

STANDARD IX

FINANCIAL RESOURCES

Description

The State of Connecticut, like most of the nation, is currently experiencing an economic recession. The University had to cut 5% from a very lean budget in 2002-2003 after the legislature reduced the General Fund Appropriation. All state agencies experienced budget cutbacks. The legislature appropriates the General Fund to the Connecticut State University system (CSU), which in turn allocates funds to each campus and to the System Office. There are signs of a slow economic recovery, but interest rates are still low. Clearly, the current environment poses a major financial challenge to the University.

WestConn has gradually evolved from a “state-supported” to a “state-assisted” institution; it currently (2002-2003) receives only 51.1% of its operating funds from state appropriations. The University’s operating budget for 2002-2003 is over \$61 million.

In the early 1990s, the University struggled financially because General Fund appropriations remained static. Operating losses were managed through a combination of tuition and fee increases, level funding, and careful use of reserves. During the mid-1990s, the situation worsened as the General Fund formula was changed to a distribution based on each institution’s percentage of the total System full-time enrollment. The result for WestConn was a 10% reduction in its overall budget. Since the decrease was too large to be absorbed in one year, the reduction was spread over ten years. In addition, the System Office allotted funds from reserves to offset the adverse effects of the new formula for WestConn. From 1995 through 1998, budgets were very carefully scrutinized, equipment and operating expenses were cut, positions were held open, and some reserve dollars were used to manage deficit spending from year to year. This careful fiscal management made it possible for the University to operate despite the very restricted environment. Flexibility Legislation implemented in 1999 (PA 99-285), gave management greater control over purchases of equipment, supplies, and contractual services, but nonetheless, the University has had to refocus programmatically and fiscally in order to accomplish its Mission and to remain competitive in the marketplace.

Despite the reduction in funding, the University ended fiscal years 1999-2001 with an operating surplus. This was possible in part because there was an increase in enrollments beginning in 1999 and an improvement in freshman to sophomore retention rates (from 65% to 71% for the 1999 and 2000 entering cohorts). Prudent budgeting and the use of position control have made it possible to generate savings by holding non-mission-critical positions temporarily vacant. State budget cuts in FY2002 have resulted in a deficit of approximately 1% of the operating budget. Planned increases in tuition and fees are expected to offset the deficit.

Another major factor contributing to the University’s growth and financial stability is an increase in bond and interagency funding. Bond funds make it possible for the University to purchase equipment and implement campus-administered minor capital projects. The interagency funds make it possible for the institution to undertake additional capital projects that are administered by the Department of Public Works. For example, the University broke ground for a \$49 million science building on the Midtown campus in Fall 2002.

Institutional Advancement: In 1999, the position of Vice President for Development and Public Affairs, vacant for two years, was reorganized. The title was changed to Vice President for Institutional Advancement and fundraising became a priority. The position was filled later that year, and staffing has since been added in three areas: development, public relations, and alumni affairs. The University hired a full-time Director of Alumni Relations in 2002. Consultants were hired to work with the University staff on the Centennial Capital Campaign, which has a goal of raising \$4,000,000.

Foundation: The Western Connecticut State University Foundation, Inc., was established in 1971 to receive and administer funds donated by corporations and individuals to promote the educational mission of the University. Board members cultivate prospective donors, fund scholarships, advise on asset investments, participate in campus activities, represent the University at ceremonial occasions, serve on Executive, Budget/Investment, Development, other sub-committees of the Foundation, and provide financial support for educational, cultural and research functions of the University. The Foundation operates as an independent, non-profit organization, with its own bylaws and board of directors. Annual audits are conducted.

Planning and Budgeting: The Strategic Plan and the Academic Plan provide the structure for planning and budgeting and serve as the standards for determining priorities in accordance with the University's educational mission. The four vice presidents evaluate all budget requests from the constituent units, using the Strategic and Academic Plans as guides. The Vice President for Finance and Administration consolidates the budget requests and presents a spending plan to the University Planning and Budgeting Committee (UPBC) for review and comment. The proposed budget is forwarded to the President, who reviews the document and the UPBC's recommendations; appropriate changes are made, if necessary, and the proposed spending plan is forwarded to the CSU Board of Trustees (BOT) each April. The Board grants final approval only after holding formal spending plan hearings to review the budget.

Policies: The University adheres to State policies concerning investments, insurance, contracts, grants, transfers, inter-fund borrowing, fundraising, and other forms of institutional advancement-related activities that have been developed for the CSU system and/or are mandated by State statute. The University, as a state institution, is mainly self-insured. However, it does carry fire insurance on all buildings.

Debt-Service Management: Construction, renovation and acquisition projects involving facilities funded by student fees are financed through the sale of self-liquidating bonds that are authorized by the General Assembly. These facilities include residence halls, student centers, food service areas and parking structures. The CSU System Office tracks the amount of debt on these bonds and projects the principal and interest payments for future bond fund requirements. This centralized process identifies the revenue amounts necessary to finance the debt service. CSU then develops an appropriate fee level, which is charged to all full-time students at the four campuses. All the fees are deposited into a central account that was established by the BOT and used to pay off the debt. When setting fees, the System Office takes into consideration the size of System-wide enrollments, whether or not the projects can be bonded, bond sales scheduled by the State Treasurer, and bond interest rates. The centralized system makes it possible for the fees to be used to pay off the bond debt regardless of project location.

Budgeting and Accounting Information: Statement 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities – an amendment of GASB Statement 34*, was published in November 1999 by the Governmental Accounting Standards Board (GASB). Statement 35 requires the University retroactively and retrospectively to report all

capital assets, net of accumulated depreciation, including infrastructure in the statement of net assets, and also to report depreciation expense in the statement of revenues, expenses and changes in net assets. Retroactive reporting of capital assets will require a prior period adjustment to net assets.

Budgetary Controls and Fiscal Autonomy: WestConn operates under the applicable provisions of the Connecticut State Statutes that mandate responsibility and accountability to the Board of Trustees of the CSU System. The State of Connecticut Auditors of Public Accounts conduct an annual audit, examining the University's financial and other operating records to ensure that fiscal policies are in compliance with accepted ethical and sound business practices. An independent auditing firm conducts the University's yearly financial audit and renders an opinion concerning the financial statements.

Collective Bargaining: Listed below are the six bargaining units and their contract periods:

- CSU American Association of University Professors (AAUP): August 23, 2002 through August 24, 2006
- State University Organization of Administrative Faculty (SUOAF): July 1, 2001 through June 30, 2005
- Administrative and Residual: July 1, 1999 through June 30, 2003
- Protective Services: July 1, 1999 through June 20, 2003
- Maintenance & Service Unit: July 1, 1999 through June 30, 2002 (currently in arbitration with the State of Connecticut)
- Administrative Clerical Bargaining Unit: July 1, 1999 through June 30, 2002 (currently in negotiations with the State of Connecticut).

Appraisal

Despite the challenge of decreased State support, the University has been able to accomplish its academic mission, expand its programs, and meet its financial obligations through efficient fiscal management involving targeted reduced spending, position control, and selected use of reserve funds. For example, as enrollments increased significantly, full-time tenure-track faculty positions were added, primarily in the School of Arts and Sciences to accommodate students in required general education courses.

The pressure of deadlines sometimes means that the University Planning and Budgeting Committee (UPBC) sees the spending plan only after it has been submitted to the System Office.

For FY 2002-2003, because of fiscal constraints, approximately half of the currently open positions have been filled. In addition, the University has reduced the reserve transfer for planned capital purchases and reduced operating expenses by 5%. The goal is to minimize the amount of reserves necessary in FY 2003 so that the funds are available in the immediate future to keep the University financially stable until the economy recovers.

There are financial and logistical challenges -- equipment and transportation, for example -- associated with having two campuses. In Fall 2001, the transportation expenses increased significantly (from \$120,000 to \$325,000) with the addition of a third location to be served by shuttle buses after the University entered into a contract with a local motor inn to provide rooms for students who could not be accommodated in the existing residence hall space. Required police and maintenance department travel between the two campuses adds to the fuel costs. Redundant

maintenance equipment purchases for tools and mowers are necessary because it is not feasible to transport the machines back and forth between the campuses.

To augment the University's resources, the Western Connecticut State University Foundation, Inc., has increased its fund balance significantly since the last self-study: from \$1.9 million in 1994 to \$5.1 million in 2002. The increase came about as the result of a somewhat more aggressive investment strategy and fundraising, enhanced by a policy initiated by the State in 1998 of a 50% match for endowment gifts. Endowed chairs at identified Centers for Excellence are matched dollar for dollar. The System Office has set WestConn's endowment goal at \$20 million by 2010. The University's first Capital Campaign has already yielded \$3.5 million in gifts toward the campaign's \$4 million goal. Significantly, the University has received its first two million dollar gifts (1999 and 2002). An endowed visiting professorship/chair, the first privately funded professorship at WestConn, has been established with a \$500,000 donation to be matched 1:1 by the state.

Participation in Alumni giving, which in the past rarely exceeded 1% of graduates annually, has now reached 10%. Alumni activities, both on campus and in other areas of the country (e.g., Florida), have increased significantly under the new full-time director. Alumni who are now visiting the campus for the first time in many years are impressed with quality of programs, as well as with changes in the physical plant, and a tradition of giving is being established. Telemarketing was instituted in 1999, with approximately \$60,000 raised from 1,500 alumni and other contributors, many of whom are first-time givers.

After several years with temporary staffing in the Office of Research and Grants, a full-time Director of Grant Programs (as the office is now called) was hired in March 2001. In academic year 2001-2002, faculty and staff members received approximately \$388,000 in grants, fellowships, and gifts-in-kind from a variety of funding sources, private and public, not including \$90,000 in faculty research support from the State mandated by the collective bargaining agreement.

The implementation of a fully-integrated enterprise software system was begun in late fall of 1998. Banner Finance replaced the old FRS accounting system with a new version of a client server, shared data accounting system. The finance module was successfully implemented during FY 2000 and has provided management with more flexible access to data and tools for data analysis. The development module has been implemented as well but with somewhat less success, in part because of insufficient staffing.

Projection

Clearly, the state's financial situation presents a serious challenge, but the University has successfully weathered such crises in the past and there is every reason to expect it to do so this time, as well. For the time being, WestConn will have to continue to formulate its budgets very conservatively, reduce operating costs, monitor position control, increase enrollments, and selectively use reserve dollars to meet expenses.

The expenses associated with having two campuses will continue, although once the new residence hall opens on the Westside campus, the University will no longer have to pay for busing students from the motor inn to campus.

The Office of Institutional Advancement and the Office of Grant Programs have embarked on ambitious programs of aggressively seeking external funding, particularly for initiatives that directly support students: scholarships, faculty-student research, state-of-the-art technology and equipment,

and new programming initiatives. The advancement and grants offices can be expected to become important supplementary sources of revenue for institutional enhancements.

Enrollments are expected to increase over the next decade, without any changes in admission standards, as the number of eighteen-year-olds in Connecticut continues to rise (with the peak expected in 2008). The number of non-traditional students is also likely to increase. The enhancement of current graduate programs and the addition of new programs, including the doctoral program in Instructional Leadership, which has been approved through the State level, will also lead to increased enrollments.

Currently, WestConn's reserve balances are at an acceptable level. It is likely that the revenue base will increase, but in the meantime, the University monitors the reserve levels carefully, and approves use of these funds very selectively. The Connecticut State University System Board of Trustees passed a resolution (BR #01-02), establishing fund balance guidelines for the CSU universities. This resolution calls for each university's unrestricted fund balance to range between five and ten percent of its total budgeted educational and general expenditures and auxiliary services expenditures for the current fiscal year. Maintaining fund balances within this range will help to provide each university with financial stability in the event of unfavorable economic conditions. WestConn's FY 2002 current fund balance, excluding compensated absence accruals, was \$6,537,804. This number represents roughly an eight percent reserve balance on total qualified expenditures of \$72,259,965.

As staff in the various departments become more familiar with the Banner system, complex budgetary and data analyses will become easier, facilitating the development and implementation of improvements that result in cost savings and revenue enhancement.