

April 27, 2021

Board of Trustees
Fitchburg State University
Fitchburg, MA 01420

FY2022 BUDGET NARRATIVE

FY2021 proved to be the toughest budget cycle in this institution's history with so many unknowns at the start of the cycle along with an entire fiscal year conducted largely online and remote. A combination of fiscal responsibility, smart reductions in expenditures, enactment of an early retirement initiative, day enrollment declines not as severe as anticipated, an increase from projected graduate enrollment, and level state appropriations all contributed in minimizing the financial impact of COVID-19. Additionally, the ability to orchestrate a smooth and complete overnight pivot to online instruction and remote work operations and three rounds of federal assistance positively contributed to the challenging scenario. Fitchburg State also benefited from a relatively small number of positive COVID-19 cases and spread amongst the members of our campus due to the reduction of physical presence (student, faculty and staff) and proactive efforts in testing and subsequent contact tracing.

For FY2022, the university is planning a return to in-person operations in the Fall 2021, as indicated by President Lapidus in an email to campus on March 17, 2021, "...I write to let you know that the university, consistent with our sister institutions, plans to work toward an in-person reopening for the fall semester." We are not completely out of the woods yet, as noted by the president in the same letter, "Understanding that COVID-19 will have longer-term impacts, the university is prepared to act in accordance with guidelines issued by federal, state, and local health officials. The university will continually review its plans, activities, and operations and is prepared to adjust course as necessary." For these reasons, the university asked each operating department to prepare a flat operating budget for FY22 (meaning reduction measures enacted in FY21 will remain in place for discretionary spending).

Executive leadership anticipates continued costs associated with COVID-19 testing and cleaning, personnel costs, and information technology (approx. \$1.5 million in FY22). State appropriations are likely to be level at the final FY21 amounts. Undergraduate enrollments look promising based on a 62% increase in applications, a 17% increase in acceptances, and a 12% increase in deposits for the Fall as compared to the previous year at the same time. It is still too early to tell how the projected enrollment numbers and revenue figures will conclude. Finally, we anticipate residence hall occupancy to increase by approximately 16% relative to last years' actual levels (increase of \$1 million in revenue). While promising, this increase only captures 60% of the design occupancy and results in a housing deficit of \$1.8 million. Day operations, while trending

positive after a very difficult year, are anticipated to still fall short 549 FTE students compared to FY17 levels. This results in a projected negative operating deficit of \$1,350,991 which is down from the budgeted deficit of \$2,417,894 in FY21. As mentioned above, housing demand is anticipated to incur a deficit of \$1.8 million which the university must cover to maintain the fund balance specified by the Massachusetts State College Building Authority (MSCBA) bond requirements. The additional COVID-19 operating expenses of \$1.5 million contribute to the overall FY22 budget deficit of \$4.64 million. Future fiscal year projections anticipate additional deficits of \$3.55 million in FY23 and \$2.9 million in FY24.

The university's 5-year strategic plan (2020-2025) is focused on two key themes: education justice and becoming a student ready university. As such, during this upcoming year, the university will continue its efforts to increase retention and serve non-traditional populations via multi-modal methods of delivery while balancing the challenges of the continuing decline of traditional age undergraduate students and those presented by the COVID-19 crisis. Two actions Fitchburg State is taking in support of these important initiatives is the creation of and search for two new staff positions (an associate vice president for enrollment management and a director of the Center for Diversity and Inclusiveness.) Both are anticipated to be in place for the beginning of the 2021-22 academic year.

The university continues to maintain its long-term partnership with the Educational Advisory Board (EAB) to assist with student retention, which in the most recent measurement cycle increased by 3%, to 77% overall, from Fall 19 to Fall 20. This was the largest retention rate increase in the state university system during the time period. This past year the university expanded its partnership to include Enrollment Services to support undergraduate enrollment efforts. This included assistance building our senior application funnel and assistance growing our sophomore/junior pipeline. We also have EAB conducting an operational audit of our Admission Office. The new search for an AVP of Enrollment had been one area identified in the audit as being critical to directing the efforts of three distinct units (Admissions, Financial Aid, and Marketing and Integrated Communications) to further a university-wide strategy designed to achieve increased enrollment and retention objectives.

The university will also be taking advantage of EAB's technology solutions which include their Academic Performance Solutions (APS) and DataHub. APS helps enable improved data-based decisions by analyzing, visualizing, and benchmarking data across the institution and against peer institutions. This technology has assisted with leveraging data to better evaluate faculty line requests and to more effectively make decisions using course enrollment data and historical demand for course offerings. The DataHub is a higher education data management solution that unifies and organizes data assets across campus into a single centralized platform to support real-time decision-making with a 360-degree view of students, faculty, and operations.

During FY21, the Department of Higher Education (DHE) hired an external financial consultant, EY Parthenon, to conduct an analysis to assess financial risk across plausible FY21 scenarios due to the switch to virtual learning created by COVID-19 (note: this sensitivity analysis was conducted prior to the final state budget being approved and the three rounds of federal stimulus funding being enacted.) Specifically, they provided a normalized, aggregate view of the degree, nature, and timeline of liquidity risk across the higher education system in Massachusetts under common sensitivities. EY Parthenon worked with each state university finance team to collect FY17A (actuals) to FY20E (estimates) financial data and FY21 preliminary forecasts from all 24 institutions (State Universities and Community Colleges.) Their main findings were:

- State universities began FY21 with cash and investment liquidity equal to 6.3 months of projected cash operating expenses and community colleges with 4.4 months (Fitchburg State = 5.9).
- All 24 institutions are expected to be in a notably worse financial position by June 2021 compared with June 2020 under all scenarios, indicating a reduced resiliency to cope with a continued adverse outlook for enrollment and state appropriations going into FY22. (Again, this was before the federal stimulus funds.)
- Under best- and worst-case scenarios, all nine state universities end FY21 in a positive liquidity position.

In our individual meeting with EY Parthenon, the steps taken by the leadership team were deemed effective in reducing costs and mitigating anticipated losses. Previous financial conservatism has allowed the university to endure the anticipated reserve reductions and remain financially stable.

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 and reserves, while at the same time closely manage costs, has provided the university the financial footing to navigate these recent unique challenges.

FY2022 Operating Budget

The funding forecast for state appropriation is flat at \$33,197,515, tuition and fees of \$53,005,369, auxiliary services of \$10,914,689, and total revenue of \$109,836,044. This results in a \$3,143,267 operating deficit (prior to additional COVID-19 expenses). The overall goal for the upcoming year is to strike a balance between increases in enrollment and cost cutting measures, both of which further the effort to retain a stable financial footing. The university must remain conscious of the cost of education for our students and their families and the dynamics associated with an increasingly competitive higher education market. The university will balance the FY22 budget with unrestricted assets, supplemented by various stimulus funding programs, to ensure that daily cash-flow needs are met and that adequate reserves remain to satisfy longer-term obligations.

Summary of Revenue Sources

Increases in revenue of 8.2% compared to the FY21 budget projection are the result of an anticipated level state appropriation compared to what was originally thought to have been a reduced state appropriation; a projected increase in tuition and fees; a loss of housing revenue is expected based on a projected 60% occupancy rate; a reinstatement of residence hall bond payments; and an increase in food services revenue due to the increase in the number of students living on campus. Encouragingly, the traditional School of Graduate, Online and Continuing Education division saw a 3% increase in revenue in Fall FY21 and enrollment growth in accelerated programs increased 34% during this same period. These increases are not expected to be as large in FY22, but are anticipated to grow at a rate of 2% and 20% respectively.

FY2022 Revenue Sources	
State Appropriations	\$ 33,197,515
Collective Bargaining	\$ 573,943
Financial Aid	\$ 7,300,000
Grants	\$ 1,492,410
Dorm Authority Housing	\$ 7,526,689
Food Service	\$ 3,388,000
Tuition and Fees	\$ 53,005,369
Investment Income	\$ 768,800
Sales and Service	\$ 2,009,050
Unrestricted Assets	\$ 308,268
Foundation	\$ 266,000
Totals	\$ 109,836,044

Summary of Higher Education Emergency Relief Fund (HEERF) funding

On March 10, 2021, Congress passed the American Rescue Plan (ARPA). ARPA will provide another much-needed infusion of federal relief dollars into American colleges and universities. This relief, builds on two bills passed earlier in the public health crisis: the Coronavirus Aid, Relief, and Economic Security (CARES) and the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA). It will also provide additional funding to state and local governments, which should have a positive downstream effect on public institutions' budgets. In sum, it is anticipated that the three rounds of funding will make the university eligible for approximately \$12.91 million in institutional support and about \$9.96 million in direct support to students in the form of emergency financial aid.

This federal funding has enabled Fitchburg State to offset losses initially incurred, and those that continue to incur, from COVID-19: refunds in housing and dining from the shutdown in Spring 2020 and Fall 2020; COVID-19 testing; PPE; additional personnel and cleaning supplies and services; and reductions in enrollment. It will take time to account for the exact impact due to the closure, decreased enrollments and remote learning over the three fiscal years. In FY20 we realized a \$3.45 million dollar net loss and used \$4.2 million in cash in excess of revenue. As of April 12, 2021, the actual total of COVID-19 direct expenses is \$1.6 million and there are still three operational months remaining in the fiscal year. The cumulative losses for FY20-FY22 are anticipated to be approximately \$12.51 million.

It is important to point out that the estimated impact of COVID-19 exacerbated an already identified demographic decline in college aged students. It had a particularly dramatic negative impact on enrollment at community colleges which serve as feeder institutions. On a positive note, the availability of federal relief funds has enabled our students that need the most financial support, to receive it and continue their studies. In Spring 2020 the university issued direct emergency financial aid payments to our undergraduate students in the amount of \$1.95 million and another \$1.95 million in Fall 2020. Distribution of an additional \$6.05 million is anticipated in Fall 2021.

Summary of Operating Expenses

Total operating expenses are projected to be \$111,961,768. The bulk of these expenses consist of faculty and staff salaries and related personnel expenses (now approximately 50% of the budget), student aid and scholarships, auxiliary services expenditures, technology costs, and departmental operating budgets. This represents a 7.8% increase from the prior year budget. The increases are primarily attributable to personnel costs that were reduced in FY21 (planned furlough that did not occur, hiring freeze, reinstatement of debt service, nominal increase in fixed operating expenses, and auxiliary services expenses.

FY2022 Operating Expenses	
Regular Employee Compensation	\$ 43,386,194
Regular Employee Related Expenses	\$ 388,474
Special Employee/Contracted Services	\$ 7,527,316
Pension and Insurance Related Expenditures	\$ 4,603,297
Administrative Expenses	\$ 1,965,867
Facility Operational Supplies	\$ 1,199,070
Energy Costs and Space Rental Expenses	\$ 4,898,820
Consultant Services	\$ 1,686,647
Operational Services	\$ 5,895,012
Equipment Purchase	\$ 167,224
Equipment Lease Rental Maintenance and Repair	\$ 991,552
Purchased Client Services - Program	\$ 265,149
Construction and Improvements Building	\$ 6,212,910
Grants and External Subsidies	\$ -
Benefit Programs	\$ 10,452,020
Loans and Special Payments	\$ 17,343,302
Information Technology Expenses	\$ 4,978,914
TOTAL EXPENSES	\$ 111,961,768

COVID-19 Expenses

In addition to the usual operating expenses outlined above, the university is projecting \$1.5 million in expenses in FY22 for testing and related services, additional cleaning services, and the purchase of supplies and cleaning products needed to prevent the spread of COVID-19. Additionally, expenditures are anticipated in response to technology requirements for both academic and business delivery. As these expenses are not part of normal operations, this expense is not incorporated into the operating expenses above. These costs are captured below the line to highlight that they are unusual expenses and have a likely chance of being reimbursed.

Staffing

The leadership team of the university continues to evaluate and capitalize on staffing vacancies to redeploy resources that will strategically serve current and future needs. However, it is important to note that the state appropriation of \$33.5 million continues to fall short of the \$40.3 million needed to fully fund payroll. This shortfall is further compounded because every payroll dollar not covered by the state appropriation adds an additional 39.5% percent to cover employee fringe benefits – or an additional \$3.4 million. This presentation also assumes no collective bargaining increases at this time given that negotiations are just beginning and that no financial parameters have been provided by the Commonwealth.

As part of the cost containment and right-sizing efforts, created as a result of real and projected enrollment decline in traditional age undergraduate students, evaluation of new hires utilizing APS data has been very focused. Evaluation of course offerings with consolidation or elimination of under enrolled classes has resulted in adjunct faculty cost savings of \$560,000 in FY21. The implementation of an Early Retirement Incentive Program, to date, has yielded 20 participants that will result in salary savings attributable to either lower salaried rehires or not refilling the position.

School of Graduate, Online and Continuing Education Division

The university's effort to increase enrollments and revenues by partnering with Academic Partnerships, in support of accelerated programs, four years ago continues to be very successful. Enrollment growth continues within the division of the School of Graduate, Online and Continuing Education (SGOCE). A continuation of growth is anticipated for FY22.

The traditional SGOCE 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 decline, SGOCE has begun to focus on the creation of workforce development programs. In addition, they are exploring expansion of life-long learning programs to continue to build on the success of the Adult Learning in the Fitchburg Area (ALFA) program and to meet the changing educational landscape.

Facility and Technology Improvement Program

The university has continued to deploy funds toward capital renewal as an institution and in partnership with the Division of Capital Asset Management and Maintenance (DCAMM) and the Massachusetts State College Building Authority (MSCBA). These efforts are designed to continue to improve the learning, living, and working environment of the campus. In particular the 5-year Deferred Maintenance Funding program from DCAMM has been leveraged, yielding approximately \$7.5 million over a five-year time period. Work in FY21 included the continued renovation of McKay C along with a series of smaller deferred maintenance projects across the campus. FY22 will include the final phase of renovation of McKay C and the first phase of the Thompson Hall renovation. Concurrently, work continues on a DCAMM funded infrastructure initiative (\$24 million), which will replace antiquated electrical distribution systems, as well as replace and add new generator capabilities to campus facilities. Also, in FY21, DCAMM provided \$1.2 million in funds, which did not require a match, to be used for small repair projects. These projects ranged from structural repairs to the Holmes Bridge to critical AC replacements in a back-up computer server room.

The Information Technology Department (IT) continues to implement their five-year plan designed to systematically renew systems and equipment that serve the student community. This has included upgrading student computer labs, upgrading the wi-fi system along with other core upgrades. This past year, IT also undertook the task of converting the university to the Google platform, which was critical to the successful transition to remote learning and working when the COVID-19 pandemic hit in March 2020. The ever-increasing demand for technology services and capabilities by both students and staff is a challenge and will require substantial continued investment.

Conclusion

This budget plan represents ongoing efforts to strategically invest in the future, while at the same time demonstrate continued diligence in both cost containment and right-sizing of operations. It is anticipated that the future will provide considerable challenge as the result of significant change and disruption in the higher education landscape. By being proactive in recognizing and planning for this change (enrollment challenges, realities of state funding, new curricular opportunities, among others), the university is positioning itself for success and a stable financial future.