TO: Gary L. Miller, President, The University of Akron

FROM: Stephen R. Storck, Ph.D., Interim Chief Financial Officer

DATE: August 18, 2020

RE: **Critique of Akron-AAUP Analysis of UA Financial Statements**

Introduction

Outlined below is a critique resulting from the review by University of Akron (UA) staff of a Report prepared by the Akron-AAUP's consultant – Dr. Rudy Fichtenbaum – analyzing UA's audited financial statements for the years ending June 30, 2002 through 2019 (the "AAUP Report"). The AAUP Report's comments focus on FY2019 and this critique does likewise. The AAUP Report also comments on UA's operating budgets for FY19, FY20, and the projected General Fund budget for FY21. Although perhaps not immediately apparent to a layperson, focusing upon the FY19 budget is most relevant, as it is the most recent fiscal year to FY20, is the starting point upon which the University developed and revised its FY20 budget, and is the basis for assessing and comparing the University's financial health both before and after the financial fallout that occurred from the COVID-19 pandemic. It should be noted that much of the analysis of the University's financial condition in fiscal years prior to FY20 is somewhat irrelevant to the immediate crisis caused by the Coronavirus pandemic. That is, the significant economic impact of the pandemic elevated what has been a concerning matter regarding the University's financial condition to that of one necessitating a 20%-25 reduction in budget expenditures in order to enable the University to remain a going concern beyond FY21.

Executive Summary

- The University takes issue with several of the comments and conclusions in the AAUP Report. The AAUP Report contains errors of fact and compares information contained in the University's General Fund budget to that of the audited financial statements issued at year end. These comparisons are ill-conceived as they violate conventional budget and accounting principles and practices.

- The General Fund budget is one of three components of the University's operating budget and thus represents only a portion of the total operating budget. However, the AAUP Report erroneously states it represents the University's total operating budget. The purpose of the University General Fund operating budget is limited to helping the University manage the principal components of its revenues and expenditures. The purpose of the audited financial statements is to present the complete financial position of the University as of year-end, not the results of operating budgets for the fiscal year.

- The AAUP Report erroneously concludes that the University had $394.5 million of revenues for budgetary use in FY19 while the General Fund budget only provided $265.3 million of revenues. The University's operating budget consists of the General Fund, the Auxiliary Enterprises Fund, and the Sales and Services Fund. The AAUP Report incorrectly infers that $129.2 million of funding (the difference between $394.5 million and $265.3 million) is "missing" and that the University operated with a balanced budget in FY19. To arrive at those conclusions, the AAUP Report accounted for revenues reported on the audited financial statements and included restricted funds with the inaccurate assumptions that those funds could be used for unrestricted operating expenditures.

- The AAUP Report also erroneously concluded that the University operated with a balanced budget in FY19, when in fact the University needed to withdraw $3.8 million from its reserves that year to balance the budget.

- The AAUP Report improperly claimed that on a cash basis the University operated with a surplus of $24.9 million, ignoring the fact that the University's audited financial statements as stated in the AAUP Report, are prepared utilizing the accrual basis of accounting as required by Generally Accepted Accounting Principles (GAAP).

- The same lack of acknowledgement of GAAP and Governmental Accounting Standards Board (GASB) reporting standards led to several erroneous statements and conclusions. Those statements and conclusions result in misleading the reader of the AAUP Report into believing that the University of Akron balanced its budget in FY19 and has unutilized revenues at its disposal which it could use to prevent the recently enacted reduction in force.

- The AAUP Report also erroneously challenges the assumptions that the University used in the development of its FY21 budget and characterized them as "overly pessimistic" whereas University officials view them as prudent, responsible actions in a time of great volatility and uncertainty.

- The AAUP Report also erroneously challenges the fact that the University has a structural budget deficit. A structural budget deficit exists when an entity's budgeted revenues are less than its budgeted expenditures. This is certainly the case at the University of Akron, where enrollment has declined for several years while the University has granted compensation increases in many of those years. Compensation and other expenditure increases have outpaced the University's revenues, thereby creating the structural deficit.

<u>Erroneous statements about UA's financial position</u>

The AAUP Report, (p. 62) states:

> "**Total revenues** for the University in 2019 **were $394.5 million**. Compare that to **General Fund revenues of $265.3 million**. Where is the missing $129.2 million? On a cash basis, the University in 2019 had a surplus of $24.9 million. So, where is the deficit?" (Emphasis added)

This assertion contains multiple errors. Taking these one by one:

- *"Total revenues for the University in 2019 were $394.5 million."*

  The AAUP Report erroneously concluded that the University's **total** revenues for **General Fund budgetary** use were $394.5 million and that there was $129.2 million available to add to the General Fund to cover operating expenses. The University's operating budget consists of three funds: the General Fund, the Auxiliary Enterprises Fund, and the Sales and Services Fund.

  The AAUP Report appears to create its own statement or compilation of revenues, by taking the University's Statement of Revenues, Expenses, and Changes in Net Assets for FY19 (which is the University's audited income statement for the year), adding the total operating revenues of $221,230,253 to the total amount of non-operating revenues and expenses of $145,718,727 but adding back the interest on debt (which is an expense) of $18,484,376 to which is added "Other Changes" totaling $9,063,424. This methodology is flawed for multiple reasons.

  First, this compilation is inconsistent with GAAP and GASB reporting standards. This is not how accountants account for revenues in a Statement of Revenues, Expenses, and Other Changes in Net Assets. Exhibit 1 provides the University's audited financial statements for FY19.

  Second, the General Fund is one of three portions of the University's operating budget. The operating budget is not intended to include all revenues but rather the primary items that University management strives to control during the fiscal year. As a result, the AAUP Report is comparing only a portion of the University's operating revenues (General Fund revenues) and comparing them to an artificially inflated amount of total revenues compiled in an unconventional and inappropriate manner from the much more comprehensive Statement of Revenues, Expenses, and Changes in Net Assets.

  Third, the University's budget does not include all of the financial information that is included in the audited financial statements (which likely is standard practice among colleges and universities). Operating budgets (which are developed before the fiscal year begins) do not typically include all of the adjustments and accruals (e.g., pension and OPEB liabilities; gains and losses on investments; accruals for incurred but not reported healthcare costs, etc.) that are made at year-end, in part because that information is hard to forecast.

Fourth, the audited financial statements are prepared in accordance with GAAP which means they are prepared on an accrual basis of accounting, while the University's operating budget is largely prepared on a cash basis. The difference in these accounting methodologies results in differing amounts of revenues and expenditures being shown for the same time period. As such, comparing the amounts shown in audited financial statements to budgets is inappropriate and results in erroneous conclusions.

Fifth, the AAUP Report compiled both operating and non-operating revenues. This approach is not fiscally sound and does not reflect standard budgetary practice for public entities. While the audit of the Statement of Revenues, Expenses, and Other Changes in Net Position for the Years Ended June 30, 2019, contains both revenue streams, the purpose of that document is not a budget and it is outside standard budgetary practice for public entities to use it as such. In short, the budget does not contain all of the revenues and expenses that are included in the audited financial statements.

One major reason why these non-operating revenues are not included in an analysis of the General Fund is that the $394.5 million used in the AAUP Report included items that are always excluded in standard budgetary practice for public entities when analyzing available operating revenues:

- $6,091, 653 of state capital appropriations and $734,259 of capital gifts and grants; those funds are restricted for the use of capital improvements on campus and are not available for budgetary use by the University;

- $24.5 million of federal grant funds that were not available for budgetary purposes as the funds must be spent on the restricted purposes of the grants for which the funds were awarded;

- $2,237,512 of additions to the University's permanent endowment in his computation; those funds also are not revenue available to the University for budgetary use; and,

- $9,063,424 of restricted funds that flow into the University that must be spent for their restricted purposes and are not available to cover operating expenditures of the University.

Another major reason there is a difference in the $394.5 million figure that is used in the AAUP Report and the University's General Fund is that the University's total annual operating budget consists of two other fund budgets, one for Auxiliary Enterprises and the second for Sales and Services operations. The AAUP Report analysis excluded the revenues and expenditures contained in of both of these funds.

In addition, just below the Total Revenues amount in Table 9 in the AAUP Report is the amount of Adjusted Total Expenses of $405.9 million.   As with the "total revenues" figure discussed above, the Statement of Revenues, Expenses, and Changes in Net Assets for FY19 was the source of the compilation of the "Adjusted Total Expenses" shown in Table 9. This amount was derived by adding the amount of total operating expenses ($351,583,955) to the amount of interest expense as reported in the non-operating revenues and expenses section of the Statement ($18,484,376) to the amount of Changes in State Pension and State OPEB as disclosed in the Management's Discussion and Analysis section of the FY19 Financial Report that contains the audited financial statement for the year. As with the Total Revenue amount that was compiled in Table 9, the amount of Adjusted Total Expenses contained in the AAUP Report was compiled in a manner inconsistent with Generally Accepted Accounting Principles (GAAP) and Government Accounting Standards Board (GASB) reporting standards. As such, the amounts of total revenues, adjusted total expenditures, and adjusted changes in net assets do not conform to conventional accounting practices

Notably, the AAUP Report did not mention the resulting Adjusted Change in Net Assets of a negative $11,400,000 which is indicative of an operating deficit for the year. Rather, the AAUP Report erroneously concludes, "On a cash basis the University in 2019 had a surplus of $24.9 million. So where is the deficit?" The University did not have a surplus; in fact, the University transferred $3,795,965 from operating reserves to balance the FY19 budget.

- *"Compare that to General Fund revenues of $265.3 million. Where is the missing $129.2 million?"*

There is no "missing $129.2 million." The AAUP Report compared the modified Total Revenues computed per the audited financial statements for FY19 to the amount of General Fund revenues budget of $265.3 and posed an inaccurate and misleading question "*Where is the missing $129.2 million."*

To be clear, nothing is "missing." The University's General Fund budget represents only a portion of the University's revenues and expenditures, as is the case with other universities. These revenues and expenditures include those that are the primary elements of University operations and are accounted for on a budget basis.

As such, a comparison of this nature is akin to comparing an apple to an orange, as the University's budget is intended to focus on the University's principal revenues and expenditures while the audited financial statements encompass all of the University's results of operations during a fiscal year.

<u>Use of expendable restricted net assets to cover budget deficits</u>

On August 3, 2020, the AAUP report contained the following statement:

> "In addition, the University had $158.8 million in reserves in 2019 and even if 2020 turned out to be a terrible year, they would still have substantial reserves. "

This statement is inaccurate for multiple reasons.

- The AAUP Report erroneously included expendable **restricted net assets of $76,075,000, which can only be used for their restricted purpose and are not available to the University to pay operating expenditures, such as payroll and other expenses.**
- The University of Akron's expendable unrestricted net assets as of June 30, 2019, were approximately $83 million.
- As of July 2020, that amount had fallen to an estimated $75 million.
- These net assets are not all held in cash. As such, the University estimated that approximately $65 million of the expendable, unrestricted net assets are sufficiently liquid to be utilized as working capital to pay operating expenditures, including payroll.

Rating agencies and accrediting bodies that assess the University's credit worthiness consider net assets in their evaluations. The University must maintain sufficient net assets on its balance sheet to support the large amount of debt that it is carrying and for accreditation purposes. This is noteworthy because if the University were to spend down its expendable unrestricted net assets, the University would be judged as not having a sufficient amount of liquid resources to assure creditors that we have the ability to make our debt payments in the event that we had a sudden, unanticipated event. One such event might be a pandemic which resulted in the University's enrollment dropping by an unimaginable 15-20%, thereby significantly curtailing revenues which necessitate the use of the expendable unrestricted net assets in order to have the funds necessary to make the debt payment and pay faculty and staff.

The ultimate point here is, if the University were to follow the conclusion and apparent recommendation of the AAUP report, the University would not enact a reduction in force. Rather, the University would take the position that enrollment will not decline by 15%. On the other hand, should enrollment not increase and remain at that level for the foreseeable future, the University would conceivably expend as much as $50M of its expendable, unrestricted net assets in FY21 alone, thereby precluding its future use. And should future enrollment remain at the anticipated lower level, the University would need to continue drawing on the expendable unrestricted net assets until they were depleted, which would be projected to occur early in FY22. Exhibit 2 provides the FY21 General Fund operating budget approved by the University of Akron Board of Trustees at their August 12, 2020 meeting. The budget includes a column labeled "Status Quo" that depicts the University would have incurred a draw on operating reserves of almost $50 million had expenditure reductions been made.

Equally, if not more important, the University's CFI score would weaken, the Higher Learning Commission would issue a letter of concern, and the credit rating agencies would downgrade the University's credit rating. When the University's credit rating is downgraded, the future cost of borrowing would increase as the University would be viewed as a riskier borrower. Also, the University exposes itself to having two of its existing debt issues being accelerated/called by the bondholders. That is because two of the bond issues contain provisions which state that should the University's credit rating drop below the Baa3 level, the bondholders have the right to accelerate the debt and it all becomes immediately repayable.

The AAUP Report noted on page 30:

> "The main area of concern with respect to the University's balance sheet remains its level of debt. The University took on a significant amount of debt in 2008 and again in 2014 and the University's debt to revenue ratio has been rising. "

The AAUP Report incorrectly states the University incurred additional debt in 2014; this debt issuance was actually a refinancing of existing debt which resulted in lower interest expense for the University.

The August 3, 2020 rebuttal to the University's overview of its projected deficit asserts:

> "Restricted expendable net assets can potentially cover debt and interest payments, scholarships, and other expenses associated with restricted funds."

This statement simply is not accurate. As discussed above, **the University's "expendable restricted net assets of $76,075,000 can only be used for their restricted purpose and are not available to the University to pay operating expenditures such as payroll and other expenses."**

UA's reserves are limited and once they are spent, they are gone. If the Board and administration do not act prudently, the University risks the financial and academic viability of the institution. Given the limited reserves of the University and the pattern of operating budget deficits that have occurred in recent years, taking appropriate and immediate action now is necessary in order to secure the University's future.

Enrollment projections

The AAUP Report contends that the University was overly pessimistic in the enrollment projections that were used in early 2020 as work was underway to prepare the FY21 budget. This assertion has the benefit of hindsight.

The initial fall 2020 enrollment projections were made during the early days of the coronavirus pandemic, complete with virtual and actual shutdowns of the Ohio economy, moving to online delivery of courses and sending students home to complete their semester, along with the attendant negative financial impact on the University. In tracking enrollment data for fall 2020 on a continuing basis while preparing FY21 budget plans (information also contemporaneously shared with the Akron-AAUP), the University saw such signs as summer term enrollment course registrations down 16.9% (April 7, 2020), fall course registrations down by 16.7% (May 13, 2020) and new freshmen confirmations down 19.1% (May 13, 2020).

Since that time, the anticipated drop in overall enrollment has improved somewhat, and the University tempered its budget reduction efforts accordingly. The AAUP Report was released on July 28, 2020, months after the start of the budget planning when the original estimates were prepared. As a result of the recent improvement in enrollment data, the University reduced the amount of budget reductions that it initially intended to make in order to bring its budget into balance.

Even with these improvements, the University still has a sizable structural deficit that requires immediate elimination of continued operating expenses and reductions that cannot be accomplished with one-time dollars. The University initially set about a goal of reducing budget expenditures in FY21 by $65 million. (Exhibit 3 provides the initial FY21 budget projection that was developed in March and early April 2020 for presentation to the University of Akron Board of Trustees at their April 15, 2020 meeting.) As a result of the improvement in the economic realities for FY21 in recent weeks, we have now identified the necessary budget reductions to be about $50 million. However, if it becomes necessary to send teaching courses in an online mode all year, then the loss of revenues in the Auxiliary Enterprises Fund budget will decline and the General Fund will need to make up that lost revenue. Our only option at this time is to make up that lost revenue by drawing a larger amount of reserves. If the University does not address the problem immediately, then the University will quickly drain its reserves and suffer the consequences discussed above.

The AAUP Report also incorrectly states:

> **"Also remember in 2019 I believe the administration assumed an 11% decline in enrollment, but enrollment only declined by 6.5%."**

To the contrary, the University's FY2019 budget was based on a projected enrollment decline of 7%, as is noted in numerous budget reports that were presented to the Board of Trustees and are published and publicly available.

The AAUP Report also cites a Moody's Investors Service nationwide forecast that suggests enrollments could increase between 2% - 5% although net tuition revenue might fall 5% - 13%.

This forecast has no relevance to The University of Akron's circumstances, as the University continues to see a significant decline in fall 2020 enrollment compared to fall 2019. The AAUP Report elevates reports done from afar with no consideration of the University's situation over hard data that documents this decline.

<u>State Share of Instruction (SSI) Funding</u>

In March and April 2020 – when FY21 budget planning was underway – the Ohio Department of Higher Education (ODHE) was informing public university officials that they should expect a reduction of 20% in the State Share of Instruction revenue (SSI) for the fourth quarter of FY20 as well as a 20% reduction for all of FY21 and FY22. These projections were based upon their estimates of anticipated reductions in state tax revenues due to the economic impact of COVID-19. The negative impact of a 20% reduction in SSI in the fourth quarter of FY20 was estimated to be about $5 million. That resulted in the University projecting SSI revenues of $94.1 million for FY20 in its March 2020 budget reports.

For the FY21 budget forecast and in keeping with ODHE guidance at the time, the University projected SSI revenues to be $79.2 million, a reduction of approximately $20 million compared to the original FY20 budget of $99.1 million. (See Exhibit 3.)

In May 2020, the University learned that rather than a 5% reduction (which is one-quarter of the projected 20% annual reduction) in SSI funding for the remainder of FY20, the reduction was 3.8%, which resulted in the University's allocation for FY20 being $95.2 million. It was not until July 2020 when ODHE officials revised the reduction in the University's FY21 SSI funding to $8.7 million rather than the previous estimate of a $20 million decrease. The University acknowledged this change and the resulting projected smaller decrease in state funding. However, the AAUP Report omits what Chancellor Randy Gardner (Exhibit 4) made clear to our University on July 6, 2020:

> **"Please note that, as with all line items in this challenging budget environment, I must place a "warning label" on this positive news. This new FY21 SSI amount is subject to change if the overall budget and supporting state revenue sources were to significantly worsen during the fiscal year compared to current projections."**

So, under the current state of information, SSI is expected to be further reduced during the year should state tax revenues decline due to the pandemic - yet another basis for conservative budgeting.

<u>Investment income projections</u>

The AAUP Report states that:

> *"In 2019 the University had $7.9 million in investment income. It seems overly pessimistic given what has transpired thus far to assume that investment income will only be $500,000."* (p. 62)

This assertion is inaccurate. The AAUP Report appears to improperly count <u>all</u> of the University's investments, including those that are held in the University's endowment and are restricted in their use.

University Interim Chief Financial Officer Dr. Stephen Storck's reference to "investment income" was to only that portion of the University's investments that relate to its working capital (funds used to pay operating expenses). For FY20, the University budgeted net investment income from its working capital investments to be $1.4 million; however, due to the decrease in interest rules related to the COVID-19 pandemic, the University is projecting that the actual amount of net investment income for FY20 will be just $744,000. Projecting $500,000 in investment income for FY21 from working capital is both reasonable and prudent in today's volatile financial markets.

The AAUP Report infers that the investment income is understated, and it implies that more financial resources could be utilized for University operating expenditures; that simply is not the case.

The University's and the University of Akron Foundation's investments are diversified. The portfolios consist of stocks, bonds, and other asset classes and its stock holdings are broader than the S&P 500. Financial market volatility this year is well documented, with wide fluctuations – both positive and negative – occurring almost daily.

In support of the assertion that the FY21 budget forecast was overly pessimistic, the AAUP Report noted that the S&P was down about 5% at the time of the AAUP Report's issuance (July 28, 2020). This occurred as a result of the recent partial recovery of the stock market.

The AAUP Report omitted the period between March 4 and March 11, 2020, when the S&P 500 Index dropped by twelve percent (12%) and on March 12, 2020 it plunged another 9.5% -- its steepest one-day fall since 1987.

Composite Financial Index vs. (Ohio) SB 6 financial metrics

Page 17 of the AAUP Report references Senate Bill-6 ratios as SB-6, and beginning on page 20, the AAUP Report discusses them.

For context, the SB-6 ratios were legislatively enacted some years ago as a means of permitting State of Ohio officials to monitor the relative financial health of public universities. The ratios include the viability ratio, the primary reserve ratio, and the net income ratio. The viability ratio is the ratio of expendable net assets to long-term debt.

The AAUP Report mischaracterizes the SB-6 ratio to downplay the University's financial difficulties. Specifically, the AAUP Report stated:

> "This viability ratio is a little on the low side. In 2019 among the 13 universities listed on the ODHE Web site, the University of Akron ranked 11th in the state in terms of its viability ratio, just below the University of Cincinnati. This means that relative to other state universities in Ohio the University of Akron has more debt."

The AAUP Report also stated:

> "The SB-6 scores show (*sic*) have been stable and somewhat less volatile since 2012. Overall there is still a slight upward trend, but I would not read much into that because of the declining enrollments and revenue, which clearly are a problem. However, it is important to note that currently the University is in no danger of being put on fiscal watch." (p. 57).

The AAUP Report appears to infer that UA being third from the bottom is reflective of fiscal health. While the AAUP Report notes the decline in enrollment and revenues "are clearly a problem," it completely downplays the gravity of these problems in noting the University is not on "fiscal watch." Fiscal watch is the bare minimum, not the optimal, and certainly not the nominal financial status, and it is a status to be avoided.

The implausibility of this upbeat assessment is put in better context when the University's finances are assessed through what is known as the Composite Financial Index (CFI). These more robust ratios were developed by the public accounting firm KPMG and the investment banking firm Prager, Sealy & Co. The CFI relies on information from audited financial statements and utilizes four core ratios measuring various aspects of an organization's financial well-being. The ratios are the primary reserve ratio, the viability ratio, the return on net assets ratio, and the net operating revenues ratio. The four ratios are weighted and combined to determine the CFI. The authors of the CFI explain that a score of 1.1 indicates that University officials should "reengineer the institution." (see Exhibit 5.) This indicates a need to make systemic changes to the University's business model. Attached in Exhibit 6 is a scanned copy of the summary page of an Excel spreadsheet that provides the details of the calculations.

The University's regional accrediting body is the Higher Learning Commission (HLC). The HLC closely monitors CFI scores of the institutions that it accredits. When an institution's CFI score drops below 1.1, it triggers a financial indicator warning. HLC officials then contact the institution to request an explanation and an action plan for improving its financial health. Institutions may then be subject to review by a financial indicator panel, and possible follow-up monitoring. **As this indicates, a CFI score of less than 1.1 is a serious matter as it demonstrates the tenuous financial position of an institution.** A score of 1 represents very little financial health, whereas a score of 3 represents a relatively stronger financial position and is considered the threshold value (see Exhibit 7).

The University's CFI score for FY19 was 1.1 based upon calculations which exclude the impacts of GASB 68[1] and a large portion of GASB 75.[2] Those accounting pronouncements incorporate the impacts of both state and University-sponsored post-employment benefits, such as defined benefit plan pensions and health care. Since there is no statutory liability in the State of Ohio requiring the public universities to be responsible for this liability, the public universities in Ohio generally review their operating results without the impact of GASB 68 and GASB75. The University measures CFI two ways: (1) incorporating the total impacts of GASB 68 and GASB 75 and (2) incorporating just the impact of GASB 75 that relates to the University's sponsored program. It is this second measurement which, although less burdensome, still resulted in a CFI of 1.1 for the fiscal year ended June 30, 2019. Had we used the first measurement, however, the result of including the impact of

[1] In June 2012, the GASB issued GASB Statement No. 68, Accounting and Financial Reporting for Pensions. This statement required governments providing defined benefit pensions to recognize their unfunded pension benefit obligations as a liability for the first time, and to more comprehensively and comparably measure the annual cost of pension benefits. The requirements for this Statement were effective for FY15. As such, the University adopted GASB Statement No. 68 effective for FY15. This resulted in the University reported the $380.9 impact as a change in accounting principle adjustment to unrestricted net assets as of July 1, 2014. The effect of this change in accounting principle was a reduction in the unrestricted net position of the University from $495.9 million to $115.0 million.

[2] In June 2015, the GASB issued statement No. 75, Accounting for Financial Reporting for Postemployment Benefits Other Than Pensions, which established new accounting and financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (OPEB). The requirements for this statement were effective for FY18. As such, the University adopted GASB Statement No. 75 effective for FY18. This resulted in the University reported the $128.6 impact as a change in accounting principle adjustment to unrestricted net assets as of July 1, 2017. The effect of this change in accounting principle was a reduction in the unrestricted net position of the University from $138.3 million to $9.7 million.

the pension and other post-employment benefits would result in a CFI score for FY19 of -0.1, which on the CFI scale is horrific (see Exhibit 6).

The University calculated the impact of reducing the number of faculty and staff on the CFI for FY21 (see Exhibit 8). In scenario 1, assumed reductions among the AAUP faculty were \$11,740,000 and \$12,515,000 for non-AAUP faculty and new hires reduced the savings by \$788,000 for a total net savings of \$23,467,000. In scenario 2, the assumptions were that only non-AAUP faculty would be reduced and the new faculty hires were \$788,000 for a total net savings of \$11,727,000. In scenario 1, the CFI score was 1.3 while in scenario 2 the CFI score dropped to 1.0, a reduction of .3 or 23%.

Conclusion

Long before the Coronavirus pandemic occurred, University officials had advised faculty and staff of the University's tenuous financial position and noted the importance of operating with a balanced budget so as to ensure the future of the University. Unfortunately, the impact of the coronavirus pandemic has materially decreased the University's revenue streams in FY21 and created the current environment in which it is imperative that operating expenditures be reduced significantly and immediately. As the operating General Fund budget that the University's Board of Trustees approved at its August 12, 2020 meeting shows, had the University not enacted the reductions in force and reduced other operating expenditures, the University would have expended almost \$50 million of its estimated \$65 million of expendable reserves, reducing those reserves to an estimated \$15 million, a completely untenable position (see Exhibit 2).