CSCU

CONNECTICUT STATE COLLEGES & UNIVERSITIES

Testimony of Mark E. Ojakian
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Before the Appropriations Committee
February 15, 2018

Representative Walker, Senator Formica, Senator Osten, Representative Ziobron, and members of the Appropriations Committee, thank you for the opportunity to testify on the Governor's proposed budget adjustments as they pertain to the Connecticut State Colleges & Universities (CSCU). For the record, my name is Mark Ojakian, and I am the President of CSCU. I am joined today by our Provost Jane Gates, our Chief Financial Officer Erika Steiner, several college and university presidents, and members of my executive staff.

I want to remind you all that our schools serve over 83,000 students every year who are pursuing an education. We educate 68% of all public higher education students in the state. Approximately 60% are women and 40% are minority students. Their futures are Connecticut's future. Over 96% of our students come from Connecticut and 74% of them have jobs in Connecticut within 9 months of graduation. For many of our students, we are a ladder to the middle class and provide access to a higher quality of life.

Over the last several years, this legislature and the Governor have faced unenviable choices in closing the budget deficits which have faced our state. You've already heard from our colleagues at the University of Connecticut this morning, and you will hear from a number of agencies and advocacy groups in the days to come about how the proposed cuts will impact those they serve. Unfortunately, there are no easy cuts left to make.

From FY15 through FY18 CSCU's appropriations have been reduced by $61 million (or 17.4%), with an additional $24M in fringe benefits costs shifted to students to cover with tuition and fees. To cover the shortfall, and to keep up with wage increases, increasing fringe benefit costs, and general inflationary factors, we've had to increase tuition and fees at the state universities (CSUs) by 15%, the community colleges (CCCs) by 11%, and Charter Oak State College (COSC) by 18% since FY15. With the reductions in FY18 and with limited cost-cutting measures, 16 out of 17 of our institutions will be operating in the red this year (see Appendix A for more information). For the first time in their history, the CSUs will report a negative budget balance, while COSC is projecting to use nearly all of its reserves in the current year.

This is not a sustainable long-term strategy. The National Association of Colleges & Universities Business Officers (NACUBO) recommends 3 – 6 months of operating expenses in undesignated reserves to ensure financial health and stability. Our undesignated reserves at the end of FY17 were less than one month for the community colleges and state universities, and about two weeks for COSC.

Our five year projections for the colleges show that if we do nothing, we will operate at losses ranging from $7M to $12M per year. By FY22 we will have used up all of our resources and have a negative reserve balance of $27.7M. While we sincerely appreciate the $6.25M that the Governor restored to the community colleges in FY19, unfortunately the budget proposal before you still leaves all our institutions in a precarious financial position. As a part of our NEASC reporting, we prepared a five year forecast for the CCCs with two scenarios, one if we do nothing and another including the savings from Students First, you can find these charts in Appendix B.

To balance these reductions in state support and declining enrollment since our post-recession high in 2010, we have cut away at critical services and supports that our students need to succeed at our institutions. This successive build up of reductions over the years has left some universities and colleges with libraries and computer labs closed on nights and weekends, reduced security, diminished physical and mental health services, reduced tutoring, elimination of sports and clubs, and other eliminations and reductions of core student services.

We have had a hiring freeze in place for the last three years, and while this has saved millions of dollars across the system, it is not a viable long-term plan. It has hit our CSUs particularly hard with one university having over 50 critical positions left unfilled. Additionally, while our faculty, staff, and administrators provide invaluable support in advising our current students, budget cuts and the hiring freeze have resulted in advisor to student ratios of 842 to 1 at the CSUs and 923 to 1 at the CCCs. Every time we have to make one of these cuts, we are making it more difficult for our students to complete a degree. Right now, our institutions are surviving, not thriving.

These cuts to student services have been significant enough that our accreditors have taken note. At a recent informational hearing of the Higher Education and Employment Advancement Committee, NEASC noted that they are concerned about whether 10 of the 12 colleges have sufficient resources to ensure educational quality for our students.

Last year, I testified before this committee to the fact that we needed to make significant changes to our system to address the structural deficit facing our institutions. To that end, in April of last year, I proposed two strategies to our Board of Regents titled Students First. One integrates administrative functions such as purchasing and payroll across all 17 institutions, and the other is a management consolidation of the community colleges.

Three important financial factors guided our Students First planning. First, we cannot tuition our way out of this deficit; doing so would price out many of our students. Second, over 80% of the cost in our system are personnel costs, which means that any plan to address our deficits would inevitably have personnel implications. Of those personnel, 98% are in collective bargaining units, which have no lay-off provisions in place until FY22, limiting our ability to reduce our costs now. Finally, over 60% of the funding for the community colleges comes from the state, which we have no control over. What this leaves us with is the need to achieve significant savings through an administrative reorganization of the colleges. If the consolidation were not to move forward, tuition would have to increase by 24.4% at the colleges to make up the lost savings.

Our Students First initiative will help address a sizeable portion of our structural deficit. Once fully implemented, the consolidation of the community colleges will save around $28M annually, while the integration of administrative functions at all 17 institutions will save an additional $11M annually. As needed and significant as these savings are, they will not be enough to wipe out all the red ink in the out years. Just to remain financially viable, and avoid eroding all of their reserves, the colleges will need an additional $9M of funding starting in FY19, the CSUs will need around $4.5M, and COSC will need $600K.

We have been doing our part at CSCU to think differently about how we serve our students, and better deploy the resources we have available. Students First goes a long way in prioritizing our resources but we have also been engaged in a number of initiatives recently to help drive student success. This includes our A to B program helping connect students from Gateway and Housatonic Community Colleges to Southern Connecticut State University, our out of state pilot programs at Western Connecticut State University and our border community colleges, roll out of 27 Transfer and Articulation Policy majors of study, and the launch of our guided pathways initiative. All of these initiatives will help fundamentally improve the ability of our students to pursue their goals at CSCU institutions.

We cannot produce the skilled manufacturers, entrepreneurs, mathematicians, engineers, nurses, teachers, scientists, and critical thinkers that our state will need for the jobs of the future if we do not have the resources to train them. This means, we will have thousands of jobs going unfilled across the state because employers cannot find the candidates with the skills needed to fill them.

We fully understand that today is just the beginning of the conversations that will shape the budget adjustments this year, and we appreciate the opportunity to be part of that dialogue. You have difficult decisions to make in the days and weeks to come, but we'll be here at every step of the way, as a resource for you, and a reminder of the students we serve, and the investments we all need to make in their futures.

Later tonight, you will have the opportunity to hear from students from across our system. I get the opportunity to hear from these students every day; their stories move me and inspire me to do the best I can for them, and makes me appreciate the courage it takes for them to testify.

Thank you for your time and attention this afternoon, I welcome any questions that you have for me.

Attachments:

- Appendix A: BOR Finance and Infrastructure Committee Staff Report FY2018 Projections
- Appendix B: Five Year Projections 2-12-18 All Colleges

STAFF REPORT **FINANCE AND INFRASTRUCTURE COMMITTEE**

ITEM – INFORMATION ONLY

FY 2018 Projections

Connecticut State Colleges & Universities (CSCU), Connecticut State Universities (CSU), Connecticut Community Colleges (CCC) and Charter Oak State College (COSC)

BACKGROUND

At the September 6, 2017 Finance Committee meeting, management presented a proposed FY 2018 Budget which was based on the Governor's Executive Order in place at that time. This budget was approved by the Board of Regents on September 19, 2017. Management requested approval at this time because our institutions can not readily transact in our systems without a budget uploaded.

In addition to budget schedules, each institution provided a contingency plan which in order of priority addressed a potential overall state funding shortfall of 8.5% off of the Governor's Executive Order appropriations. The staff recommendation stated: "If funding levels are lower than 8.5% off of the Governor's Executive Order, we will re-calculate our FY 2018 Budget and Spending plan and re-submit to this Committee and to the Board of Regents." The following table shows the final FY 2018 state appropriations, after lapses, compared to the Governor's Executive Order:

	Governor's Executive Order FY18	FY18 Appropriations After Lapses
Workers' Compensation Claims	3,328,361	3,289,276
Charter Oak State College	2,304,569	2,185,756
Community Tech College System	155,049,246	143,839,173
Connecticut State University	142,360,428	134,159,220
Board of Regents	415,680	366,875
Developmental Services	8,818,312	8,912,702
Outcomes-Based Funding Incentive	1,548,516	1,202,027
	313,825,112	**293,955,029**
Reduction		19,870,083
% Change		**6.3%**

As the reduction is within the threshold set in the September 19, 2017 Board Resolution, we are presenting herein the FY 2017 Actuals and the FY18 Projections for the Board's information.

ANALYSIS

FTE Enrollment

Attachment E provides data concerning the FY18 Projected Enrollments for each institution compared to the assumptions incorporated into the FY18 Budget.

In aggregate, CSCU is essentially projecting that enrollment will be flat compared to budget assumptions, as are the CSUs in aggregate. In addition, there are only very slight variations among the CSUs.

The CCC projected enrollment in aggregate are nearly flat compared to FY18 Budget assumptions, however there is great variation among the colleges. Notably **Tunxis** and **Gateway** are projecting increases of 10.1% and 7.2% in FTE enrollments respectively, and **Norwalk** is up 4.1% from budget assumptions. However, **Northwestern** is expecting 11.6% fewer FTE, and **Manchester** is down 4.1%.

COSC is projecting a 6% reduction in enrollment as compared to the assumption in their budget.

State Appropriations

As shown in Attachments A – C, state appropriations have been reduced from the assumptions in our FY18 Budgets. When state appropriations which cover a portion of the system's salaries and wages are reduced, the fringe benefits provided by the state come down proportionately. The following table illustrates the impact on each constituent group, including the impact of fringe benefits:

	FY18 Budget			FY18 Projections			
	State Approps	Fringe Benefits	Total State Support	State Approps	Fringe Benefits	Total State Support	Change in Total Support
CSU	142.4	125.3	267.6	134.2	118.7	252.9	(14.7)
CCC	155.0	122.2	277.3	143.8	115.8	259.6	(17.7)
COSC	2.3	2.1	4.4	2.2	2.1	4.3	(0.1)
BOR	0.4	0.3	0.7	0.4	0.3	0.6	(0.1)
TOTAL	**300.1**	**249.9**	**550.0**	**280.5**	**236.8**	**517.4**	**(32.6)**

FY18 Projections

As all institutions are impacted by the reduction in state support, and some of the institutions have enrollment declines resulting in lower tuition and fee revenue, each institution has had the need to execute elements of their contingency plans which were presented to the Board along with the FY18 Budget.

The following table summarizes the CSCU FY18 Projection vs the FY18 Budget:

CSCU FY17 Actual vs Budget and FY18 Projection vs Budget
$ Millions

	FY17 Actual	FY18 Budget	FY18 Proj	FY18 Proj vs Budget
Tuition & Fees	521.8	530.1	529.5	(0.5)
State Support	554.7	550.0	517.4	(32.6)
Housing & Food	99.1	101.2	102.0	0.8
Other Revenue	21.6	18.9	19.0	0.1
Total Revenue	1,197.2	1,200.2	1,167.9	(32.2)
Full Time PS	416.5	412.8	404.5	(8.3)
All Other PS	158.6	161.6	158.3	(3.3)
Total PS	575.1	574.4	562.8	(11.6)
Fringe Benefits	330.2	348.7	340.2	(8.4)
Total PS & Fringe	905.2	923.0	903.0	(20.0)
Institutional Aid/Waivers	66.8	72.0	72.8	0.8
All Other Expenditures	179.5	184.8	177.9	(6.9)
Total Expenditures	1,151.5	1,179.9	1,153.7	(26.2)
Subtotal	45.7	20.3	14.2	(6.1)
Net Transfers	(29.9)	(24.5)	(29.5)	(5.0)
Net Change Subtotal	15.8	(4.2)	(15.3)	(11.0)
Use of Reserves	-	3.9	7.4	3.5
Net Change	**15.8**	**(0.4)**	**(7.9)**	**(7.5)**
% of Revenue	**1.3%**	**0.0%**	**-0.7%**	

The Net Transfers Projection above includes approximately $4M set aside for longevity payments which were deferred until FY19; accordingly PS and Fringe benefit from that set-aside as it was originally budgeted, but not in the projection. Including the impact of the set-aside, the $32.2M shortfall in revenue is consumed as follows:

Net PS & Fringe	(16.0)
Operating Expenses	(6.9)
Use of Reserves	(11.0)
All Other	1.7
Revenue Shortfall	(32.2)

The primary source of reduced PS is attrition and hiring freeze which is not considered optimal but is nonetheless necessary. The Fringe Benefit reduction compared to budget is also benefitting from lower rates as a result of implementation of some of the SEBAC provisions.

As indicated above, the net change excluding use of reserves is $(15.4)M. This is broken down by institution as follows:

		Use of Reserves		2017 UNP	2018 UNP Proj
CSU Reserves					
	Central	-		35,326	35,326
	Eastern	(927)		27,382	26,455
	Southern	(1,745)		45,616	43,871
	Western	(1,950)		14,163	12,213
	System Office	-		20,563	20,563
	Total CSU		**(4,623)**	**143,050**	**138,428**
CCC Reserves					
	Asnuntuck	(452)		835	383
	Capital	(832)		184	(648)
	Gateway	(67)		(3,006)	(3,073)
	Housatonic	(610)		12,425	11,815
	Manchester	(1,615)		5,142	3,527
	Middlesex	(93)		503	410
	Naugatuck	(555)		5,971	5,416
	Norwalk	(208)		628	420
	Northwestern	(1,427)		1,543	116
	Quinebaug	(168)		5,968	5,800
	Three Rivers	(524)		8,168	7,644
	Tunxis	(923)		(1,830)	(2,753)
	System Office	111		9,197	9,308
	Total CCC		**(7,363)**	**45,729**	**38,367**
COSC Reserves			**(611)**	**791**	**180**
Other					
	Restricted Reserves		**(1,490)**		
	Foundation Support		**(1,282)**		
TOTAL RESERVES USED			**(15,369)**		

Each institution is finding it necessary to utilize reserves, with the exception of CCSU. The positive net change in the CCC System Office is due to the state's STIFF rate increasing a bit in the first two quarters. The System Office unrestricted reserves are a part of the overall constituent reserve balance and cushion the individual institutional "rainy day" funds as necessary.

The reduction in the level of reserves exposes the institutions and further underscores the need for strategic solutions to strengthen CSCU's fiscal outlook. In particular, the reduction in reserves at COSC is of concern; as a stand-alone constituency, there is no other source of funding available. COSC management is evaluating additional cost cutting measures.

CONCLUSIONS

As articulated in the budget presentation to the Board, management had projected that $19.9M of reserves would be required should the state reduce support to CSCU by 8.5% below the Governor's Executive Order. This was in large part resulting from the limited options of cost reduction available to our institutions under the current SEBAC no-layoff provision. The reduction was in fact 6.3%, so the $15.4M use of reserves is both realistic and predictable. The system continues to exercise a hiring freeze, which excludes faculty but does allow for refilling vacant positions that are critical to CSCU's operations. And leadership is committed to mitigating the use of reserves to the greatest extent possible.

Attachments:

Attachment A – Consolidated Connecticut State Colleges & Universities (CSCU)
Attachment B – Connecticut State Universities (CSU)
Attachment C – Connecticut Community Colleges (CCC)
Attachment D – Unrestricted Net Positions
Attachment E – Average Fall/Spring Enrollment Projections vs. Prior Year
Attachment F – Average Fall/Spring Enrollment Projections vs. Budget

2/21/18 Finance and Infrastructure Committee
3/8/18 Board of Regents

CONNECTICUT COMMUNITY COLLEGES - 5 YEAR PROJECTIONS
IF WE DO NOTHING

2/12/2018 $ millions

	FY17 Final	FY18 Projection	FY19 Est	FY20 Est	FY21 Est	FY22 Est	Comments
State Funding	157.4	143.8	140.3	140.3	140.3	140.3	FY19 per Governor's mid term report
State Fringe Benefits	118.8	115.8	115.7	118.6	121.6	124.6	Same % recoupment as FY18 Projections (includes a 2.5% increase per year)
State Funding Operating Funds	8.5	8.4	8.4	8.4	8.4	8.4	Assume flat funding (developmental education & outcomes based funding)
Tuition and Fees	175.4	179.1	181.3	183.6	185.9	188.2	Assume tuition/fee rate increase 2.5% and enrollment decline 1.25% (net 1.25%)
Other	6.3	5.8	5.8	5.8	5.8	5.8	Flat
Total Revenue	**466.4**	**452.8**	**451.5**	**456.6**	**461.9**	**467.2**	
Salaries and Wages	244.2	240.1	240.1	240.1	240.1	253.3	Assumes flat wages until FY21, then 5.5% increases thereafter
Fringe Benefits	142.8	146.6	150.3	154.0	157.9	170.7	Assumes 2.5% rate increase per year
Institutional Aid & Waivers	22.3	23.6	23.9	24.2	24.5	24.8	Increases along with tuition and fees
Other	47.5	49.9	49.9	49.9	49.9	49.9	Flat
Total Expenses	**456.9**	**460.2**	**464.1**	**468.2**	**472.3**	**498.7**	
Net Results	**9.5**	**(7.4)**	**(12.7)**	**(11.6)**	**(10.4)**	**(31.4)**	
Unrestricted Reserves	**45.7**	**38.4**	**25.7**	**14.1**	**3.7**	**(27.7)**	Erodes and goes negative by FY2022

CONNECTICUT COMMUNITY COLLEGES - 5 YEAR PROJECTIONS
LAYERING IN STUDENTS FIRST -

2/12/2018 $ millions

	FY17 Final	FY18 Budget - Revised	FY19	FY20	FY21	FY22	Comments
State Funding	157.4	143.8	140.3	140.3	140.3	140.3	
State Fringe Benefits	118.8	115.8	115.7	118.6	121.6	124.6	
State Funding Operating Funds	8.5	8.4	8.4	8.4	8.4	8.4	
Tuition and Fees	175.4	179.1	181.3	183.6	185.9	188.2	
Other	**6.3**	**5.8**	**5.8**	**5.8**	**5.8**	**5.8**	
Total Revenue	466	453	451	457	462	467	
Salaries and Wages	244.2	240.1	240.1	240.1	240.1	253.3	
Fringe Benefits	142.8	146.6	150.3	154.0	157.9	170.7	
SAVINGS	-	-	**(3.7)**	**(6.2)**	**(15.3)**	**(25.2)**	Layer in Students First savings ($50.5M cum over the period)
Institutional Aid & Waivers	22.3	23.6	23.9	24.2	24.5	24.8	
Other	48	50	50	50	50	50	
Total Expenses	**456.9**	**460.2**	**460.4**	**461.9**	**457.1**	**473.5**	
Net Results	**9.5**	**(7.4)**	**(8.9)**	**(5.3)**	**4.8**	**(6.2)**	Mitigates losses; turns positive in F21. FY22 SEBAC increases recognized
Unrestricted Reserves	45.7	38.4	29.4	24.1	28.9	22.7	