

January 20, 2009

Senator John Valentine, Co-Chair
Representative Kory Holdaway, Co-Chair
Higher Education Appropriations Subcommittee

Dear Chairs Valentine and Holdaway:

At the conclusion of the Higher Education Appropriations Subcommittee meeting on Monday, January 12, Senator Valentine asked for a response from the Utah System of Higher Education regarding four areas where budget savings may be generated:

1. How much could be saved by reducing the current retirement contribution, such as from 14.2 percent to 12 percent?
2. Implementing furloughs of staff, such as by keeping campuses open five days but staggering staffing so that staff worked for four days a week.
3. Levels of tuition being proposed, both first and second tier.
4. Eliminating summer sessions---how much would that save in both 2009 and 2010?

I appreciate the committee's interest in looking at broader, systemic ways to respond to the budget situation. We in higher education look forward to exploring a variety of options with you.

Included in your packet should be a copy of the power point slide show I presented to the Board of Regents. It provides a summary of the various actions taken (or planned) by each institution. I am impressed by the willingness of the campus presidents to aggressively move to reduce their budgets in a strategic fashion. It is very important we continue to give them flexibility in responding the budget crises.

I look forward to discussing the four ideas with you. Here is my initial response.

1. *How much could be saved by reducing the current retirement contribution, such as from 14.2 percent to 12 percent?*

Currently, the state contributes 15.72% of salary for state employees and public educators, and 14.2 percent for higher education.¹ Cutting retirement contributions of higher education employees would increase this basic inequity. If the Legislature decides to reduce retirement

¹ Some USHE employees are members of the State Retirement System and receive the same contribution as state employees.

contributions for state employees, public educators, and higher education employees, we recommend that you treat all employee groups similarly.

A 15% cut in retirement contributions (to 12 percent) would save \$12.5 million. However, we are very concerned about the negative impact this would have on our campuses. Unlike most other jobs in the public sector in Utah, in higher education we are in a regional and often national market. The retirement contributions are part of the total compensation we offer when recruiting faculty and key staff, and improve our competitiveness. (As you may know, a large share of USHE faculty and staff earn less than 90% of their peers.)

All USHE employees² are in a defined contribution benefit program, rather than a defined benefit as are most state and public educators. In these days of volatile financial markets, our employees already have concerns about whether their retirement savings will be adequate. Cuts to the contribution rates would further exacerbate these concerns.

2. *Implementing furloughs of staff, such as by keeping campuses open five days but staggering staffing so that staff worked for four days a week.*

Furloughing employees was an option mentioned by presidents that may be necessary at some institutions depending on the depth of the cuts. Once again, we would argue for flexibility—to leave this as an option that presidents may use at their discretion.

In all likelihood, furloughs would be used much more sparingly than what is suggested here. To furlough staff one day a week really amounts to a 20 percent pay cut. We do not believe this is a viable option. Further, staffing is so thin in many areas and on many campuses that it would not be possible to provide five-day-a-week service. Our campuses are experiencing a large increase in enrollment; reducing work time by 20% would not be prudent, given the enrollment increases.

If all staff positions could be put at 80% pay (a one day in five furlough) this would generate \$56 million in savings. If cuts of this magnitude are needed, I strongly recommend giving presidents the flexibility to find the savings without mandating furloughs. You should know that some presidents are looking at furloughs as part of their budget reduction plan.

3. *Levels of tuition being proposed, both first and second tier.*

By legislative policy, the Board of Regents must increase tuition each year to provide 25 percent of the cost of compensation funded by the Legislature. Over the past several years, this has been the level set for first-tier tuition—only the amount needed to fulfill the compensation match. Second-tier tuition has been proposed by presidents after following a process required by state law (“Truth in Tuition”). This process includes providing students notice and disclosure of the

² A small percentage of USHE employees are enrolled in the State Retirement System

amount proposed and the uses for the funds. It provides flexibility for institutions to charge tuition to meet specific needs, and a mechanism to gain support from their students. For 2010, other than meeting the compensation match (if any), no decision has been made regarding first or second-tier tuition. Obviously the level of budget cuts will have a significant impact on the level of tuition increases. We are committed, however, to not using tuition to replace all or even most of the dollars lost from budget cuts.

We will continue to dialogue with the Subcommittee in an effort to provide at least the ranges being considered for both first and second tier tuition as the legislative session unfolds and we have a better sense of the level of funding that can be provided.

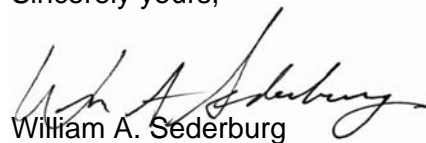
4. Eliminating summer sessions---how much would that save in both 2009 and 2010?

Most if not all of our institutions “make money” from summer semester, as the tuition revenue collected exceed the variable costs. So the answer is, it would cost money to eliminate these programs. Other costs would be lengthening the time for students to graduate, eliminating teacher certification programs, and graduate programs that teachers take during the summer. It could even impact eligibility for college athletes, as many take courses in the summer to make up for time spent in their sports.

There are two colleges, however, that are studying this option closely. In these particular circumstances, it may make good sense not to offer summer school.

I really appreciate the committee’s careful review of these options. There are options we’d be happy to explore with the committee and legislative staff as we become clearer of the depth of the budget shortfall. These options include a mandatory review of credits required for degree status, minimum employee contributions for health care insurance, employee severance incentives, re-organization of certain units, and declaring fiscal “exigency” in case of dire fiscal consequence. It should prove a most interesting legislative session!

Sincerely yours,


William A. Sederburg