



Missouri Department of Higher Education

Building Missouri's future...by degrees

To: Presidents and Chancellors, Missouri Public Postsecondary Institutions

From: Robert B. Stein, Commissioner of Higher Education

Date: January 22, 2010

Subject: Missouri Fiscal Challenges and Higher Education

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At the December 2009 meeting of the Coordinating Board, MDHE staff was charged with initiating conversations throughout the higher education community to address the concerns identified in Jim Moody's presentation regarding the state's short and long term fiscal situation. The facts are clear that, absent some unforeseen intervention or unprecedented economic turnaround, the state's fiscal situation will mean reduced state appropriations to public higher education beginning in FY 2011, deepening in FY 2012, and likely persisting as a new lowered base for several years beyond.

Missouri higher education has confronted reduced funding in previous years when the state faced difficult economic challenges. Each public institution adapted to its reduction with management decisions involving a combination of actions, e.g., tuition increases, reallocations, consolidations, and eliminations. This round, however, is different due to the extensiveness of the current economic downturn worldwide, the expectation that economic recovery will take longer than in past recessions, and the sensitivity about using tuition increases to fill a portion of financial shortfalls.

Projecting forward, the combined conditions of a tuition freeze for FY 2011, lowered operating budgets on an already lowered base from past cuts in 2001 and 2002, rising fixed costs, and demands from public policymakers for increased productivity highlight the need to seek new approaches that might include sector and system solutions, rather than simply having each institution absorb its share and slowly shrink its commitments. Ultimately, each board is responsible for balancing its institution's budget. However, fostering statewide conversations and sharing perspectives may lead to some collective responses that could reduce unintended effects, such as limiting access or key program offerings. These informal conversations are intended to provide some insight about a collection of potential cost reduction strategies.

The Governor's recommendations for FY 2011 use approximately \$900 million of federal budget stabilization funding in order to balance the state's budget with no such funding available for FY 2012. Thus, for FY 2012, it is estimated that the state will be facing a beginning deficit in the neighborhood of \$1 billion before netting the gain or loss between revenue growth and basic spending pressures. Even if higher education were to absorb only 10% of the cuts necessary to balance a \$1 billion deficit (an optimistic assumption given past practice), that reduction would be in excess of 10% of core budgets on top of the 5% recommended cut in FY 2011. If history is any guide, higher education would experience a larger percentage of the cuts (potentially 15-20% or more). Of course, the General Assembly has yet to take action on the FY 2011 budget.

At the state level, addressing this situation on the revenue side (new taxes) is a political non-starter. At the institutional level, the revenue side is also particularly challenging because of the tuition freeze agreements that have been struck for the 2009-10 and 2010-11 academic years, as well as the SB 389 tuition constraint that limits an institution's ability to replace cuts in state funding with tuition revenue. It is not known whether or not there will be another negotiated tuition freeze for the 2011-12 academic year. Aside from tuition, increased private fund-raising including donations, sponsored grants, and other externally funded projects will certainly be a part of every institution's financing strategy in the future. The ability to attract increased giving from philanthropists and to secure funding from other external sources will vary widely among institutions.

Engaging in conversation on the expenditure side has been difficult and uncomfortable. One of the most common detours taken involves the tendency to focus discussion on higher education as an investment that will generate economic growth. Connected to this argument is often the belief that more effectively lobbying the governor or General Assembly will change attitudes and result in additional funding. While it is important to continually communicate about the value that higher education brings to the state, the reality is that even the most receptive or easily persuaded governor or General Assembly may very well have to cut millions of dollars of state spending regardless of what they would like to do. It is hard to imagine with shortfalls of this magnitude that higher education funding can be protected - much less increased - even by elected officials who are champions for higher education.

Another common thread in conversations about higher education funding challenges tends to focus on cost efficient ways of expanding outreach to students or cooperatively addressing unmet needs. These are important issues that many in higher education are focused on, but for the purposes of this discussion, they do not necessarily result in reduced expenditures. For example, if two institutions want to add courses in Russian and decide to make a joint hire and share expenses rather than each hiring a Russian instructor separately, the end result would be cheaper to each institution but would not necessarily reduce overall expenditures, especially if Russian is not currently taught. Unless cost sharing results in lowering overall expenditures, the real savings needed in the immediate future will not be realized.

In preparation for a more engaged discussion among higher education leaders in new approaches to cost savings, the MDHE has sought ideas from education and government leaders. The ideas are listed below to serve as a catalyst for further discussion. Because of the sensitive nature of many of these suggestions and the informal structure used to gather them, neither attribution nor evaluation are provided.

#### Potential Cost Savings Ideas

- One or more institutions could be closed.
- One or more institutions could be made a branch campus of another institution.
- One or more institutions could be privatized by simply removing the state funding and restructuring internally.
- Students who receive state financial aid and do not graduate could be required to repay their aid awards.
- Institutions could lower their discount rate and thus collect more of the tuition that is charged.

- An increased portion of benefit costs could be shifted to employees.
- Class sizes could be increased, and a minimum class size could be instituted.
- All athletic programs could be eliminated.
- Faculty workloads could be uniformly increased so as to allow for a reduction in the number of faculty.
- Various administrative and support functions, such as purchasing and IT, could be consolidated if they haven't been already.
- Some services or support functions could be sub-contracted among institutions when capacity is available.
- Depth and breadth of some program offerings could be reduced or eliminated, if it would correspondingly reduce personnel costs. For example, perhaps not all Colleges of Education need to offer a full array of certifications and degrees that cover teaching from early childhood through secondary subjects as well as offer programs for principals and superintendents.

These conversations also produced a variety of suggestions regarding on-line education although there was disagreement on whether this form of delivery would save money or be more expensive especially in the early years. Some were confident that on-line delivery is not less expensive than traditional classroom delivery. Others believed that certain courses can definitely be cheaper to deliver on-line. It was suggested that there could be one basic course outline and syllabus for a basic government class, for example, and large numbers students around the state could take the course on-line with graduate students or adjunct faculty in a much higher student/teacher ratio than in the classroom.

Almost everyone who suggested ideas agreed that if cuts of this magnitude were to pass it would be uncharted territory for higher education. Many institutions have reallocated significant resources in mission-driven restructuring, or otherwise reduced activities in one area to enhance another. This situation, however, would necessitate reduced or eliminated activities without the option of reallocation since funds would not be freed up – they would be gone. With constant pressure from a variety of constituents to expand offerings, produce more graduates, and accommodate more demands from business and industry, shrinking out of financial necessity could be a very painful process.

The MDHE staff is very appreciative of the engaged and constructive participation. Although the financial scenarios discussed are only speculative and any decisions on major changes can be delayed until a later date, and hopefully never come to pass, it would be irresponsible to not plan for the bad if not the worst. As this work continues we will continue to exercise all necessary discretion as options are considered for repositioning higher education to serve the needs of Missourians in the future.

Best,

Robert