Committee on Budget and Fiscal Affairs
Report Part I – Continuing Challenges
January 2014

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INTRODUCTION:

Since the beginning of the 2013-14 academic year, the SBC has received reports from the following administration officers: Chancellor Nancy Cantor; Eric Spina, Interim Chancellor and Provost; Lou Marcoccia, Executive Vice-President and CFO; Brian Sischo, Vice-President for Development; David Smith, University Treasurer; Gwenn Judge, Budget and Planning Director; Cynthia Carnahan, Associate Director Budget and Planning; Deborah Moro, Assistant Director Budget and Planning; Don Saleh, Vice-President for Enrollment Management; Ryan Williams, Associate Vice President for Enrollment Management and Director of Scholarships and Financial Aid; Maurice Harris, Dean Undergraduate Enrollment; Ben Ware, Dean Graduate School; Patrick Neary, President Graduate Student Organization; Andrea Staniec, Associate Provost for Academic Programs; Rebecca Kantrowitz, Interim Senior Vice President and Dean Student Affairs; Patricia Burak, Director Slutzker Center for International Service; Eric Beattie, Director of Campus Planning, Design, and Construction; and Tim Sweet, Director of Energy Systems and Sustainability Management

During the 2014 spring semester the Budget Committee is attempting to schedule an introductory meeting with Chancellor Syverud. The Committee will be receiving additional reports from Kal Alston, Sr. Vice President Human Capital Development; Karen Morrissey, Executive Director Human Resources Operations; Daryl Gross, Athletic Director; Terry Donovan, Sr. Associate Athletic Director and CFO; Peter Sala, Sr. Associate Athletic Director for Facility Operations/Carrier Dome Managing Director; K. Matthew Dames, Interim Dean of Libraries and University Librarian; several college deans; and return visits from Enrollment Management, the University Treasurer and Institutional Advancement.

In this report, the SBC (1) details the 2012, 2013 and 2014 fiscal years' budgets with revenues and expenditures; (2) summarizes reports received from various administrative units through December, 2013; and (3) provides recommendations for the administration based on discussions held in committee. To provide the University Community with a context for this Report, we begin with a brief overview of the recent state of the University's budget and fiscal planning.

OVERVIEW:

Colleges and universities across the country had been raising tuition in excess of the consumer price index (CPI) for many years when two events occurred to constrain tuition increases: the economic downturn of 2008-2009 and growing public concern about the cost of higher education. Syracuse University responded to the need to limit tuition increases by adopting a long-range fiscal plan to consider reducing its annual increases in tuition growth towards 3%, about one-half the rate of tuition increases that had been common for the preceding several decades. (The tuition increases for undergraduate students for the current academic year was 3.6%.)

At the same time it was reducing annual increases in tuition, Syracuse University was increasing financial aid. The growth in financial aid was made necessary, in part, by the economic downturn. In addition, the sticker price of higher education was causing financial challenges for a growing number of families, including those in middle and upper middle income bands. In an era in which national student loan debt now exceeds $1 trillion, Syracuse University, consistent with its values of making higher education affordable and accessible to a diverse student body, has used its financial aid to assist students and their families hold student debt to manageable levels.

The convergence of declining tuition rate increases and increasing financial aid has put added pressure on the University's budget. In order to compensate for the loss of revenue from the reduced tuition rate increases and meet the greater financial aid needs of its students, other streams of revenues were considered. Three sources for increased revenues the University anticipated were increasing graduate programs, funding from external grants and modest planned growth of first year undergraduate and transfer students. Unfortunately, federal and state government have been holding or reducing their funding levels for sponsored research, and the growth of graduate programs has yielded mixed results among the several schools and colleges at the University. At the same time, reduced market returns have diminished budgeted distributions from SU's endowments. Consequently, undergraduate growth increased faster than initially planned.

The University also made efforts to contain costs in several notable ways. One was the Task Force that recommended changes in benefits to faculty and staff. The Task Force recommendations resulted in some cost-shifting (e.g. increased contributions to health insurance, tiered tuition payments at higher salary increments, etc.) as well as some benefit reductions (e.g. TIAA-CREF contributions reduced from 11% to 10%, capping nominal salary increases, co-pays of dependent tuition benefits and modification of employee tuition benefits, etc.). The Administration and Responsibility Centers made $12 million in permanent cost reductions. The net effect of these efforts delayed increases in the cost curve and somewhat reduced the slope of the curve, but the overall expenses of the University continue to rise.

The increase in undergraduate enrollment, in particular the International undergraduate enrollment, has been in response to meeting the budgetary requirements of the University. In effect, the volume of undergraduate enrollment mitigates the effect of higher discounted tuition rates. Undergraduate enrollment increased approximately 19.6% between 2004 and 2011 with reduced, albeit increasing, numbers still occurring. Because of the forecasted decline in graduating high school students in the University's traditional recruitment areas in the northeastern United States, "geographies of opportunity" have redirected recruitment to areas of demographic growth within the U.S. in addition to foreign nations.

International student enrollment, particularly in undergraduate programs, has increased in excess of overall undergraduate growth. This past fall, one in nine new undergraduate students was an International student. International students generally have lower discounted tuition, which alleviates some of the pressure on the budget. International students also increase the University's diversity, although the largest source of International students continues to be China and India.

Last spring Chancellor Cantor and Vice Chancellor and Provost Spina began a conversation with the schools and colleges about innovations and new pedagogies. While the purpose of their initiative is focused on the academic future of the University, it nonetheless has implications for the fiscal sustainability of Syracuse University. Separately, the Senate Budget Committee recommended, with the concurrence of the University Senate, that an external consultant be retained *to evaluate Central Administration and Responsibility Centers*. Additionally, the Ad Hoc Committee on Enrollment, chaired by Mary Lovely, had previously made recommendations regarding the University's capacity to accommodate enrollment growth.

The combination of the concerns identified by these several sources of the University's challenges and opportunities culminated in the review, currently underway with Bain & Company, Inc., to evaluate the University's long-term academic and fiscal sustainability. The rationale for the review, while broader in scope than the Budget Committee's charge, provides a context for this report.

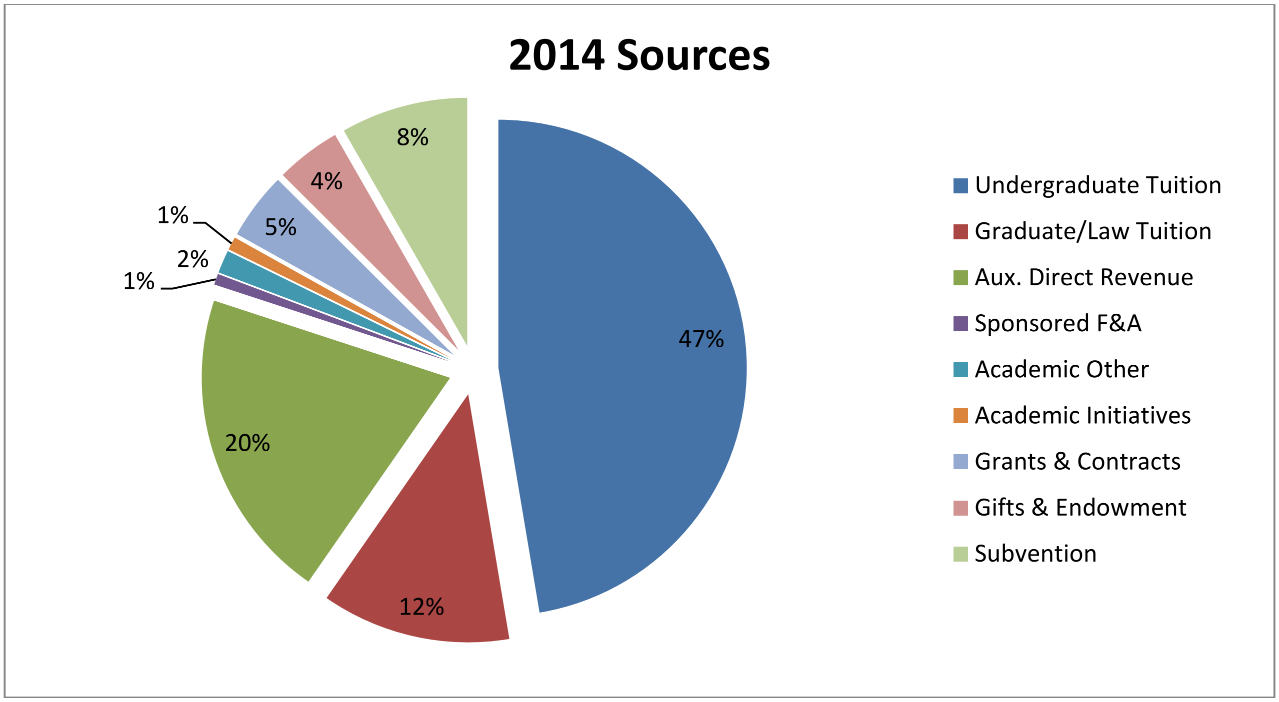
SOURCES OF REVENUE:

The sources of University revenue, represented in the chart following, represent a "macro" breakdown of revenue. That is, revenues represent total "gross" figures for the institution. For instance, "Undergraduate tuition,' the largest slice of the "Sources" pie, represents what tuition revenue would be if full tuition were received from each undergraduate student. The actual (net) amount of Undergraduate tuition may be calculated by subtracting the "Undergraduate Financial Aid" that appears in the "Uses of Revenue" chart on page 7 of this report. The chart following shows the net undergraduate tuition from FY 2012 – 2013

	2012	**2013**	**2014**	Change 2013	Change 2014
Undergraduate Tuition	507.8	535.0	564.5	5.4%	5.5%
Financial Aid	197.4	208.7	218.9	5.7%	4.9%
Net Tuition	310.4	326.3	345.6	5.1%	5.9%

Similarly, the "Subvention" amount that appears in the "Sources" chart is roughly equivalent to the "Participation" that is listed under "Uses." Monies received from Responsibility Centers in the RCM Model as "participation" are distributed to Responsibility Centers as "subvention." An analogy from the federal tax system would be that the citizens of each state pay federal taxes. Some states' citizens pay more in federal taxes than their states receives back through federal spending. In RCM, some schools and colleges pay more in participation than they receive back in subvention, while others receive more in subvention than they paid into participation.

The following charts summarize the sources of revenue for Fiscal 2012, 2013 and 2014:



	2012 Final	2013 Final	2014 Budget	Change 2012-14	% Change 2012-14
Undergrad Tuition	507.8	535.0	564.5	56.7	11.2%
Grad/Law Tuition	136.8	144.4	146.8	10.0	7.3%
Aux. Direct Revenue	223.7	234.8	242.9	19.2	8.6%
Sponsored F&A	9.8	8.5	8.5	(1.3)	-13.3%
Academic Other	17.5	18.1	17.8	0.3	1.7%
Academic Initiatives	14.1	15.6	10.2	(3.9)	-27.7%
Grants & Contracts	59.4	51.5	52.2	(7.2)	-12.1%
Gifts & Endowment	43.4	44.5	50.6	7.2	16.6%
Subvention	90.8	95.1	98.7	7.9	8.7%
TOTAL	1,103.3	1,147.5	1,192.2	88.9	8.1%

* Columns in Millions

Note 1 The fiscal year begins on July 1 and ends on June 30. FY 2012 represents July 1, 2011 through June 30, 2012 and so on.

Note 2: FY 2012 and 2013 are final audited totals. FY 2014, the current academic year, represents the then current final “estimate” as reported to the Budget Committee in December 2013.

Note 3: The percentage change is a two-year comparison between FY 2012 and FY 2014.

As should be apparent from the preceding chart, Undergraduate tuition constitutes the largest source of revenue as well as one of the largest percentage increases in revenue. Gifts and endowments increased by a larger percentage, but represent a much smaller slice of the revenue pie. Areas of desired growth, such as Sponsored F&A recovery and Contracts and Grants, have declined during the last <u>two</u> fiscal years.

Revenue Source Highlights:

<u>Enrollment</u>:

First year undergraduate enrollment (new matriculates) increased by 2.4% from last year (3384 -> 3464). Of new undergraduate students, 10.7% (372) are International students, up from 8.5% of undergraduate first year students <u>two</u> years ago. Transfer students were marginally below the 400 targeted (384). Total undergraduate enrollment has increased 3% in the past <u>two</u> years (14,671 -> 15,106).

Total graduate student enrollment (including law students) has remained relatively steady over the past <u>two</u> years rising by only 1% (6158 -> 6224).

The number of new first year applicants was a record 28,260 and, for the third year in a row, the "Admit" rate has been at or below 50% (49.5% for Fall 2013). Lower admit rates tend to be favorably viewed by external rating groups such as <u>U.S, News</u> as they are presumed to be more selective.

Last year the Budget Committee reported that the recruitment and enrollment of students from outside the northeastern United States had improved. It has, but not quite as much as our report had indicated. Somewhat over two-thirds (66.8%) of first year (matriculated) students were from the Northeast (both in Fall 2012 and Fall 2013). Compared with 2003, increased percentages of matriculated students were coming from the West and South/Southeast, two geographies of opportunity. But the greatest increase in first year students both in absolute number and percentage increase were coming from "Other," primarily International students. At the same time, the number and percentage of new students coming from the Midwest has decreased.

<u>Tuition Rate and Discount</u>:

As undergraduate tuition constitutes the largest component of the University's revenue, the tuition rate and its discount rate interact significantly in determining the yield from tuition. As noted earlier, the University has responded to public concern over the high cost of higher education and its desire to keep student debt levels manageable by reducing the rate of tuition increases. At the same time, discount rates in response to the economic downturn rose to historically high levels. The blended discount rate for all undergraduate students peaked last year at 40% with modest improvement this Fall, which saw the blended discount rate decrease to 39.5%. Continuing improvement in the economy holds promise that incremental reduction in the discount rate may be obtainable in the near future. However, the ability to substantially reduce discount rates to levels used ten years ago (about 32%) is limited without seriously impacting student debt loads.

The debt incurred by undergraduate students across all income bands has been a concern to the University. As Chancellor Cantor reported last spring in her presentation to the schools and colleges, the median debt incurred by Syracuse University students has been rising;

Growth in Student Debt by Income Band—4-Year Borrowers Income Band	Median Debt Graduated May 2009	Median Debt Graduated May 2012	Median Debt Growth %	Median Debt Growth $
Low	$25,925	$29,500	14%	$3,575
Low/Middle	$25,925	$30,051	16%	$4,126
Middle	$23,925	$27,000	13%	$3,075
Middle/Upper to Highest	$20,038	$27,000	35%	$6,962
Median	$25,025	$28,000	12%	$2,975

Class of 2009
48.7% of the class borrowed all 4 years
2.5% of the class borrowed over $80,000

Class of 2012
49.9% of the class borrowed all 4 years
3.5% of the class borrowed over $80,000

Fall 2008 Income Bands
Low = $0 - $41,536
Low/Middle = $41,537 - $83,072
Middle = $83,073 - $124,607
Middle/Upper to Highest = $124,608 and above

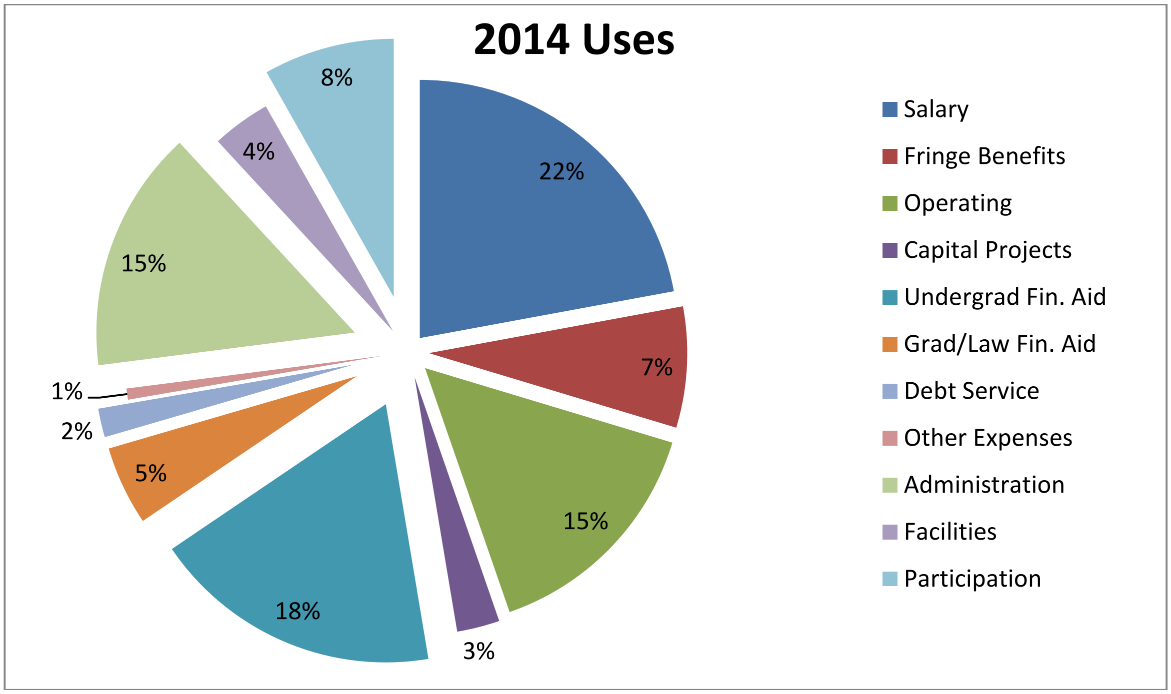
Fall 2012 Income Bands
Low = $0 - $44,444
Low/Middle = $44,445 - $88,889
Middle = $88,890 - $133,333
Middle/Upper to Highest = $133,334 and above

<u>Other Revenue Sources</u>:

The University continues to be tuition-dependent for revenue. As suggested in the overview and referenced in the “Sources of Revenue” chart, alternative sources of revenue have not had a significant impact in replacing tuition sources. External grants and contracts have decreased in the past two years as has F&A recovery. There have been modest increases in endowment returns and gifts. The prospect of further market recovery and the receipt of pledges made during the recently concluded campaign should help the payout from the endowment. However, as this source comprises only about 4% of revenue in the budget, the effect will be incremental in providing relief from tuition.

USES OF REVENUE:

Spending by the University also continues to grow. The following chart summarizes the uses of revenue during the past three years:



	2012 Final	2013 Final	2014 Budget	Change 2012-14	% Change 2012-14
Salary	249.2	260.6	266.3	17.1	6.9%
Fringe Benefits	81.1	78.6	91.2	10.1	12.5%
Operating	187.1	181.7	181.1	-6.0	-3.2%
Capital Projects	13.8	27.6	32.2	18.4	133.3%
Undergrad Fin. Aid	197.4	208.7	218.9	21.5	10.9%
Grad/Law Fin. Aid	54.1	55.9	59.7	5.6	10.4%
Debt Service	16.5	18.2	21.7	5.2	31.5%
Other Expenses	14.7	12.0	8.4	-6.3	-42.9%
Administration	164.9	171.6	182.8	17.9	10.9%
Facilities	38.9	41.2	44.2	5.3	13.6%
Participation	90.8	95.1	98.7	7.9	8.7%
Total	1,108.5	1,151.2	1,205.2	96.7	8.7%

*Columns in million

Note 1: FY 2012 and 2013 are final audited totals. FY 2014, the current academic year, represents the final "estimate" as reported to the Budget Committee in December 2013.

Note 2: The percentage change is a two-year comparison between FY 2012 and FY 2014.

Uses Highlights:

A casual comparison of the "Sources of Revenue" chart with the "Uses of Revenue" chart reveals that expenditures have been increasing faster than revenues. In the short term, the deficit is covered by "carryover" within the several Responsibility Centers. It should be noted that Capital Projects alone would account for the differential. Once completed these projects do not have a continuing effect on expenditures. Consequently, the Committee does not view the short-term use of carryover with alarm. There are several areas of use that warrant further elaboration:

Salary and Fringe Benefits:

Salaries have risen more slowly than the overall level of University expenditure with pro-forma increases in place during the last several years for faculty, staff and graduate students, while members of bargaining units have negotiated wage increases that are determined by contract. Changes in New York State minimum wage law primarily affect work study employees.

During the Fall semester, the Budget Committee met with representatives of the Graduate Student Organization, the Graduate School Dean, and the Budget Director to discuss a proposal to raise the minimum graduate stipend to a "living wage." As a result of this conversation, the Budget Committee will make a recommendation for an increase in the minimum stipend that appears at the end of this report.

Fringe Benefits are a more variable component of the budget. While some elements are more readily predictable (e.g., contributions to TIAA-CREF), others are not (e.g. health care costs). Syracuse University is self-insured and utilizes an external administrator (POMCO) to manage claims. In general, health care costs have exceeded the rate of inflation and have become a driver of increasing benefits' costs. Last year, in FY 2013, utilization of health care fell below anticipated levels of use, which on the "Uses" chart makes it appear that Fringe Benefits expenses are decreasing. Realistically, the apparent sharp increase in Fringe Benefits in FY 2014 reflects the budgeting assumption that FY 2013 was an anomaly.

The Affordable Care Act (AFA) becomes fully implemented this year. The Budget Committee will be meeting with Kal Alston and Karen Morrissey this semester to discuss whether there are other implications for faculty, staff, and students once this law is fully implemented. The Committee will also inquire about other elements of the fringe benefits package.

Undergraduate Financial Aid:

The relationship between tuition rate increases and the discount rate has previously been addressed under sources of revenue. As the "Uses" chart clearly indicates, the cost of providing financial aid exceeds the overall increase in expenditures (averaging an increase of 6%/ per year for the past two years). It is expected that undergraduate financial aid will continue to increase at higher rates than overall expenditures in order to provide access and affordability to diverse student populations across socio-economic, geographic, and underserved populations. Even with a recovering economy, financial aid will remain an important component in containing student debt.

Graduate Financial Aid:

Growth in graduate financial aid has been less robust than for undergraduate students. In part, this is through the growth of certificate and professional programs that do not carry the same expectations for assistantships or stipends. The Vice Chancellor and Provost has been working with the deans of schools and colleges to promote their development. Nevertheless, there are areas of graduate study where, to be competitive with peer institutions, financial aid assistance is required. In other areas, the high cost of graduate education makes financial aid necessary to keep debt burden manageable.

Debt Service:

The annual debt service (repayment of loans) has increased to $21.7 million in the current fiscal year, but remains below 2% of the annual budget. As the Committee noted last February, "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:

Eric Beattie reported to the Committee that "Deferred Maintenance" was approximately $110 million, a level he described as essentially flat from previous years. In our conversation, the Committee asked about the "urgency' of these deferred items. While assured that priority items are addressed based upon appropriate criteria, the Committee suggested that category designations of "urgency" and "need" be identified for deferred maintenance items to help assess long-term requirements and to facilitate planning. The facilities budget has increased by 13.6% over the past two years to $44.2 million.

Slutzker Center and International Students

Every year the Budget Committee reviews recurring areas of the University's budget comprising about 80% of its meeting time. In addition to those regular subjects, the Committee explores other issues that have been brought to its attention or as a need arises. This Fall the Committee met with the Graduate Student Organization on the matter of "living wage" stipends, a subject previously discussed in this report. The other subject we took up was International Students.

Last year the Budget Committee addressed the increase in International students at Syracuse University in its February and April Reports. As a follow-up to the concerns mentioned in those reports, the Committee met this fall with Pat Burak, Director of the Slutzker Center for

International Students, Andrea Staniec, Associate Provost for Academic programs, and Rebecca Kantrowitz, Interim Senior Vice President and Dean of Student Affairs. The Committee also received information from Don Saleh and Ryan Williams of Enrollment Management regarding the growth of International Students at the graduate and undergraduate level.

That there has been steady growth in the number of International students on campus is not an issue; currently 16% of all Syracuse University students are International students including 9% of undergraduate and 33% of graduate students. Over the past 7 years, International graduate student enrollment has increased 49% and undergraduate enrollment by 253%. It is not an issue of whether or not Syracuse University should welcome International students to further the diverse combination of lived experiences and perspectives all students bring to campus. Rather, the concern is whether the increase in International students has met with commensurate levels in support staff and services needed for their success at Syracuse University.

There is more anecdotal than systematic data about the needs for support and services, but the outlines are fairly transparent. First, Slutzker Center staffing levels have not kept pace with the rapid expansion of International Students. During the same period of time that International student enrollment doubled, staffing increased by 20%. The Budget Committee does not presume to know the specific personnel requirements of the International Student Center, but the contrast between the large growth in students and the limited growth of staff is stark. Complicating the staffing levels is relatively high turnover due to non-competitive salary levels.

Second, support in academic areas needs bolstering: particularly in counseling, academic advising, the Writing Center and courses such as English as a second language and writing classes. Students may not be prepared for the classroom environment in the United States and instructors may be unprepared for the learning styles international students bring with them.

The larger issues of International student enrollment are more comprehensive than fall under the purview of the Budget Committee. However, the Committee will recommend additional support for staffing and operations in the recommendations section.

RECOMMENDATIONS:

1. *Set a minimum stipend of $13,000 for full-time graduate teaching/research assistants for FY2015 with a plan to raise minimum graduate stipends to a "living wage" incrementally over a reasonable time frame.*

   <u>Rationale</u>: Graduate teaching/research assistants are presumed to be full-time with half of their assignment in teaching or research and the other half as students in their respective degree program. Contractually, the teaching/research assistant is restricted from working beyond the teaching/research assignment. Conversations with the Dean of the Graduate School and Budget Director indicate that fewer than 300 current graduate assistants would be affected by raising this threshold level.

2. *Provide base budget support for Slutzker Center staffing levels and operating budget to correspond with its mission and programs.*

Rationale: The staffing levels and operating budget of the Slutzker center have not kept pace with the substantial growth of International students. As a standard for comparison, the Committee suggests using a 50^{th} percentile of regional International Students Offices as peer institutions.