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Haenicke proposes plan to balance 1992-93 budget

(President Haenicke presented this statement on the financial outlook for fiscal year 1992-93 at the June 26 meeting of the Board of Trustees' Budget and Finance Committee. The commitee voted to approve in principle the recommendations in the statement.)

I made my first projections on the General Fund Budget for FY 1992-1993 at the Board of Trustees meeting in January. At every meeting since then I have updated you on new developments regarding the fiscal outlook for the next fiscal year. I have also made presentations of our annual budget models, either personally or through members of my staff, to the various unions, non-unionized employee groups, our students, various committees and councils and other constituencies. Finally, on June 8, I wrote to all members of the University community in a special edition of the *Western News* in an attempt to keep everyone on campus fully informed.

The news that I had to present was not cheerful. As it stands, we now know that the State allocation for our school will be 1%, restoring the MPSERS funding that was cut from our budget last year. Thus we face a second year with the prospect of severe underfunding from the State of Michigan. Our only source for substantial revenue enhancement is student tuition. I have warned repeatedly that we cannot and should not rely too much on increased tuition income. I am deeply concerned that public higher education is becoming too expensive; that our repeated increases are too steep; and that we may be already at the point where we begin to limit access to higher education for some students for whom our cost is becoming too burdensome.

Our State allocations over the last ten years have, in the aggregate, not been sufficient. We all know that our State, due to a sluggish economy, and, in recent years, due to recessionary trends, has been unable to support its universities as generously as it had in the past. We had to make adjustments, and we did. However, we at Western benefited from a fortuitous trend. Contrary to general demographics and trends in the State our enrollments kept climbing together with our academic standards. Hard work by our Admissions staff backed up by solid efforts of our faculty, strengthened academic programs, and a generally improved physical appearance of our campus provided unanticipated enrollment increases. They in turn provided solid increases in tuition income which enabled us to substantially increase our Library Acquisition Budget (98%), our Research Budget (261%), the Faculty Research Support Fund (79%) and our budgets for Graduate Assistants (112%), to name only a few. During the same time period (1985-86 to 1992-1993), the aggregate increase in faculty salaries exceeded 60%. At the same time, we could initiate an ambitious construction program of new academic buildings (Lee Honors College, Haworth College of Business, Waldo Library expansion, Computing Center, the Grand Rapids Regional Center) and we were able to restore, renovate and preserve more than twenty other major buildings.

We had some good years, and our financial flexibility resulted largely from increased enrollment and tuition. Our best estimate at this time is that this trend will not continue. Our record in forecasting is not flawless. We have traditionally been conservative in our income predictions and, as I have pointed out repeatedly to this Board and to other groups, I may have personally preferred too much to have unexpected surpluses than unexpected shortfalls. It is easy to deal with the former. The latter create havoc in an institution like ours. Because of relatively conservative predictions we were able to avoid any layoffs, which is a proud record considering the general employment situation in our region and the State, and I would like to continue to rank job security for our work force as a high priority.

The enrollment forecasts by the designated University group warn us that the enrollment decrease may be as deep as 2.84%. If the Board at its July meeting approves the proposed student cost increases ranging from 7.9% to 12.5%, then the budgetary shortfall may reach $5.1 million. But even if the committee's projections are too conservative and student enrollment remains at current levels, we will see a budget deficit of only $3.4 million if the Board approves the recommended increases in student costs and new expenditures.

This budget deficit is based on a number of assumptions. First, as already mentioned, student enrollments. It will take several months to see with certainty what the final figures will be. Second, the increased tuition rates. They will not be approved until the July Board meeting. Third, the Board's approval of the projected and proposed expenses as submitted to you today.

I am basing my budget recommendations on the assumption that student enrollment will decline, perhaps not to the predicted level of -2.84%, but that it will decline. That means that our budget deficit will be larger than $3.4 million. I hope that the Board will approve the proposed student cost increases which should generate $4.8 million in new revenues. (The exact figure is, of course, dependent on enrollment). I recommend that the Board approve about $10 million in new expenditures.

In this recommendation $7.8 million or almost 75% of all new expenditures will be increases in employee compensation and benefits. I had recently asked the unionized employees to consider wage concessions in view of the bleak budget outlook. Specifically, I had hoped that the unionized employees would consider delaying the negotiated pay increases by six months without sacrificing their increases in their new base salaries. This delay of increases until midyear would have yielded $1.7 million from the faculty, $143,000 from AFSCME and, due to their very small membership, negligible amounts from the Police Officer's and the Language Specialist's Union. The AAUP Executive Committee recommended to the faculty that

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my proposal be rejected. The other unions similarly, by large margins, chose not to make any concessions. While this response was disappointing, it was not unanticipated. I had conferred with other university presidents in our State and, to the best of my knowledge, in no case did any union group on our State campuses make any salary concession. I had pondered long about whether or not I should ask for delayed salary increases. In the end, I felt I could not propose and then execute cuts in university services and in our work force without first asking for a compromise on the wage increase issue.

The overwhelming vote against the delay in salary increases clears the air. We are contractually obliged to increase faculty pay by 6.75% in FY 1992-1993 and to give increases, although smaller ones, to the other unions. In view of this fact, it is my recommendation that we do not treat our non-unionized employees worse than those who bargain collectively. I am recommending that the Board set aside a 5% salary pool for all other employee groups in the University. I have pondered if I should recommend that executive officials be excluded from salary increases this year. Given the fact that they have received, during my tenure at WMU, smaller increases each year than other employee groups, and given further that they have received no recognition for this trend, I do recommend that this group receive a 5% salary pool like all other employees. For myself I recommend no increase in salary for FY 1992-1993. This is a mere symbolic gesture since I have traditionally donated my pay increases in full to the University Foundation.

I need to spell out now how I propose to balance our General Fund budget for FY 1992-1993. It has been suggested that I use construction funds, monies from the endowment, building maintenance funds, pension fund set asides or other student fee revenues to pay salary increases and to augment the General Fund. I am categorically opposed to such actions. A raid on those funds, usually one-time monies, would divert essential University reserves to purposes for which they are not meant. We need to properly maintain our physical plant. Delayed maintenance has cost us and other institutions too much in the past. We should all have learned that lesson. And one-time funds cannot and should never be used to fund salary increases which are on-going expenditures. This type of shortsighted action catches up with a University very quickly as many of us found out to our regret in the early eighties. We simply must not repeat the mistakes which are so vivid in our memories. Our operating expenses must be financed from the General Fund budget.

Looking at the General Fund budget, I propose, on the expenditure side, to hold all proposed expenditures until toward the end of the fiscal year (February, 1993) with the following exceptions: $7.8 million for compensation and fringe benefit increases; $277,000 for utilities increases; close to $1 million for increased student financial aid; $250,000 for accreditation mandates; $100,000 for mandated State and federal programs.

By withholding all increases in supplies ($524,000), Library Acquisitions ($162,000), Equipment ($100,000), Academic Computer Center Equipment ($215,000), Minority Recruitment ($100,000) and Delayed Maintenance ($325,000), we can save up to $1.4 million.

The Provost and the Vice President for Business and Finance are currently instituting a review system for all purchasing in the University. Only the most critical purchases will be allowed and all purchases on the General Fund beyond $500 will need vice presidential approval before processing. We expect to save up to $150,000 through this process.

Through a recently implemented system of Position Control we review every single vacancy on all levels of employment. This allowed us to systematically reduce the number of administrative positions, and this process will continue beyond the current fiscal year. The position reduction has affected first the offices of the President and the Provost, but now extends into all vice presidential areas. The goal is to reduce administrative positions by about $300,000 over two years.

We must take care not to reduce disproportionally those services that relate directly to instruction and student services. Therefore, until recently, we have filled faculty positions and those support positions that are essential to our central purpose, the teaching of students. But we have to look at ways to increase our effectiveness in teaching.

First, I have asked all administrators who have academic rank and teaching credentials, to teach regular classes from now on. The President and the Provost will both be teaching in the coming academic year and so will about fifty-five other administrators. This will add a great number of new sections at no cost to our teaching program thus reducing the number of part-time faculty we usually have to hire.

Second, we have to take a careful look at class size and teaching loads. I have asked the Provost to review the number of sections with exceedingly small enrollments.

We may have to discontinue many of them. The Provost must further review the teaching load of those faculty with reductions for administrative or research assignments. We must assess if the rationale in all cases for these teaching reductions is still justifiable.

The savings resulting from these two initiatives are difficult to predict but could be substantial.

The most essential savings will come from reductions in the work force. Last week I instructed our Division of Human Resources to suspend all hiring of new employees with the exception of part-time faculty who are critically needed to staff sections in the Summer and Fall terms. Other exemptions prevail for grant-funded personnel. But all current searches have been suspended with the exception of the search for a new dean for the Haworth College of Business. We must make every effort to conduct our business with the currently available resources.

We are, at this point, not contemplating layoffs. It is my hope to manage the work force reduction through attrition and non-renewal of expiring contracts. Wherever critical vacancies occur, they will be filled by internal transfers. The Provost and Associate Vice President Liggett have developed a Transfer Opportunity System for this purpose that will allow non-academic employees to advance to other positions elsewhere in the University. However, we must realize that a reduction in work force means a reduction in services. We will very carefully monitor all developments in this regard. We will protect first all critical student services (teaching, student support). We will have to take a critical look at all non-revenue-producing public service activities and other services that are not central to the University's basic mission. I expect the reductions in work force to yield close to $2 million.

If we strictly adhere to these very stringent and in many cases extremely painful measures, our General Fund budget will be balanced. As the budget picture clears and our assumptions are either verified or corrected, we should be able to reinstitute some of the cuts. This will be a careful and gradual process, but I am confident that we can succeed with this plan.

I am recommending that the Board of Trustees approve these recommendations in principle.