June 24, 2020

Board of Trustees
Fitchburg State University
Fitchburg, MA 01420

SUBJECT: FY2021 BUDGET NARRATIVE

We are in uncharted budget planning territory due to the unprecedented financial pressures resulting from COVID-19 and its effect on campus life, the state tax revenue, and the global economy. And, when added to the existing challenges of the public demanding we minimize student debt and the continual demographic decline in traditional age undergraduate students, particularly in the New England region, we face one of the toughest budget cycles in this institution's history.

This current fiscal year, FY20, the University refunded $3.5 million dollars to students due to the closing of the residence halls and dining facilities. The CARES Act provided some relief, $1.9 million, to offset these costs. However, this budget year, FY21, there are also anticipated costs of at least $2 million due to COVID-19 hygiene, cleaning and ppe supplies, information technology, and personnel costs to enable the University to have residential students on-campus, as well as, hybrid, and online modalities of learning in fall 2020. With a projected decrease in state tax revenue of $2-7 billion a decline in our state appropriation is anticipated. While the amount is still unknown at this time, a 10% reduction (approximately $3million loss) of our FY20 GAA appropriations has been assumed. The continual demographic decline in traditional age undergraduate students was of paramount concern during past budget cycle but now has the potential to exacerbate the financial pressures with an anticipated decline in undergraduate enrollments of as much as -15%, or over 400 full time students (resulting in a loss of over $3 million in revenue). Finally, due to economic and health concerns, we anticipate our dorm occupancy also being reduced by an additional 27% (loss of $3 million in revenue) as some double rooms become singles to minimize potential virus outbreaks.

Initially, pre-COVID, the University asked each division to prepare a flat operating budget for FY2021. However, in order to minimize the effects of the above noted revenue disruptions, significant efforts have been made to restrain planned spending in FY2021. These efforts include, but are not limited to: eliminating non-essential out-of-state travel and catered food; cancelling under-enrolled courses; implementation of a hiring freeze on all non-essential positions; attrition of positions through retirement; refinancing of MSCBA debt (saving $7 million dollars in FY21); and consideration of furloughs to name a few highlights. With all these measures in place the projected budget deficit for FY21 is projected to be $4.4 million dollars.

During the AY19-20, the University also worked to develop its next 5-year strategic plan, honing in on two key themes: that of education justice and becoming a student ready university. As such, during this upcoming year, the University will continue efforts to increase retention and serve non-traditional populations via multi-modal methods of delivery while balancing the challenges of the continual decline of traditional age undergraduate students and those presented by the COVID crisis. The University is committed to focusing its resources toward knowledge creation, career readiness, social mobility and lifelong learning, serving as an engine of development for the region, reinforcing our distinctive value proposition, while responsibly stewarding our physical and financial resources to navigate a path to long-term sustainability.

The steps taken in the past years to increase revenue while at the same time closely managing costs, has provided the University the financial footing to navigate the anticipated challenges but this new environment requires even more bold steps.

FY2021 Operating Budget

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This scenario depicts our funding forecast with a state appropriation of $29,400,756, tuition and fees of $49,293.606, auxiliary services of $ 10,987,107, and revenue of $101,486,149. This results in a $2,558,870 operating deficit (prior to additional COVID expenses). The overall goal is to strike a balance between fee increases and cost cutting measures, both of which further the effort to retain a stable financial footing while still remaining conscious of the cost of education for our students and their families, in an increasingly competitive higher education market. The strategy, while utilizing more of our cash reserves than in the past, allows the University to avoid drastic measures during a year of uncertainties. With the proposed fee increases, and utilization of a portion of the existing GCE fund balance, the University will balance the FY21 budget with unrestricted assets and still maintain reserves adequate to meet long-term obligations and ensure daily cash-flow needs.

Summary of Revenue Sources

Decreases in revenue are the result of a 10% anticipated state appropriation reduction; projected decline in tuition and fees due to a shortfall in day undergraduate enrollment; a loss of housing revenue is expected due to our efforts to comply with the state's pandemic guidelines for social distancing; a decline in food services revenue due to the decline in the number of students living on campus. However, on the positive side, we are expecting the traditional Graduate Continuing Education division to break-even this year and continued enrollment growth in Accelerated Programs.

FY2021 Revenue Sources

State Appropriations	$	29,400,756
Collective Bargaining	$	50,795
Financial Aid	$	7,300,000
Grants	$	1,492,410
Dorm Authority Housing	$	7,907,107
Food Service	$	3,080,000
Tuition and Fees	$	49,293,606
Investment Income	$	750,000
Sales and Service	$	1,804,500
Unrestricted Assets	$	2,558,870
Foundation	$	266,000
Totals	**$**	**103,904,044**

Summary of Operating Expenses

Total operating expenses are projected to be $103,904,044. The bulk of these expenses consist of faculty and staff salaries and related personnel expenses (now approximately 47.4% of the budget), student aid and scholarships, auxiliary services expenditures, technology costs, and departmental operating budgets.

This represents a 8.7% decrease from the prior year budget. The decreases are primarily attributable to reduction in personnel cost and auxiliary services expenses.

FY2021 Operating Expenses		
Salaries & Benefits	$	49,202,149
Financial Aid	$	7,300,000
Grants	$	1,492,410
Auxiliary Services	$	10,547,107
Utilities / Space	$	3,550,875
Scholarships / Insurance	$	2,984,032
Information Technology	$	4,825,272
Capital	$	4,725,000
Department Operating	$	13,537,770
Debt Service	$	5,739,429
	$	103,904,044

COVID-19 Expenses

In addition to the usual operating expenses outlined above, the University is projecting as much as $2M in expenses for the purchases of supplies and cleaning products needed to prevent the spread of COVID-19, and respond to the technology changes in education and service delivery that will be required.. The state has mandated guidelines to follow for repopulating our campus. Supplies such as face masks for employees, hand sanitizing stations, and additional cleaning products will need to be purchased. The major uncertainty currently not included in our planning, or estimate, is for testing and contact tracing. The testing and tracing protocols for higher education in the Commonwealth are still being developed and evaluated, but they could also pose a significant additional cost burden. As these expenses are not part of our normal operation, this expense is not incorporated into the operating expenses above. We have shown these costs below the line to highlight these unusual expenses and on the remote chance we are able to be reimbursed for these expenses.

Staffing

The leadership team of the University continues to evaluate and capitalize on staffing vacancies to redeploy resources that strategically serve current and future needs. However, it is important to note that our state appropriation of $29.4 million still falls short of the $38.4 million needed to fully fund our payroll. This shortfall is further compounded because every payroll dollar not covered by the state appropriation adds an additional 38.8% percent to cover employee fringe benefits – or an additional $3.9 million. As part of our cost containment and right-sizing efforts as a result of continual enrollment decline in traditional age undergraduate students we are proposing a decrease of nearly $3 million in regular employee compensation. We anticipate achieving this reduction by implementing a number of efforts that include hiring freezes, furloughs and attrition. We have also assumed no collective bargaining increases at this time given the current economic health of the Commonwealth. We are also reducing part-time employee expenses by nearly one million dollars through the reduction of adjunct faculty within the day division and elimination of some part-time positions across the campus.

Graduate and Continuing Education Division

The University's effort to increase enrollments and revenues by partnering with Academic Partnership nearly three years ago continues to be very successful as enrollments continue to grow within this division of Graduate and Continue Education (GCE). A continuation of growth is anticipated for FY21 and FY22.

The traditional GCE programs continue to struggle with enrollment growth as the master degree market has become much more competitive in recent years and enrollment growth rates are slowing. To counter that GCE has also begun to focus on the creation of workforce development programs as this is a key initiative of the current Baker administration. In addition, they are exploring expansion of life-long learning programs to build off the success of the ALFA program and to meet the changing educational landscape.

As part of this budget we are proposing modest fee increases to the traditional GCE undergraduate and graduate programs.

Facility and Technology Improvement Program

The University has continued to deploy funds toward capital renewal as an institution and in partnership with DCAMM and the MSCBA, to continue to improve the learning, living, and working environment of the campus. Key among these recent and current undertakings is the ongoing work to completely renovate Percival Hall with the 4th and final phase of construction slated for Summer/Fall of 2020.

Additionally, taking advantage of DCAMM Deferred Maintenance funding, approximately $7.5 million over five years, the University is able to continue efforts of capital improvement while leveraging the outlay of University funds. Work in FY2021 will include the continued renovation of McKay C, with one half of the first floor being renovated during the Summer and

Fall of FY2020. Concurrently, plans continue for a DCAMM funded infrastructure initiative, which will replace antiquated electrical distribution systems, as well as replace and add generator capabilities to our facilities.

In FY2019, the IT department began its first year of a five-year plan designed for the renewal of systems and equipment that serve the student community. This has included upgraded student computer labs, upgraded wi-fi system and other core upgrades. This past year they also undertook the task of converting the university to the Google platform, which has been critical to our success in quickly converting to remote learning when the COVID panadeic hit in March. The ever-increasing demand for these services and capabilities by both students and staff, in addition to rapidly changing technologies, requires a substantial and continued investment. As such this budget includes a fee increase to support this continued investment..

Conclusion

This budget plan represents ongoing efforts to wisely invest in the future, while at the same time demonstrating continued diligence in both cost containment and right-sizing of operations during these challenging times and the ever changing higher education landscape. By recognizing and planning for the future enrollment challenges and the current, recognized realities of state funding resulting in the current budgetary climate, the University is taking proactive steps to ensure a stable financial future.