

Senate Committee on Budget and Fiscal Affairs (SBC)
Report Part II – Continuing Challenges
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Introduction:

The Senate Budget Committee reported in January its anticipated schedule of meeting for the Spring 2014 semester. Since that time, the schedule was pre-empted by Chancellor Syverud's desire that we focus on three priorities he identified: Enrollment/Admissions, RCM, and Athletics. The report that follows is the document we provided to the chancellor on April 2, 2014. Any changes in the text between that document and this one reflect changes made to eliminate first and second-person language. In all other regards, the report retains its original format and content. At the conclusion of the report we address several outstanding concerns for the Budget Committee moving forward.

(From the Introduction to the April 2 report to Chancellor Syverud)

The following is an overview of the most pressing issues associated with these topics based on information received from University officials over the past 3 years as well as our experiences as faculty and staff in the various schools and colleges. This is meant to initiate the discussion and is not a final answer or solution to any of the questions that we present. In fact, we request that professionals within the University would be asked to join us in future meetings to address our concerns and help provide answers to some of the questions we raise. It is in the spirit of cooperation that we respectfully submit the following comments.

Executive Summary:

Enrollment/Admissions:

A new strategy needs to be initiated whereby we continue to offer opportunity to all socio-economic groups, but find a way to even out the distribution so that we have better balance across socio-economic groups. It is our belief that this would reduce some of the strain on the budget, free cash flow for other academic pursuits, and reduce some of the pressure on support staff that the current program requires.

RCM:

RCM can be an effective way to manage a decentralized organization. In our opinion, the RCM model should be returned to a less complex budget that will effectively support

the planned academic strategy that will be developed and implemented. The budget should reflect the academic plan rather than the academic plan reflect the budget. We believe that the budget process could be made more effective and efficient if the system were streamlined to create greater transparency and reports that would be more reflective of the actual performance of the schools.

Athletics:

A policy statement on athletics needs to be established and communicated to the campus community that explains the philosophy behind athletics, its expected contribution to the academic mission of the University, and the way in which it is accountable for its mission. A more clearly defined financing mechanism should be enacted that puts the true cost of athletics squarely on the shoulders of the unit that not only generates the revenues, but also incurs the costs.

ADMISSIONS/ENROLLMENT MANAGEMENT

The Stated Plan of the Past

There is no greater area that affects the budget and financial plans of the University than enrollment. Undergraduate tuition accounts for 47% of revenue sources with an additional 12% from graduate and law student tuition. Auxiliary direct revenue (Housing, Food Service, etc.) constitutes an additional 20% of revenue sources (SBC January 2014 Senate Report). With additional incidental costs, this suggests that 80% or more of University revenue is generated from students and their parents. The previous Chancellor significantly increased enrollment over her tenure. It appears that the combination of declining rates of tuition increases and increasing discount rates were compensated by increasing the size of the undergraduate student body.

Increasing the undergraduate student population, however, brought its own set of challenges. One challenge is the changing demographics of college-age students. Over the past three plus years the Admissions staff indicated that the total number of students entering college would decline over the next ten years. This reduction of prospective students would create competition among colleges and universities that could prove to be disastrous to schools that rely heavily on tuition dollars. Syracuse University is one of these schools. Growth is expected in several geographic regions of the United States and among students in lower socio-economic strata. Hence, the University's recruiting strategy changed several years ago to focus on these students and provide them with opportunities at Syracuse University. We implemented programs such as "Say Yes" to Education; we actively recruited students from the South and the West and decreased reliance on traditional recruiting regions such as the Northeast where population was declining.

However, this new strategy came with a price, and that price was that we did not expand teaching faculty and support staff to adequately service many of these students when they

came to campus. Some of our students were out of their element in many ways and needed help adjusting to academic and residential expectations. We are concerned that we have brought more students into the University without allocating the resources they need to be successful.

International students provide a particular example of this problem. It is well known that the addition to the undergraduate student population has included a significantly higher population of international students, who do not receive significant financial aid. Thus, the higher percentage of net tuition received from international students helped to offset the lower net tuition received from others. The two strategies of increasing the overall undergraduate student population and increasing the percentage of international students among undergraduates have caused what has been described by the SBC as a “bi-modal” distribution. (See SBC February 2013 Senate Report) The stress and strain of these new students, both in terms of their greater number and their changing composition, have put other budget constraints into focus. Support services have not kept pace with certain groups of students, such as our international students. A reactive approach has occurred where the University reacts to the needs of students as they emerge, rather than anticipates and plans for them. The net effect is that we may not only have created a bi-modal distribution within socio-economic classes, we may have done so without paying attention to the educational mission of the university.

These strategies seem to have left out an important part of our overall diversity make up and the potential “sweet spot” when it comes to financial success for most colleges and universities. It is our concern that we may have removed the University from the marketplace of the middle class as they shop for the best deal at the best price and find that our inability to provide financial assistance in the form of merit aid makes us too expensive compared to our competition, namely a state school program or a more well-endowed private school.

Lastly, the question of whether Syracuse University’s membership in the ACC would benefit its recruitment of students in the Southeast has been assumed. Data from the Enrollment Office has shown an increase in the number of undergraduate students matriculating from this region to have grown over the past several years. However, it appears that this increase predates ACC membership and is likely the result of enhanced recruiting efforts on the part of Admissions. The SBC has also questioned whether the added costs associated with travel to campus results in greater discount rates to entice this enrollment growth. Finally, the Ad Hoc Committee report “Major Effects of the Athletics Program at Syracuse University” called into question whether athletic team success influenced the enrollment decisions of prospective students. (See Ad Hoc Report to the Senate, April 2006)

Issues presented from this strategy:

Identifying a marketing strategy that better attracts a more sustainable socio-economic student base while maintaining diversity

We have talked about the idea of admissions on a greater need-aware basis to reduce the discount rate to more manageable levels. We understand that the administration has begun to address this issue by reducing the discount expectation in FY 15 to 38% among first-year students from its current rate of 39%. A reconsideration of how merit-based and need-based awards are determined might offer a more comprehensive approach to students' financial needs.

Families continue to become more sophisticated in their shopping approach and obtaining a university degree is no exception. For many parents, the added value of a school's reputation becomes harder to justify as the cost of attendance inexorably strains family budgets. Relatively small merit-based awards may encourage middle class families to consider Syracuse University more seriously.

For many of us the real questions are how many students should we have on campus and have studies been performed that provide this type of analysis? What is the optimum number that we can support academically, socially, and responsibly? How many students can we house and feed appropriately and competitively? Of course, this raises another concern that no one seems to want to talk about, which is, if we were to reduce our student body over a period of time to this ideal target, what is the impact on budget, staffing, and the diversity of the student body? Would we need to cut faculty and staff? How much? Where to cut? These are the hard budget questions that would be an inevitable end to any reduction in campus size.

Supporting Diversity

The diverse nature of our student body comes with the responsibility to support them. We have many international students who struggle with English as their second language. Without the proper funding for support, we can cause harm to our reputation for the success of our students upon graduation when they cannot find a job because they cannot speak or write effectively. This has led to a rapid growth in ENL courses (in excess of 250% within five years), which reallocates credits from other programs to provide for remedial language support. We have also been made aware that our infrastructure at the Slutzker Center is inadequate to the task. And while we have less systematic information about the needs of other under-served students, there are sufficient anecdotes that suggest additional support is needed across student populations.

The Benefits of Graduate and Continuing Education

While many graduate programs cost the University money due to the low amount of tuition recovered compared to the overall cost, other programs are an incredible source of profit. Many of the technical or professional schools could take advantage of their facilities and staff to enhance other types of higher learning for graduate students. Some graduate programs have already been able to expand their graduate programs with little or no tuition remission. Others have not or may not be able to do so. Recent budget

models project significant revenues from graduate tuition, but these have so far not been fully realized. This raises the question of how to pursue opportunities for online graduate programs that would have adequate support to succeed while maintaining the academic quality that Syracuse University represents. For some professional programs, models exist for online courses supplemented with weekend or week-long residency components to bring a face-to-face element to the program.

Questions and Concerns:

1. Faculty/Instructional Concerns:

- How has the Faculty/Student ratio evolved with increasing enrollment in recent years? What are the goals for that ratio going forward?
- Within those numbers, what is the mix of tenured/tenure-track/adjunct/professor of practice/part-time instructors, how has that mix evolved? And what are the institutional goals for that mix going forward?
- Since SU extends benefits to full-time non-tenure track faculty, how significant are the savings?
- Has there been a change in teaching load across campus, do we anticipate a change, and, if so, which segment of the faculty will be most impacted?
- What, if any, data do we have on the capacity of SU to consistently attract and retain adjunct/professor of practice/part time instructors that are perhaps more readily available in more populous metro areas?

2. International Student Concerns:

- If increasing the number of international students is a goal, what data do we have on the costs of the associated services for international students (Slutzker Center, visa/immigration services, English language services, academic acculturation issues, differing recruitment tools, etc.) as balanced against the lower discount rates for those students?
- What demographic/marketing data do we have about the populations of students we would target, the peer institutions with whom we are competing, any differences in the mix of majors, minors, interest in study abroad, graduate school aspirations those populations might have relative to our domestic students?

3. Transfer Student Concerns:

- Previous estimates of the number of transfer students that SU might attract have not proven accurate, further those students are transferring from four year schools into the sophomore level, rather than from two year schools into the junior level as had been anticipated. This has led to unanticipated issues in terms of bed space and classroom space. Those students have also proven highly mobile and may be likely to transfer again if they do not get the services they require.

- Two-year college students are funneling more readily into the state system. Is there untapped potential for SU with targeted aid (particularly to middle class families)?
- How do transfer students factor into future enrollment goals? It seems likely that there are data available at the admissions level and within academic departments that might allow SU to maximize the budgetary potential of transfer students.

4. Online Student Concerns:

- What are the start-up costs associated with creating significant online offerings?
- How do the operating costs of such courses compare to those on campus?
- What population would SU target with those courses?
- What is our current capacity for such courses?
- Are there niche markets within online courses (e.g. professional development qualifications, continuing education for alums, courses aimed at recruiting high school students) that SU is well placed to exploit? There may be individuals within our School of Education and our graduate programs with expertise in this area. There may also be development opportunities associated with online offerings for alumni.

5. Need Aware/Need Blind Admissions:

- Have we run numbers to test the budgetary ramification of moving to need-aware admissions for regular admits and/or the waitlist for the incoming class?
- What is our mix of socio-economic backgrounds now? What are our goals for that mix if enrollment increases? The non-budgetary implications of the demographic shift that might occur could have longer-term impacts on the school's brand, campus culture and alumni giving. Has this been studied at SU or elsewhere?

6. Merit Aid

- Those familiar with admissions processes on the SBC indicate that there may be untapped potential for deploying small amounts of merit aid to capture middle class students who require lower overall discount rates, but might be attracted by the prestige of such an award from this institution over an otherwise cheaper but less well ranked institution. Has this been studied at SU or elsewhere?

7. Capacity:

- Do we have hard numbers for our enrollment capacity as determined by bed space (and the two year residence requirement), classroom space, and currently supported levels of both student services and physical campus footprint?
- Has a strategic reduction in enrollment been considered? What are the implications for faculty size, capacity to engage in capital projects, etc?

8. Capital Projects:

- Increased enrollment may necessitate capital improvements and increased campus footprint. Have these costs been estimated?
- What is the capacity of our existing campus without expansion?

Final Comments and Suggestions:

We think that a new strategy needs to be initiated whereby we continue to offer opportunity to all socio-economic groups, but find a way to even out the distribution so that we have better balance across socio-economic groups. It is our belief that this would reduce some of the strain on the budget, free cash flow for other academic pursuits, and reduce some of the pressure on support staff that the current program requires. We look forward to a discussion surrounding these issues with you and the appropriate staff such as admissions and the budget staff.

RESPONSIBILITY CENTERED MANAGEMENT

History and Background

As we understand it, the University embarked on a change in philosophy from a centralized budget model to responsibility centered management in 2007. The idea was to empower the Deans and Directors in charge of the responsibility centers to be more creative and responsible with their budgets. In principle, leaders have greater authority to innovate with their budgets to support their specific academic missions within the University's overarching vision and mission.

The more revenue the school or center generated, the more it could spend. Unfortunately, along the way this became confused with the present system. From our perspective, RCM has become a hybrid which, while operating under the rubric of RCM, has vestiges of a centralized model. This hybrid model can produce a disincentive to creativity in our use of the concept as the tax cost and the sharing of overhead allocation (participation) tend to reduce the additional revenue generated by sustained program growth. Of course, we are aware of the fact that some schools have used RCM very effectively to advance their units and be successful. Yet, we are concerned that many schools assume that they are losing money on a yearly basis despite the fact that they contribute large sums for taxes and participation, yet receive fewer resources back with subvention adjustments.

Issues to consider:

The last budget report appeared to indicate several responsibility centers lost money.

The practice of allocating common costs causes confusion and makes it appear that responsibility centers are operating in deficit. After taxes and overhead allocations, many of the responsibility centers appear to have lost money. This has caused great anxiety at many of our schools and colleges. It is not clear whether these apparent “losses” were the result of decisions from central administration or from decisions made within the centers.

Taxes are too high

Many of the comments that we have heard in our various schools revolve around the fact that the tax rate is too high. The perception is “where does the money go”? There appears to be a disparity between the amount of taxes levied and how they get distributed. Further, we understand that some of the money goes to central administrative projects, but we are unsure of what that amount of money is and how it is spent.

IDCs continue to grow faster than revenues

The Indirect Cost Pool (IDC) costs continue to rise at a rate that is alarming and that leads to a financial draw on the RCM units. Although there is detail to show what comprises the common costs of the University that are shared, the devil is usually in the details. We are concerned that the duplication of positions within the University under RCM may have caused excessive administrative overlap. These extra or duplicative positions may be choking the ability of RCM to provide the innovative outcomes it purports to provide.

The Wrong incentives might be emphasized?

Another criticism of our budget model is that instead of looking to the outside for new and added revenues, schools and colleges are provided an incentive or disincentive to collaborate internally. While it is encouraged for schools and colleges to collaborate to provide a class that maximizes the effectiveness of the student’s experience, there are financial reasons not to do so. Said differently, there are schools that, instead of using the expertise of another school’s faculty, will hire someone from their own school to deliver the content. The perception is that the sharing of the revenue with another school is more expensive than hiring an additional staff faculty member to deliver the same content a professor at another school is already delivering. While there may be pedagogical reasons for programs to have their own faculty deliver courses that are seemingly replicated elsewhere, the revenue allocation formulae used in RCM seem to encourage this. Further, the revenue distribution formulae also provide an incentive for schools and colleges to increase requirements within house to capture a greater percentage of revenue.

The Model is so complex that it is unable to be understood by the average person

This is an easy concept and was even stated by the Chancellor in his first meeting with the SBC. The complexity that has developed over time as the model continues to be refined to meet the needs and challenges of the University has made it very difficult to understand by anyone without a financial background. One of the ideals of RCM was supposed to be its simplicity, i.e. the fact that if you generate revenues, the manager of the center gets to determine how to spend those funds in an effort to expand and promote even better courses of study. We would hope that a re-evaluation of the formulae surrounding RCM would take place to make it more simple and understandable.

The Model does not properly reflect the fact that one school teaches all our students

This comment is specific to the College of Arts and Science that teaches every college's students at some point in their careers at Syracuse. However, there is no compensating reduction in either taxation or participation that levels the playing field with the other schools. Instead, projected shortfalls are adjusted via subvention.

Final Comments and Suggestions:

It is our belief that RCM can be an effective way to manage a decentralized organization. It would be our suggestion that the model be returned to a simpler model that gives due weight to the types of behavior that the Trustees and Administration feel are congruent with the planned academic strategy that will be developed and implemented. The budget should reflect the academic plan rather than the academic plan reflect the budget. We believe that the budget process could be made more effective and efficient if the rules were fewer and the reports more reflective of the actual performance of the schools. We, of course, look forward to a discussion with the budget and accounting offices in furtherance of making the model more understandable, user friendly and, as a tool for communication of overall strategy of the University as a whole, and for each responsibility center, specifically.

ATHLETICS

History and Background

There is likely no more controversial topic on campus than the role of athletics, generally, and its relationship to the University budget, specifically. As noted by our new Chancellor, there has also never been a comprehensive statement from the Administration of the University as to the policy towards athletics. The various views on campus are wide reaching ranging from those who think athletics are of fundamental importance to the success of the University to those who think we should drop athletics entirely and focus solely on academics. Our perspective is that most of the University community appreciates Athletics as a significant part of the fabric of our University. However, we are uncomfortable as to the perception of how it is managed and how it blends into the school's overall mission. It is interesting that at the time of this writing, a story has been aired on ESPN about the rise and fall of the Big East conference that may shed some light

on some of the issues we present. The recent decision by a regional office of the National Labor Relations Board has further implications for the cost of athletics at private universities.

Revenue Neutral? Contributory? Net recipient?

The athletic program at Syracuse has evolved significantly over time. Expenditures have grown and expanded as programs aspire to be the best. The New York Times recently reported that the growth of athletic programs spending nationally have exceeded expenditures for teaching, research and public service (“Colleges Increasing Spending on Sports Faster than Academics, Report Finds,” New York Times, April 7, 2014). There is impression on campus that the Athletic program may be drawing financial support from the Academic centers. This “feeling” is exacerbated by the absence of transparency of its budget and the role athletics plays in the overall budget process. With the advent of RCM and the inclusion of athletics as a responsibility center, some of these concerns were addressed as Athletics was taxed and contributed its portion of the participation allocation. During discussions with the SBC, it became apparent that Athletics is actually a net expense to the University overall, in that subvention is required to balance the books; that, in fact, the athletic program has a negative fund balance as spending outpaces revenues.

Beast of the East?

This committee cannot help but wonder whether, in an effort to remain competitive at the highest levels of college athletics, we have entered an arena where we must continue to get bigger to survive. That is similar to some business models where a contraction or a leveling off of growth will lead to the eventual downfall and demolition of the enterprise. There is an appearance that we must continue to expand our facilities, build new ways to generate revenues, and continue to expand our Athletic Department or be trampled by the competition. It seems clear that the move to the ACC was required by some of this thinking. The ESPN story and recent reports that a new stadium was proposed also seem to confirm this assumption.

Athletics cost shift

The committee was told that some of the financial costs of having student/athletes on campus have been shifted to the home college of each athlete. This creates an interesting budget issue in our opinion. For example, if a football player on a full scholarship resides in the College of Arts and Science, the tuition revenue is allocated to A&S, but there is a corresponding offset to the revenue because of the scholarship being counted in the expenses of the A&S budget. Yet, the tax is applied to the gross revenue, and participation is applied based on A&S’s overall revenues to total revenues. In effect, A&S will pay a tax and participation for the student/athlete, but get no corresponding cash flow offset for having done so. This results in a net cost to the school instead of just being revenue and expense neutral. The revenue that is generated by athletics remains in the Athletic Department’s budget. Although the cost shift makes some sense from an

accounting perspective, what this effectively does is shift some of the cost of the athletic program to the home school or college thereby freeing funds to be spent on other athletic needs.

Implications of the NLRB decision

The recent decision by a regional office of the National Labor Relations Board (NLRB) that Northwestern University football players were employees and had the right to unionize has serious potential implications for the Athletic Departments at private universities. Without delving into the merits of the decision or its prospects upon an expected appeal, the question of whether student/athletes in revenue-generating sports should share in the revenues they help to generate has been thrust into public discourse. Should the decision be sustained, it would likely disrupt the funding of non-revenue sports (a.k.a. Olympic sports) as more resources would be allocated to football and basketball, the two primary revenue-generating sports. Of course, questions of equality in compensation for the Olympic sports, especially through Title IX, would need to be addressed. While it is premature to speculate as to the final resolution of this decision, Syracuse University should begin planning in the eventuality that the NLRB decision is upheld. (See *Academe Today*, March 26, 2014)

Final Comments and Suggestions:

Some policy statement on Athletics needs to be determined and communicated to the campus as a whole that can explain the philosophy behind athletics, its expected contribution to the overall academic mission of the University, and the way in which it will be held accountable for its specific mission. It would seem that the continued costs to be competitive in an expanded (and expanding) ACC will need to come from funds outside of the existing academic programs and accounted for separately. It is unlikely that athletics will not be a part of the University's plan as there are countless ways that sports help to make SU what it is. However, a more clearly defined financing mechanism should be enacted that removes the apparent distrust of the existing system and puts the true cost of athletics squarely on the shoulders of the unit that not only generates the revenues, but also incurs the costs.

Where do we go from here?

These are our collective thoughts from our various perspectives. We look forward to a thorough discussion of these and other issues that the administration may want to consider. We encourage and welcome the inclusion of stakeholders who can provide insight and depth to these concerns and believe that their inclusion is prudent and considerate in light of the decentralized management that exists at our University. Thank you for allowing us the opportunity to be a part of the discussion of our University's future and we look forward for the opportunity to give meaningful input for fiscally responsible change. (**Note:** This marks the end of the report given to Chancellor Syverud.)

Closing Thoughts to the University Senate:

The arrival of a new administration in the middle of the academic year has brought new possibilities and challenges to the entire University, not least the Senate Budget Committee. Our regular procedures and practices have been suspended as we have adapted to address the priorities set out by the Chancellor. The question going forward is how the Budget Committee can discharge its responsibilities to the University Senate while advising the new administration.

On its face, these two roles are complementary. The Senate Budget Committee has reported its findings and recommendations to the University Senate, which is advisory to the administration and, by extension, to the Board of Trustees. The practice had been for the Budget Committee to receive reports and answers to its questions from various University officers with the assistance of the University Office for Budget and Planning.

During the past semester, we have not had access to these officers. Consequently, our current report is drawn from data and information obtained previously. We have been in conversation with Chancellor Syverud about how to proceed going forward so that the Budget Committee has appropriate access to information and support. We believe we will come to a reasonable understanding.

We understand that the chancellor has arrived at Syracuse University at a time when it is facing many challenges. Further, it is accepted that Chancellor Syverud needs some time to assess these challenges. The Budget Committee endeavors to provide its best judgment through its delegated charge from the University Senate.