Senate Committee on Budget and Fiscal Affairs (SBC)
Report Part I – Challenges and Choices
February 2013

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INTRODUCTION:

The Senate Budget Committee (SBC) provides reports to the University Senate on the sources and uses of Syracuse University's budget. In this report, the SBC will (1) report the 2012 fiscal year (2011-12) budget with actual revenues and expenditures; (2) summarize reports received from various administrative units through January, 2013; and (3) provide recommendations for the administration based on discussions held in committee. The second part of the SBC report will be presented in April. It will include supplemental information from reports received after January 2013 and the Committee's recommendations for faculty salaries, benefits, the library budget, and other major expenses.

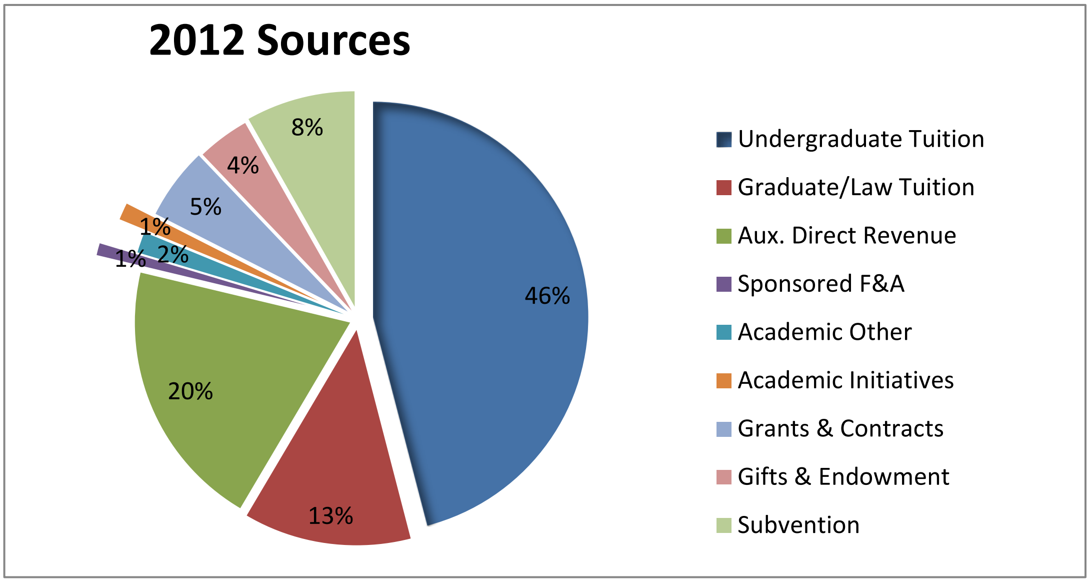
Since the beginning of the 2012-13 academic year, the SBC has received reports from the following administration officers: Chancellor; Vice Chancellor and Provost; Executive Vice-President and CFO; Executive Vice-President for Advancement and External Affairs; Budget and Planning Director; Vice-President for Enrollment Management; Associate Vice President Enrollment Management, Financial Aid Services; Vice-President for Research; Vice-President for Development; Director of Campus Planning, Design, and Construction; Treasurer's Office; Senior Vice-President for Human Capital Development; Vice President for Human Capital Development and Chief Human Resources Officer; and the Executive Director, Human Resources Operations.

During the remainder of the spring semester the SBC will be receiving additional reports from the Athletic Director; Dean of the Library; Graduate Student Organization President and Dean of the Graduate School; and a return visit from the Vice President and Associate Vice President for Enrollment Management. The Committee will also be devoting a session to student fees.

In last year's February Report, the Committee noted that Syracuse University faces multiple challenges: slow economic recovery from the 2008-09 recession; pressure to limit tuition increases; declining college undergraduate student population, contraction of public funding for student aid and research grants; and the rising cost of research facilities and capital equipment upgrades. The University is responding to these challenges. At the same time, the continuing challenges will require choices as the University moves forward. The following summarizes the basic revenue and expenditure categories for the most recently concluded fiscal year with the current fiscal year

<u>Sources of Revenue</u>:

The following charts summarize the sources of revenue for Fiscal 2012 and 2013:



Sources of Revenue (in millions)

	2012(Final)	2013 (Budget)	% Change vs. YAG
Undergraduate Tuition	507.8	536.0	+5.6%
Graduate/Law Tuition	136.8	145.5	+6.4%
Aux. Direct Revenue	223.7	229.9	+2.8%
Sponsored F&A	9.8	9.8	-
Academic Other	17.5	16.0	-9.1%
Academic Initiatives	14.1	15.8	+12.1%
Grants & Contracts	59.3	62.2	+4.8%
Gifts & Endowments	43.4	36.1	-16.8%
Subvention	90.8	93.6	+3.1%
TOTAL	$1,103.2	$1,144.8	+3.8%

Revenue Source Highlights:

Enrollment:

Applicants for Fall 2012 numbered 25,779, about a hundred fewer than the record number of applicants from the previous year. This has contributed to a decreasing admit rate hovering around 50% for each of the past two years (49.4 and 51.3%, respectively) and down from the 60% admit rates of the preceding two years. Lower admit rates are generally viewed favorably by external rating groups such as U.S. News.

The 3,383 new first year students were at the targeted number with fewer transfer students than had been projected. Law school first year enrollment was down slightly. The projected enrollment targets for undergraduate growth for the next five years will plateau at the present level for freshmen cohorts, whereas a graduated increase in transfer students will account for an increase in the aggregate undergraduate pool.

Notwithstanding the overall recruitment numbers, Syracuse University has successfully diversified recruitment along several dimensions. With the national college-age population declining, in general, and the Northeastern traditional recruiting base projected to experience sharper population declines, in particular, the University has successfully broadened undergraduate recruitment. The Northeast had typically accounted for about 75% of SU's undergraduate students (2000-2009). The most recent entering class (Fall 2012), in comparison, had 64% of undergraduate students from the Northeast.

Syracuse has also broadened recruitment among historically under-represented groups. Students of color comprised over 31% of each of the last two entering classes. Further, recruitment of International students has expanded significantly. In the Fall 2005, International students constituted 3.2% of entering students; this past fall International students represented 9.5% of entering students, a threefold increase in seven years.

The primary implications of these data are several. Syracuse University has pragmatically adapted its recruitment strategy to address demographic trends in population movement, while advancing its vision of the inclusion of under-represented groups. In the immediate term, the growth of the applicant pool benefits the University' indices of selectivity and diversity. During the spring semester the Budget Committee will explore the immediate and mid-term implications of the enrollment projections in a follow-up session with Don Saleh and Ryan Williams.

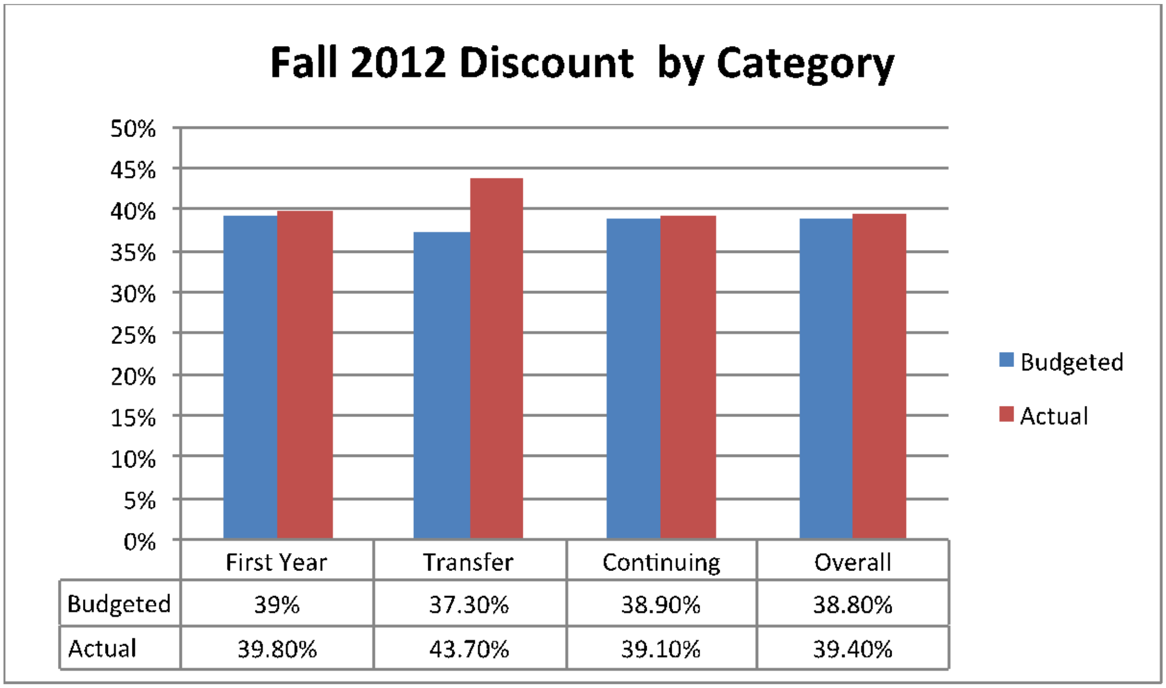
Tuition Rate and Discount:

The scheduled rate of tuition growth has been decreasing for the last several years in response to the weakened economy and growing public concern for the cost of higher education. While several indicators suggest that the worst of the economic slowdown has passed, the University's sensitivity to tuition and associated costs of college, particularly as they relate to student indebtedness, compel prudence when considering tuition and fee increases. Undergraduate tuition increased this year by 3.6%.The University is assessing many factors in developing the rate of increase for next year and its 5 year budget plan Undergraduate tuition constitutes the largest single component of university revenue and combined with law and graduate student tuition represents 59% of sources of income. The auxiliary direct revenue (20% of sources of revenue) includes substantial additional costs borne by students for housing and food services. During the spring semester the Budget Committee will be looking at the full array of student fees and will include information about fees in the April report to the Senate.

The scheduled tuition rate, like an MSRP,[1] is not the actual price tag for many students. Tuition is discounted for various reasons in pursuit of the University's mission and goals. The discount rate is the differential between the listed tuition and the actual tuition rate undergraduate students pay on average to attend Syracuse University. The higher the discount rate, the less net tuition revenue received.

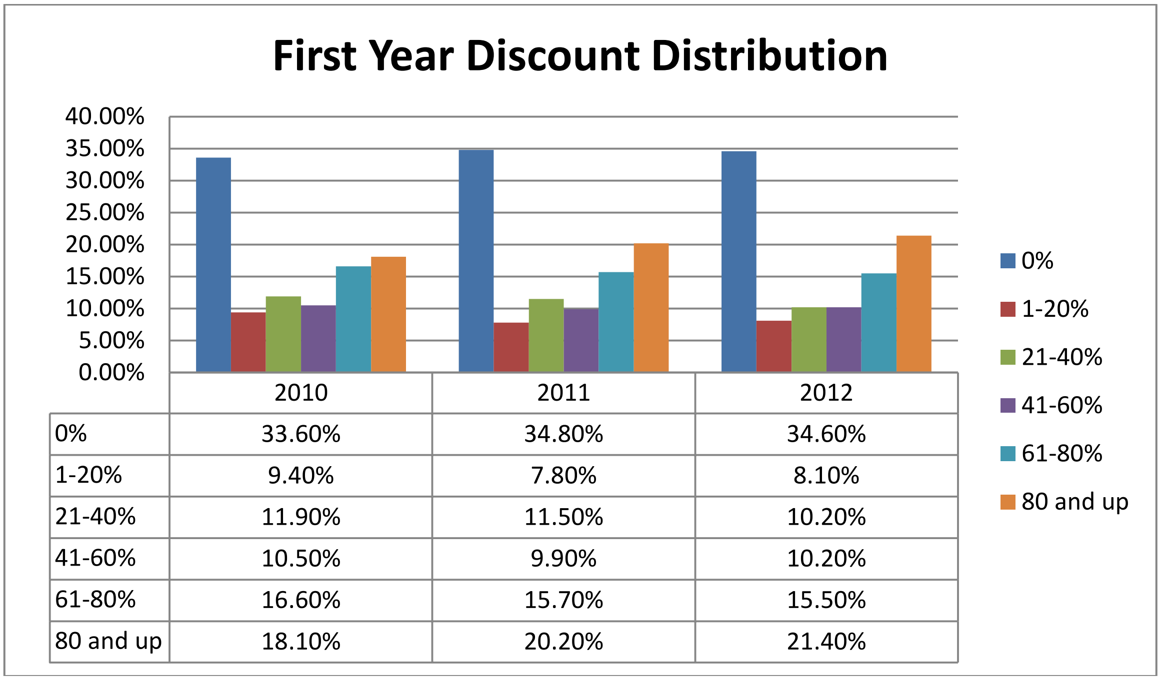
The discount rate for undergraduate students has been historically high for the past several years and was higher in fiscal 2012 than budgeted for first year students, continuing students and transfer students. While higher discount rates lower the cost of attendance, making Syracuse University an affordable choice for many students, the consequence is that continuing high discount rates in the face of declining scheduled tuition rate increases provides slower revenue growth to the overall budget.

[1] Manufacturer's Suggested Retail Price



Of particular note is the margin by which the actual transfer student discount (43.7%) exceeded its budgeted amount (37.3%). The Fall 2012 figure was the highest recorded discount rate for the transfer population. While a single year's data is not sufficient to generalize and the proportion of transfer students to the student body is relatively small, it raises concern that the expected increase of transfer students will be more costly to secure than anticipated. Syracuse University has negotiated articulation agreements with community colleges to facilitate transfers, which are expected to increase the number of transfer students in the next four years. In our follow-up session with Enrollment Management, the Committee will be pursuing the question of whether transfer students require greater discounts to secure their attendance.

The overall average discount rate has remained between 38 and 39 percent since the beginning of the recession and is projected to remain at 39 percent. "Average" discount rates obscure their distribution; that is, while the average tuition discount is nearly 40%, a 40% discount is not what the typical student receives. As the chart below illustrates, the discount distribution is bi-modal, with students either receiving little discounted tuition or receiving a lot. The percentage of students receiving large tuition discounts (> 60%) is marginally greater than those receiving no tuition discount.



	2010	2011	2012
0%	33.60%	34.80%	34.60%
1-20%	9.40%	7.80%	8.10%
21-40%	11.90%	11.50%	10.20%
41-60%	10.50%	9.90%	10.20%
61-80%	16.60%	15.70%	15.50%
80 and up	18.10%	20.20%	21.40%

Some of the increase in students who receive no discount is represented, in part, by the increased percentage of International students, who generally receive little or no tuition discounts. The Committee did not ask for data to ascertain as to whether this apparent bi-modal distribution of discounts is long-standing or a more recent phenomenon, but the Committee plans to pursue this question in our subsequent meeting with Enrollment Management.

These data raise several questions. First, does the bi-modal distribution of discounts suggest a decreasing “middle” for the undergraduate student body? Second, are high discount rates sustainable, especially in light of a planned reduction of tuition increases? Finally, are appropriate support services being provided for the increasing numbers of International students?

Other Revenue Sources:

The challenge that Syracuse University faces because of its heavy dependence on tuition as a primary source of revenue is whether alternative revenue streams can mitigate tuition increases. The appropriate answer for the immediate future is: “not by much.” For instance, the annual payout from the endowment, based on a three-year rolling average, accounts for less than 4% of revenue ($35.6 million)[2]. Notwithstanding the success of the recently concluded campaign[3], the value of the endowment has yet to return to its high point prior to the recession[4]. Recovery of the stock market and receipt of pledged gifts should improve endowment payouts, but the speed at which or extent to which this will happen cannot be predicted..

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[2] In Fiscal 2012, NACUBO reported the average value of college endowments from the preceding year was -0.3%. Syracuse University’s endowment increased 2.3% (Chronicles of Higher Education, February 1, 2013)

[3] The campaign received $292.1 million in gifts and pledges for endowment with $147.5 million actually received as of November 2012

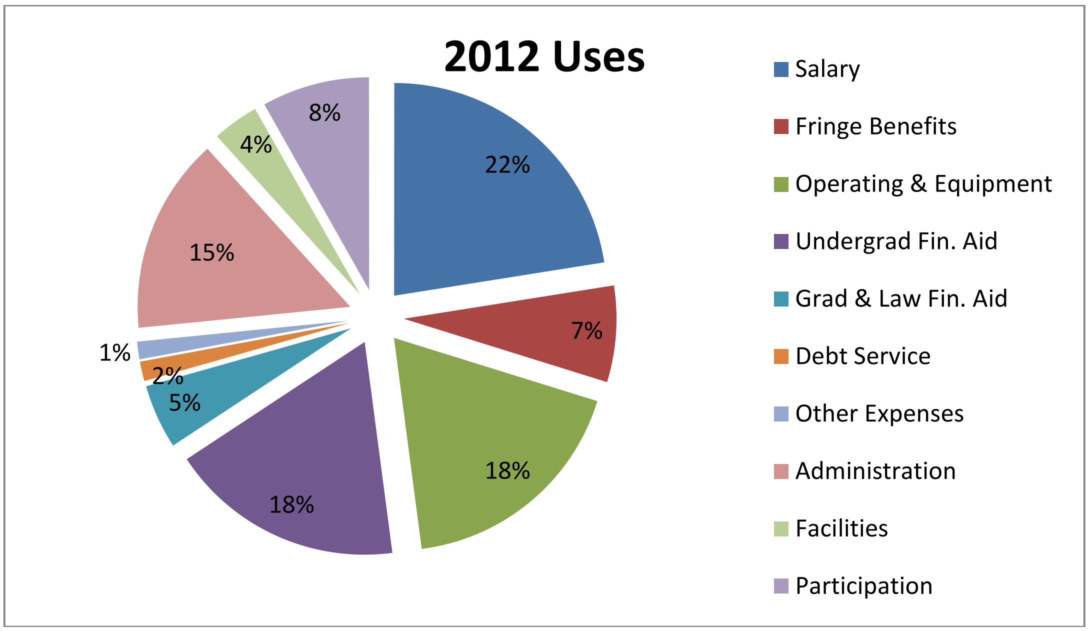
[4]The market value of the SU endowment was $940 million as of June 30, 2012 (Chronicles of Higher Education, February 1, 2013)

The F&A recovery from sponsored research ($9.8 million in each of the last two years) represented less than 1% of revenues. Significant change is not anticipated for this source. Grants and contracts show modest growth from $59.3 to 62.2 million over the past year and represent about 5% of revenue. Some grants are tied to initiatives (e.g. Connective Corridor) that will expire at some point; others (e.g. "Say Yes") are likely to be renewed.

The great unknowns, both for institutional support and student aid, are the national fiscal decisions yet to be made. As this report is written, the status of the "sequester" – automatic spending cuts in the federal budget – has not been resolved. Absent Congressional action, various aid programs (e.g. Pell grants) and research grants (e.g. NSF, NEH) would likely be cut. Cuts in grants to the University and its students would negatively affect both the sources and uses of revenue.

Uses of Revenue:

The other side of budgeting is where the money is spent. The following graph and chart summarize the uses of revenue:



	2012(Final)	2013(Budget)	Change vs.YAG
Salary	**249.2**	**255.4**	**+2.3%**
Fringe Benefits	**81.1**	**91.4**	**+12.7%**
Operating	**200.9**	**201.2**	**-**
Undergrd Fin Aid	**197.4**	**209.8**	**+6.3%**
Grad/Law Fin Aid	**54.1**	**55.5**	**+2.6%**
Debt Service	**16.5**	**19.9**	**+20.6%**
Other Expenses	**14.7**	**12.2**	**-17.0%**
Administration	**164.9**	**170.6**	**+3.5%**
Facilities	**38.9**	**42.1**	**+8.2%**
Participation	**90.8**	**93.6**	**+3.1%**
TOTAL USES	**$1,108.50**	**$1,151.60**	**+3.9%**

<u>Uses Highlights</u>:

Salaries:

Salaries represent the largest single expenditure of the University. Faculty and staff salaries have been budgeted at a 2% pro forma increase for the past several years with an additional 1% discretionary fund available to address faculty retention, salary equity, salary compression, and other salary disparities. The effect that an increased New York state minimum wage would have has not been determined at this time, but will likely increase the expense budget for salaries in fiscal 2014. Graduate students have raised the issue of a minimum “living wage” stipend for Graduate Assistants; graduate stipends will be a subject of discussion later this semester.

Fringe Benefits:

Fringe Benefit costs, especially as they relate to health insurance, are a main driver of uses of RCM budget uses. The fringe budget for fiscal year 2013 is 5.6% higher than the fiscal year 2012 budget and 11.4% higher than the fiscal year 2012 actual expenses (the large percentage change is predominantly attributable to fiscal year 2012 actual health expense being lower than budgeted). The Special Committee recommendations on Benefits to Faculty and Staff are close to being fully implemented. However, the savings realized to the university budget from the Benefits Task Force recommendations delayed, rather than eliminated, cost pressures on the University budget. The increase in Fringe costs in one year is cause for concern.

Part of the Fringe Benefits savings to the budget resulted from tiered-income categories for tuition benefits; reduction of retirement contributions from 11% to 10%; higher co-payments for medical and prescription plans. During fiscal year 2009, the University experienced a change in medical care utilization that resulted in increased claim costs that coincided with the shift to a new plan administrator (from Excellus to Pomco), although subsequent years have seen a moderation in costs. At the same time, University modifications of the Express Scripts/Medco prescription drug program as well as heightening employee awareness of cost savings associated with use of generic equivalent prescriptions resulted in lower costs. Further, initiatives developed from the beginning of a University Wellness program are directed to improving the University Community’s awareness of steps that can be taken to improve health conditions and reduce out-of-pocket and University health care costs.

After the November 2012 election, the Affordable Care Act appears to be headed for full implementation (scheduled for 2014). This gives greater certainty in planning for its stipulations. The University has budgeted for identified increased costs for ACA compliance and will continue to work with legal counsel and consultants confirming mandated timelines and compliance. The Committee asked the Senior Vice-President for Human Capital Development whether any cuts to benefits or new costs to faculty and staff were under consideration, to which she responded that they were not being contemplated at this time.

Student Financial Aid:

Undergraduate student financial aid increased to $209.8 million this fall, an increase of 6.3% from the preceding year. Graduate and Law School financial aid increased 2.5% to $55.5 million. Financial aid is intrinsically tied to the undergraduate discount rate discussed under Sources of Revenue. Grants that students receive as direct aid from the University are a “discount” in tuition. As commented above, the consequence of higher discounts is a corresponding reduction in the revenue generated by tuition, even as it affords increased student access to Syracuse University.

Administration:

The budget for Administration increased modestly by 3.5% to $170.6 million. One of the enduring misconceptions of the label “Administration” is that it consists of the chancellor’s office and little else. In reality, administration: is the rubric containing all “common goods” such as Public Safety, Counseling, Disability Services, Health Center, etc.[5] The Committee met with Kal Alston, Senior Vice-President for Human Capital Development, two weeks ago and asked about the reorganization of her office. In part, the Committee was told that some hires were necessitated by federal requirements. The Committee will report further in April.

Debt Service:

The University’s payment on debt increased from $16.5 to $19.9 million dollars over the last fiscal year. Historically low interest rates and refinancing of debt at more favorable fixed rates have been successful in keeping debt service payments below 2% of the operating budget, a level, as the Committee has been assured, that is reasonable for the institution.

Facilities:

Last year the Committee reported concern with respect to the level of deferred maintenance ($96 million) and the relatively small amount of resources devoted to addressing this backlog. The Committee has been told that deferred maintenance does not compromise existing facilities or safety requirements and that the backlog is being addressed on a priority basis. The amount budgeted for facilities this year has been increased by 8.2% to $42.1 million.

Operating:

This remained essentially flat from FY 2011 to FY 2012, increasing a modest $300.000 to $201.2 million.

Financial Sustainability Recommendations:

1. Propose Trustees hire an external consultant to evaluate the size, functions and organization of Central Administration and Responsibility Centers.

   Rationale: The apparent increase in the number of administrative offices is a recurring question for the Budget Committee that it cannot answer by itself. The Budget Committee has neither the expertise nor the resources to evaluate whether administrative organization and staffing levels are appropriate. At a time when the University anticipates the transition to a new chancellor, it seems appropriate to conduct a review to provide external guidance to the incoming administration.

2. Hold the proposed tuition increase at the current 3.6% level for fiscal 2014.

   Rationale: The continued growth and need for financial aid, especially for undergraduate students, requires the

[5] A breakdown of Administration is appended to the end of the report.

resources for making aid available. This one-year suspension of continuing reductions of the scheduled tuition rate increase should then be re-evaluated in future SBC recommendations.

3. Change the name of the category “Administration” to something else such as “University Services.”.

   Rationale: The label “Administration” is frequently misunderstood. The “common goods” that are included under this category require a more descriptive label.

<u>Revenue Generating Recommendations</u>:

Rationale: Syracuse University will better be able to ensure its financial security though diversification and expansion of its sources of revenue. In that spirit the Committee recommends:

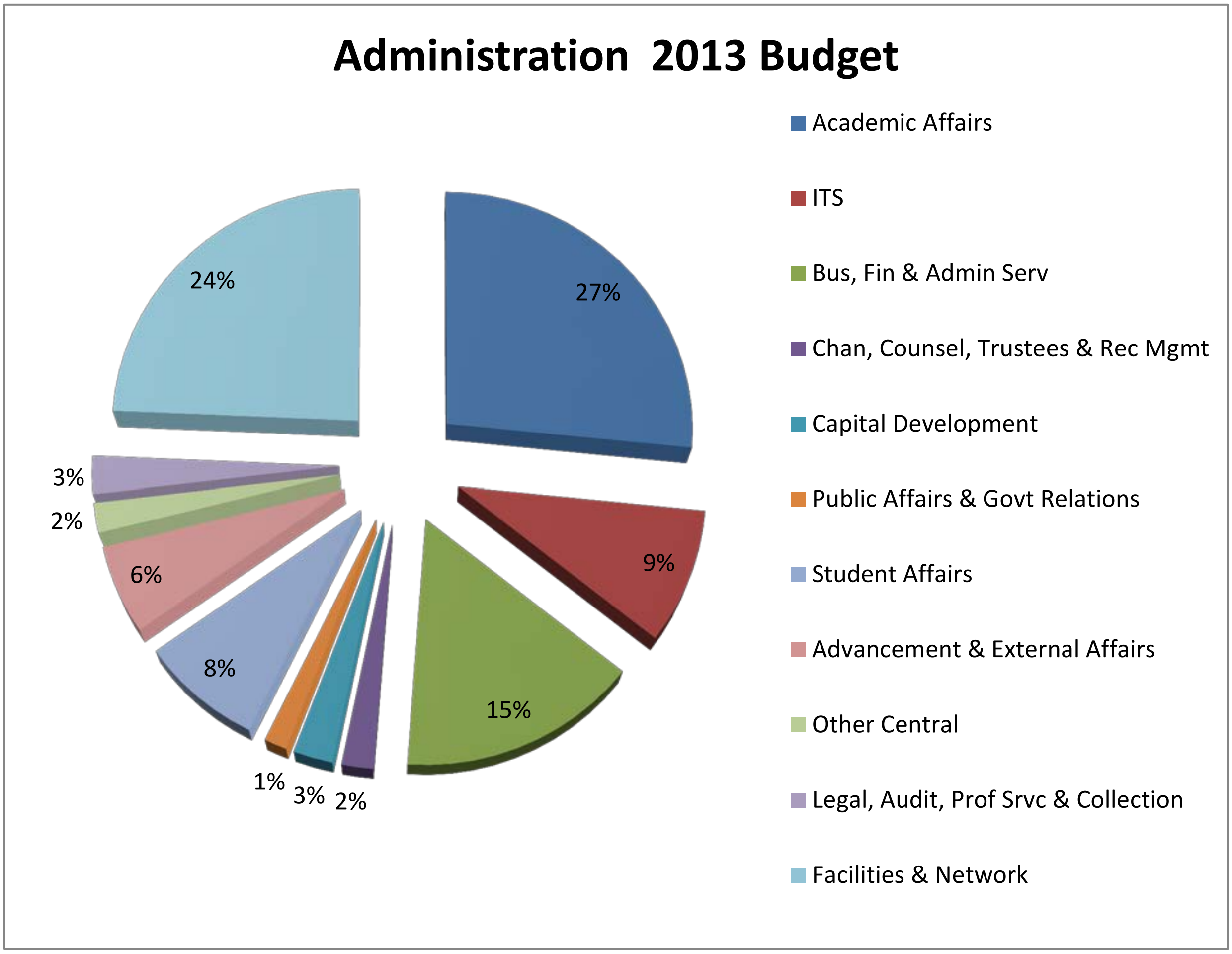
1. Develop and expand Graduate programs:
   - Increase international student population in under-represented programs
   - Increase 4 + 1, 3+2 and other UG to Grad programs
   - Develop new Certificates of Advanced Studies (CASs)
   - Expand / develop full-pay executive programs

2. Create alternative Undergraduate Models and programs:
   - Offer a 2 or 3 year technical degree in certain disciplines by reducing general education requirements
   - Offer January break courses (modeled on Maymester) to enable students (SU and others) to catch up & graduate on time
   - Develop Minors in Professional areas such as an Engineering minor for math/science majors or for Newhouse majors seeking technical background for reporting.
   - MOOC-like offerings of CEU’s for professional programs for both SU and other universities
   - Expand online offerings
   - Explore benefits of forming a consortium for sharing of online courses (Be a leader in this forum since there appears to be few at this time.)

3. Optimize use of campus facilities (especially during summer)
   - Work with the Convention Bureau
   - Partnership with local hospitals for Medical Tourism programs, e.g. with Canada
   - Becoming a Wellness Campus in collaboration with local hospitals
   - Host more Carrier Dome events such as Concerts during summers
   - Host Diverse events like OCC does in SRC Arena (3,000 attended weekend Bridal Show with 50 businesses paying to exhibit)

4. Expand partnerships with business enterprises
   - Partner with specific regional corporations to provide Continuing Education i.e. law firms, engineering companies, CPA firms etc
   - Create a separate subsidiary that invests in start-up businesses created by either faculty or students (already underway)

5. Build on programs & activities that have the greatest profit margins
    - Not an RCM approach, but net revenue compared to actual variable costs.
    - Host a competition for new ideas for generating new revenue (with financial prizes or % of the profit)



Academic Affairs	49.0
ITS	16.8
Business, Finance & Admin Services	28.5
Chan, Counsel, Trustees & Records Mgmt	3.7
Capital Development	4.7
Public Affairs & Government Relations	2.7
Student Affairs	14.6
Advancement & External Affairs	11.0
Other Central	3.7
Legal, Audit, Prof Services & Collection	4.7
Facilities & Network	44.8
TOTAL (in millions)	$184.2