In December 2016, the Commissioner of Higher Education sent a memorandum to the campus and the Board of Regents discussing a transition plan for university leadership. As a piece of that plan, President Stearns formed a short-term transition review team to identify issues and assist UM in laying the groundwork for long-term structural balance and stability for institutional finances.

While the President asked the team to look at several specific issues, it soon became clear that in such a large, complex organization, the team would best be able to report on broad observations. The report is organized to address broad observations and recommendations.

1. The team attended budget workshops and worked with various individuals across campus on processes, and on questions they had or that team members identified.
2. The team worked closely with staff on the FY17 close.
   
   Finding: FY17 closed in the black with the ability to carry some funds over to help balance FY18.

3. The team reviewed mid-year major transactions in the system that had raised questions or concerns, and believe all have been satisfactorily resolved.

4. Due to declining enrollment, UM started FY 2017 with a base budget imbalance. Academic affairs and other units addressed these during the year through diminished hiring of adjuncts or utilization of designated accounts to transfer expense.

The base imbalance is more significant for FY 18 with recent cuts to state allocations to state agencies, and with no funding for present-law adjustments. This means there are no central new funds to annualize the pay plan, meet inflation, and help with the existing budget issues. The solution in preparation of FY18 sector budgets has been to reduce
allocations to each sector manager, with the responsibility to build their budgets to match allocations.

At the same time, a new system for entering budgets was introduced. This caused confusion and concern among budget managers during the spring budget build. The campus constituents we spoke with expressed concern about communication, timing of information, and the budget process.

5. The team worked with HRS (Human Resource Services) as needed on questions and issues. The HRS staff handled questions in-house as the fiscal year closure approached, but the team remains available to assist our colleagues where necessary.

6. UM is in the process of looking at decentralized and shared services. We encourage these efforts as an opportunity to improve efficiency and quality.

7. The time and data to do a thorough review was limited. This remains a critical element in the development of a fiscal plan to address the sustainability of the University across all sectors. We did observe areas in which staff levels may be insufficient to meet the minimal operational needs of the institution.

8. The team analyzed university debt and it appears to be on track, although with areas that need further analysis and attention to improve management in selected areas.

9. Understanding and solidifying the waiver budget is critical. Initially (in June) we projected a $3.8 waiver budget shortfall for FY18. We can now verify that the University has in place a FY18 budget submission to cover all waiver commitments.

Although waivers may be managed in individual departments, to a degree, one position or office should be responsible for waiver oversight of waivers by the university, on a pre-established timeline at a minimum of a year in advance.
Recommendation: The Office of Enrollment Management and Student Affairs should take responsibility for the development of the waiver budget, in compliance with BOR Policy 940.13 (Tuition Waivers), and for analyzing additional revenue generated from the investment in waivers. While input will be required from the Graduate School, we recommend the responsibility for both projected additional revenue and compliance with the authorized waiver budget be with the Office of SA and EM. Although the department of Intercollegiate Athletics manages its waivers quite differently from other sectors, the Student Affairs Office should fully coordinate with athletics and have oversight over these waivers as well, to ensure overall compliance, sufficient funds, and wise utilization. In addition, the Vice President of Administration and Finance must collaborate with EMSA on a running total of expenditures committed for waivers, along with the specific revenue requirements and sources.

10. On-going review of staffing levels for all types of employees should be systematic and must recognize the needs based on current student enrollment.

Additional Observations:

- The University has financial challenges that the administration must address immediately and comprehensively. All campus leaders must understand the urgency and importance of carrying out their part in resolving UM’s structural budget imbalance.

- Enrollment declines in the past six years have reduced revenues across all fund groups, with the exception of research. Faculty success in competing for external grant funding has enhanced revenue within that sector of the university. For all other areas, the declines are substantial and exacerbated by cuts to the state allocation and decline of six-mill levy revenue. Although all sectors have reduced expenditures somewhat in recent years, the cuts have been insufficient to address the full structural imbalance.

- The team found multiple disconnects on campus regarding commitments to projects and initiatives without identifying the resources required to meet the commitments.
The entire executive team and academic deans, under the leadership of the president, must acknowledge that a balanced budget requires sacrifices and transparency in every sector.

Any issue or decision with significant fiscal impact is the responsibility of the president. Executive officers, deans, and unit heads share the responsibility to look out for the big picture, not just their sectors.

Leadership must ensure that the budget is part of the strategic plan for the campus and must be followed rigorously.

- Throughout the campus excellent managers have been working on reduction plans throughout the spring of 2017, (and previous years), and identifying cost savings. Nevertheless, the reductions have been insufficient to keep pace with the decline in revenue.

- It is evident that initiatives are in process such as program prioritization, strategic enrollment, oneIT, and budget modeling that will move the campus forward. However, the team recommends a comprehensive well-developed budget plan which addresses the financial challenges resulting from current enrollment.

- Recognizing there is a limit to the depth of analysis the Transition Review Team could perform in a short time, it appears from the data reviewed and in discussions with various campus constituents that some sectors of the campus have taken a disproportional share of reductions in recent years.

Recommendations

- It is critical that the campus stabilize and realign its finances. The University is considering possible restructuring, reorganization, and implementation of new systems. New processes and initiatives undoubtedly merit consideration. However, almost all such changes should be deferred during the transition months to focus on stabilization. It is imperative that the campus focus on priorities:
  
  - Program Prioritization and subsequent action to reduce personnel
- Enrollment Management (recruitment and retention)

- The President should identify a small team to develop a four-year comprehensive plan for UM to include financial prioritization. The plan must align UM’s budget with current enrollments and state allocations; include the real and necessary cost of Enrollment Management, and incorporate to implement the results of program prioritization (APASP).

- Example of fiscal items the team should address include, but are not limited to the list below. The Transition Review team believes that clarity and resolution on these issues are essential to restoring the University to solid fiscal stability.
  - Enrollment contingency
  - Institutional contingency
  - Sufficient termination pool
  - Sufficient institutional funding for Women’s Softball. This is a Title IX institutional issue, not solely an issue for Intercollegiate Athletics.
  - Annualization of the pay plan
  - Increase the budget for waiver costs associated with tuition increases
  - Pay rent on an appropriate schedule to auxiliary facilities for use by general-fund operations and campus functions.

- Additionally, the following should be re-emphasized:
  - Staffing ratios at the University are too high and require strategic reductions in employees
  - Use vacancy savings from VERIP only for campus priorities (structural budget balance and enrollment management).

- Follow a strict timeline for the 4-year plan. For example:
  - FY18 finalized – August 4 Additional review and necessary adjustments made based on fall enrollments – Oct 1
  - FY19 finalized – November 1
  - FY20 finalized – February 1
  - FY21 finalized – March 1
Note: many variables will change these budget plans as more information is known, but it is crucial that this longer-term plan be developed now.

- The University is making significant investments to increase enrollment. It must analyze annually the return on the investment to ensure limited resources are resulting in positive outcomes.

- University financial challenges, relating to decreased enrollment, extend beyond the general fund and should also be addressed immediately.

- A major issue facing UM currently is financial health and well-being. It is critical that individuals with financial oversight responsibility have staff with the authority, experience and support to manage this responsibility.

- There is a myth on campus that not all sectors have been affected by budget reductions. This is not the case. All areas of campus have experienced budget reductions. Yet further base budget reductions are necessary. Future reduction plans must take into account the degree to which sectors have already contributed significantly to balance the overall budget.

- The President and the executive team must identify and implement solutions. The team is confident that this great University will succeed in this effort as it promotes a culture of positive communication, shared fiscal responsibility across sectors, mutual respect, and trust.