in this moment. I am deeply grateful to that great majority of our faculty and staff.

However, there are those in the University who have very loudly vocalized their skepticism about the seriousness of our challenges. These people believe our problems are temporary and should be fixed with short-term, temporary solutions based on one-time savings and cost reductions. They believe we should just wait.

Such a view not only ignores the data (which we will review here this morning), it also reveals a fundamental and disquieting lack of trust and commitment to an institution that for 150 years has found a way to weather great change and to which these individuals profess their love. To turn, in this critical moment in our history, so single-mindedly to traditional practice is, indeed, a deep disappointment.

What we need now is courage and creativity and a willingness to embrace a change we all know is coming. I am indeed thankful we have these characteristics in this Board, among the vast majority of our faculty, staff and students and in this community.

Let me turn now to the details of the proposed budget.

There are four main parts to the budget: (1) the FY20 approved budget for comparison; (2) the FY21 budget proposal; (3) a list of contingencies at the bottom of the sheet and (4) a review of what would have been the case had we not taken the actions that have been implemented.

STATUS QUO

I want to first draw your attention to the far right column of [the budget sheet \(/finance-administration/docs/fy21-general-fund-summary.pdf?language_id=1\)](/finance-administration/docs/fy21-general-fund-summary.pdf?language_id=1) you have before you, labeled the “Status Quo.” This column demonstrates our financial position had we taken the advice of those who would have us wait. You can see that taking no action would have resulted in a draw of nearly \$50M from our \$65M reserves. This would have been highly irresponsible.

It is very important to emphasize to those listening inside and outside the

University some facts that you well know.

The University reserve pool is not a rainy day fund. It is not a pot of money we can draw from to weather a significant crisis. Retaining sufficient reserves is an obligation you have. The presence of these funds is absolutely required to back up our debt and our operational responsibilities and to maintain our accreditation.

Some have said very publicly that failing to dip into these funds in order to give us enough time to weather this situation is an attack on the academic quality of the university. Nothing could be further from the truth. Holding back these precious and limited funds is the only way for us to preserve the academic quality of the institution.

The fact is, in this crisis and moving ahead, we must live within our means to preserve academic quality.

SPECIAL ENTRIES

The FY21 proposed budget includes a special Coronavirus Relief Fund revenue item (under Miscellaneous Revenues) of \$9.5M. This is offset by a Coronavirus Expenditures item (under Operating Expenses) of an equal amount. These are funds received from the CARES Act through the state for specific uses related to preparing the campus for operations this fall. The funds are one-time and must be spent before the end of the calendar year.

REVENUES

- We are planning for a fall enrollment of -15% over last year. This represents a reduction in tuition and fees of just over \$20M. Initially, we forecasted a 20% decline in enrollment. The enrollment numbers have changed some in the past month or so. However, they are volatile and since we have no experience with opening a university in a low-density mode, we do not know the rate at which we will lose students because they feel uncomfortable in this environment.
- The budget reflects a -8.8% change in SSI compared to the initial FY20 budgeted amount. There are three important things to remember about this:
 - We have been told to expect changes, which we will discuss in a moment.

- Newspaper reports about the level of decline in the SSI noted a -3.8% change at the state level. However, UA was already expecting a decline in enrollment and, thus, a lower SSI. The 8.8% is the total we expect from both those processes.
- Assuming no mid-year correction to the SSI, the total amount of the reduction is \$8,694,000.
- We expect reductions in Indirect Cost Recovery because of lower levels of faculty research and Investment income and increases in Miscellaneous Revenues. The total net reduction compared to budgeted FY20 is negative \$605,000.

The minimum total reduction in revenue compared to FY20 is \$29,620,000. This is an historic number representing nearly a 22% reduction from FY20. In my time in higher education I have never seen a single year reduction of this magnitude.

EXPENSES

Working with the deans, department chairs and led by the provost, the executive team was able to put in place more than \$44M in permanent expense reductions across campus. The major areas include:

- Significant reduction in the University's support for athletics.
- Eliminating unfilled positions throughout the University.
- Retirements.
- Operations and utility expense reductions.
- Significant reduction in force to bring our workforce in line with enrollment levels and future trends.
- Reductions in the University portion of health care premiums for staff, contract professionals and police.
- Elimination of retiree dependent health care for staff and contract professionals.

In addition to these permanent reductions, Cabinet members and some head coaches voluntarily agreed to temporary salary reductions and in collaboration with the unions representing our staff and police, we obtained temporary pay reductions to give us more flexibility in the coming year. This Board also approved temporary salary reductions for non-union faculty, academic administrators, contract professionals (including Athletics) and staff.

We also negotiated agreements with the staff unions for furlough authority to be used for flexibility, if necessary, and the Board adopted rules for the use of furloughs of our employees.

Because the Akron-AAUP narrowly rejected the tentative agreement reached by the union negotiating team and the university, this budget does not include any temporary salary reductions, increases in employee contributions for healthcare or furloughs for bargaining unit faculty.

PLANNING CONTINGENCIES

Of necessity, this budget anticipates some kind of major permanent or temporary COVID-related disruption in the educational process in the fall. There are a number of other important contingencies not included in the proposed budget the Board should be aware of.

Revenue related contingencies:

There are a number of contingencies that would worsen our revenue picture.

- Enrollment behavior. We do not have experience with the delivery model we are planning to deploy. While students are enthusiastic about returning, we do not know whether they will persist in their studies in this environment.
 - If there is a disruption in academic activities because of a COVID outbreak, we will experience lost revenue. We are estimating this could possibly go as high as \$8,000,000 based on our experience from last spring and our enrollment outlook.
- SSI reduction. We must be prepared for fluctuation in the SSI. Based on the early numbers we were given with which to plan, we believe a reduction in revenue of an additional \$4.7M is a prudent planning target.

Thus, this year's revenue decrease, now projected to be \$29M could be as large as \$41M.

Expense related contingencies:

There are a number of contingencies that would severely increase our expenses. The most important of these has to do with the reduction in force of bargaining unit faculty.

As you know, the Akron-AAUP has filed a grievance regarding our use of Section 12 of Article 15 of the Collective Bargaining Agreement to conduct a reduction in force. By failing to ratify the tentative agreement agreed to by the AAUP negotiating team and the University, that grievance moves forward to binding arbitration.

Were the University not to prevail in that arbitration, the most likely outcome would be a reversal of the reductions in force requiring an immediate reinstatement of those faculty members at a cost of over \$8M in this fiscal year.

Given the variability in revenue and expenses possible in the coming months, we caution the Board that the draw on reserves could range from \$7.8M to as much as \$32M.

As we have discussed, this outcome would be difficult to overcome.

Outyear contingencies:

In addition to the contingencies in the immediate year, we have to look forward to known upcoming financial obligations in FY22 and beyond. You will see a list of these at the bottom of the budget sheet.

There are two areas we are watching in FY22 that total approximately \$5M less in revenue.

- To give us help this year, we transferred \$2.3M from The University of Akron Research Foundation fund to our budget. These funds represent a one-time infusion and will not be available in FY22.
- The salary reductions agreed to with our staff, contract professionals and police unions expire at the end of FY21. These temporary reductions provide \$2.8M in reduced expenditures in FY21.
- Upcoming additional General Fund debt service obligations begin in each of the fiscal years FY22, FY23, and FY24. These represent ongoing financial obligations.

In closing Mr. Chairman, we are budgeting in the most volatile and uncertain time in my thirty years in higher education. But thanks to the courageous work of the leadership team, the chairs, the deans and many faculty and staff, we are presenting a positive way forward for the University.

We look forward to your discussion.

