

substantial progress, we are in better shape than we could have been, but we must acknowledge that one year's efforts – no matter how successful – did not resolve a decade-long trend.

Some history: For the 2002-03 fiscal year, the University took a 3 percent budget cut, with the understanding that we could avoid a similar cut in 2003-04 if two assumptions proved true. First, we believed that we could defer budgeting for the hyperinflation we are experiencing in health-care costs until 2004-05. Second, we could increase enrollment enough to generate \$8 million toward an ongoing tuition shortfall of \$11.5 million.

Neither of these assumptions has held true. As noted, we made significant progress toward increasing our total enrollment. The work of the past year netted \$4.4 million, but that is still \$3.6 million short of our \$8 million budget assumption.

Likewise, we have worked hard to hold down the growth of health care costs, through re-bidding and negotiations, but we are still \$3 million short of our target. Although we had planned to address health-care costs on a long-term basis in the budget for 2004-05, we must, this year, match the rates we currently charge for benefits.

It is particularly important to resolve the deficiencies in health care funding. We had little choice but to defer these costs over the past few years while dealing with cuts in state support, but we knew deferment was a temporary strategy. Our outside auditors and the agencies that set our bond rating accepted our plan, but they are pressing for a permanent solution. We must catch up fast and stay even with costs that are routinely increasing at double-digit inflation.

Enrollment, too, is a long-term problem that must be resolved if we are ever going to stabilize our budget. Ten years ago, the University experienced a mild enrollment decline. For a couple of years, it was not clear whether this was a blip or a trend. The university budgeted for a blip, and discovered it was a decade-long trend. Each year, the university has assigned a \$3.5 million, one-time cut while waiting for an enrollment turnaround. We may be getting close to this turnaround, if we continue our coordinated efforts to improve recruitment and retention, but that annual cut will be with us for the next fiscal year.

Ultimately, our goal is to stop playing catch-up and to stop chasing targets to resolve the budget. **We are at a turning point where we must begin to more proactively plan for our future. As state revenues continue to dry up, it becomes even more imperative that we pursue an ongoing academic planning process, and for the long term, we must develop a more diversified revenue base. It is critical that we have the necessary financial flexibility over time to fund priorities envisioned in the academic plan. Our task, importantly, will be to place our academic priorities in a more promising budgetary environment.**

For the short term, we must rely on your ingenuity and your willingness to make hard choices. All of us must pitch in to tighten our belts, and unleash our creativity to find new revenues.

Our reward may take considerable time to accomplish, but we will break this ongoing budget cycle. We will achieve economic stability. And, we will continue to plan for a better tomorrow.

More details and guidelines for the cuts are outlined on the attached two pages headed “Guidelines for Making Reductions.”

GUIDELINES FOR MAKING REDUCTIONS

The University must balance its budget, it is true, but we can't cut programs that are central to our academic mission. As we go through these budget cuts, therefore, all proposed cuts will be reviewed by the newly created President's Budget Committee*. This Committee will monitor proposed budget solutions and advise the President accordingly. As we merge academic and financial planning and policies, we must ensure that our budget targets are met in ways that are consistent with our long-term strategies. As a result, the following guiding principles should be followed as these budget reductions are implemented:

1. Vice-Presidential units will not rely on across-the-board reductions. Administrators will propose selective reductions that consider the impact on both quality and centrality while proposing cuts.
2. Reductions should not necessarily be taken based on the current availability of vacant positions. We will use strategy, not opportunity.
3. Academic units with increased enrollment should be, if possible, rewarded with lower than average reductions in proportion to their success in both admissions and retention. (Gross revenue increases from such enrollment progress should have already funded new instructional costs, producing the net revenue gain to be used for central planning purposes.) Academic units with high quality, reputations, and importance within the academic core should also be assigned lower reductions as well, if possible.
4. Administrators will consider both university and unit priorities when reviewing the centrality of budget lines. In general, core functions and revenue-producing activities will be protected as much as possible. This means instructional activities and research support activities. Much of the latter has been already allocated to non-general funds through the Off-The Top (OTT) fund's share of research overhead. But some research support remains in the general fund and should be protected if possible. In some cases, key functions may be protected entirely. (This logic has already generated the higher reduction assignment for administrative units.)

All units should submit a summary of their reductions to their appropriate cabinet member for initial review. Cabinet members will then submit their reduction proposals, including a description of how they comply with these principles, to the President's Office to be distributed to the President's Budget Committee for review and final recommendation to the President. This discussion should center on the recurring reductions planned, not any short-term reductions that might need to occur in advance of implementing the recurring reductions. Much of this year's actual reduction may come from temporary reductions or reducing non-general fund balances and transferring them to the general fund in lieu of general fund budget reductions. These temporary actions are approved, if needed, for only the current fiscal year, as is having a negative carry-forward into FY 04-05 resulting from not fully achieving the FY 03-04 reductions in the remaining months of this fiscal year. This option should be used cautiously, as a make-up of the negative carry-forward from FY 03-04 will be required if used. Beginning in FY 04-05, recurring reductions need to be identified

Guidelines for Making Reductions Cont'd.

and implemented for all assigned reductions. Temporary solutions should be phased out and negative carry-forwards at the end of FY 04-05 should not be planned.

Summaries for the 3% recurring reduction assigned for FY 03-04 will be submitted by April 15. For this 3% round of reductions, the President's Budget Committee review will be after implementation of the reductions. There is not sufficient time for prior review in this current year. The plan for the 2-4% recurring reduction for FY 04-05 should be submitted by June 1, and you should understand that this cut could fall anywhere within this 2-4% range. These proposals will be reviewed by the Committee before implementation. Thus, you should wait for approval of this round of reductions before implementing them next summer.

The reductions outlined above represent our best projections for the next two years. They assume, as they must, that the current State budget for the 03-04 and 04-05 biennia stays intact and is not reduced further. There are two risks concerning this assumption. First, a slow economic recovery in Ohio could affect revenues to the point that the Governor might be forced to make further cuts. The revenue figures to-date are somewhat encouraging, but the income tax season next Spring is vital to this outcome. Second, there is an attempt to force the legislature to repeal part or all of the one-cent increase in the sales tax just enacted last summer. If that happens in either year of the current biennium, we will very likely see more reductions in the State Share of Instruction to all campuses. We are monitoring this situation closely.

NOTE: The attached Exhibit A distributes the 3% reduction among the Cabinet members based on 2.75% to Academics and 3.35% to Administration using the eligible base budget developed in past years. The additional \$400K needed will be reduced from centrally managed funds. The attached Exhibits B1, B2, and B3 distribute the 2-4% reductions for the next fiscal year based on disproportionate shares as well. At 2%, the allocation for Academic units will be 1.75% and for Administrative units, 2.35%. At 3%, the distribution would be the same as for FY 03-04. At 4%, the Academic units cut would be 3.75% and the Administrative units would take 4.35%.

***President's Budget Committee:**

- President
- Senior Vice President and Provost for Baccalaureate and Graduate Education
- Senior Vice President and Provost for Health Affairs
- Vice President for Finance
- Chair, Faculty Senate
- Chair, Deans Council
- Associate Vice President and Director, Budget Planning, Office of the Vice President for Finance
- Associate Senior Vice President, Business and Finance, Office of Senior Vice President and Provost for Baccalaureate and Graduate Education
- Associate Senior Vice President, Finance and Administration, Medical Center

EXHIBIT A

**University of Cincinnati
Undesignated General Funds - Central Campus
Budget Cut Base
2.75% Academic - 3.35% Administration**

<u>VP Area of Responsibility</u>	<u>Compensation</u>	<u>Non-Comp.</u>	<u>Total</u>	<u>FY 04</u>
<u>Faculty/Academic</u>	<u>Base</u>	<u>Base</u>	<u>Budget Base</u>	<u>Budget Reduction</u>
President	0	0	0	0
Provost: Academic Affairs	88,751,665	6,446,521	95,198,186	2,617,950
Provost: Health Affairs	20,627,103	1,515,712	22,142,815	608,927
Finance	0	0	0	0
Gov'tal Relations & Univ. Comm.	0	0	0	0
Research & Advanced Studies	29,399	122,119	151,518	4,167
Student Affairs	97,948	0	97,948	2,694
Information Technology	0	0	0	0
Admin. & Business Services	0	0	0	0
Total Faculty/Academic	109,506,115	8,084,352	117,590,467	3,233,738

<u>Administration</u>	<u>Compensation</u>	<u>Non-Comp.</u>	<u>Total</u>	<u>FY 04</u>
	<u>Base</u>	<u>Base</u>	<u>Budget Base</u>	<u>Budget Reduction</u>
President	0	5,935,465	5,935,465	198,838
Provost: Academic Affairs	20,853,461	857,841	21,711,302	727,329
Provost: Health Affairs	11,191,710	930,092	12,121,802	406,080
Finance	5,518,841	738,214	6,257,055	209,611
Gov'tal Relations & Univ. Comm.	1,267,891	941,555	2,209,446	74,016
Research & Advanced Studies	1,067,257	223,141	1,290,398	43,228
Student Affairs	5,553,825	1,838,629	7,392,454	247,647
Information Technology	232,068	12,968,826	13,200,894	442,230
Admin. & Business Services	14,289,222	5,092,489	19,381,711	649,287
Total Administration	59,974,275	29,526,252	89,500,527	2,998,266

<u>Total Budget Cut</u>	<u>Compensation</u>	<u>Non-Comp.</u>	<u>Total</u>	<u>Total</u>
	<u>Base</u>	<u>Base</u>	<u>Budget Base</u>	<u>Budget Reduction</u>
President	0	5,935,465	5,935,465	198,838
Provost: Academic Affairs	109,605,126	7,304,362	116,909,488	3,345,279
Provost: Health Affairs	31,818,813	2,445,804	34,264,617	1,015,007
Finance	5,518,841	738,214	6,257,055	209,611
Gov'tal Relations & Univ. Comm.	1,267,891	941,555	2,209,446	74,016
Research & Advanced Studies	1,096,656	345,260	1,441,916	47,395
Student Affairs	5,651,773	1,838,629	7,490,402	250,341
Information Technology	232,068	12,968,826	13,200,894	442,230
Admin. & Business Services	14,289,222	5,092,489	19,381,711	649,287
Total	169,480,390	37,610,604	207,090,994	6,232,004

Centrally Funded				400,000
Total				6,632,004

**EXHIBIT B
Scenario 2**

**University of Cincinnati
Undesignated General Funds - Central Campus
Budget Cut Base
2.75% Academic - 3.35% Administration**

<u>VP Area of Responsibility</u>	<u>Compensation</u>	<u>Non-Comp.</u>	<u>Total</u>	<u>FY 05</u>
<u>Faculty/Academic</u>	<u>Base</u>	<u>Base</u>	<u>Budget Base</u>	<u>Budget Reduction</u>
President	0	0	0	0
Provost: Academic Affairs	88,751,665	6,446,521	95,198,186	2,617,950
Provost: Health Affairs	20,627,103	1,515,712	22,142,815	608,927
Finance	0	0	0	0
Gov'tal Relations & Univ. Comm.	0	0	0	0
Research & Advanced Studies	29,399	122,119	151,518	4,167
Student Affairs	97,948	0	97,948	2,694
Information Technology	0	0	0	0
Admin. & Business Services	0	0	0	0
Total Faculty/Academic	109,506,115	8,084,352	117,590,467	3,233,738

<u>Administration</u>	<u>Compensation</u>	<u>Non-Comp.</u>	<u>Total</u>	<u>FY 05</u>
	<u>Base</u>	<u>Base</u>	<u>Budget Base</u>	<u>Budget Reduction</u>
President	0	5,935,465	5,935,465	198,838
Provost: Academic Affairs	20,853,461	857,841	21,711,302	727,329
Provost: Health Affairs	11,191,710	930,092	12,121,802	406,080
Finance	5,518,841	738,214	6,257,055	209,611
Gov'tal Relations & Univ. Comm.	1,267,891	941,555	2,209,446	74,016
Research & Advanced Studies	1,067,257	223,141	1,290,398	43,228
Student Affairs	5,553,825	1,838,629	7,392,454	247,647
Information Technology	232,068	12,968,826	13,200,894	442,230
Admin. & Business Services	14,289,222	5,092,489	19,381,711	649,287
Total Administration	59,974,275	29,526,252	89,500,527	2,998,266

<u>Total Budget Cut</u>	<u>Compensation</u>	<u>Non-Comp.</u>	<u>Total</u>	<u>Total</u>
	<u>Base</u>	<u>Base</u>	<u>Budget Base</u>	<u>Budget Reduction</u>
President	0	5,935,465	5,935,465	198,838
Provost: Academic Affairs	109,605,126	7,304,362	116,909,488	3,345,279
Provost: Health Affairs	31,818,813	2,445,804	34,264,617	1,015,007
Finance	5,518,841	738,214	6,257,055	209,611
Gov'tal Relations & Univ. Comm.	1,267,891	941,555	2,209,446	74,016
Research & Advanced Studies	1,096,656	345,260	1,441,916	47,395
Student Affairs	5,651,773	1,838,629	7,490,402	250,341
Information Technology	232,068	12,968,826	13,200,894	442,230
Admin. & Business Services	14,289,222	5,092,489	19,381,711	649,287
Total	169,480,390	37,610,604	207,090,994	6,232,004

EXHIBIT B
Scenario 3

University of Cincinnati
Undesignated General Funds - Central Campus
Budget Cut Base
3.75% Academic - 4.35% Administration

<u>VP Area of Responsibility</u>	<u>Compensation Base</u>	<u>Non-Comp. Base</u>	<u>Total Budget Base</u>	<u>FY 05 Budget Reduction</u>
<u>Faculty/Academic</u>				
President	0	0	0	0
Provost: Academic Affairs	88,751,665	6,446,521	95,198,186	3,569,932
Provost: Health Affairs	20,627,103	1,515,712	22,142,815	830,356
Finance	0	0	0	0
Gov'tal Relations & Univ. Comm.	0	0	0	0
Research & Advanced Studies	29,399	122,119	151,518	5,682
Student Affairs	97,948	0	97,948	3,673
Information Technology	0	0	0	0
Admin. & Business Services	0	0	0	0
Total Faculty/Academic	109,506,115	8,084,352	117,590,467	4,409,643
	<u>Compensation Base</u>	<u>Non-Comp. Base</u>	<u>Total Budget Base</u>	<u>FY 05 Budget Reduction</u>
<u>Administration</u>				
President	0	5,935,465	5,935,465	258,193
Provost: Academic Affairs	20,853,461	857,841	21,711,302	944,442
Provost: Health Affairs	11,191,710	930,092	12,121,802	527,298
Finance	5,518,841	738,214	6,257,055	272,182
Gov'tal Relations & Univ. Comm.	1,267,891	941,555	2,209,446	96,111
Research & Advanced Studies	1,067,257	223,141	1,290,398	56,132
Student Affairs	5,553,825	1,838,629	7,392,454	321,572
Information Technology	232,068	12,968,826	13,200,894	574,239
Admin. & Business Services	14,289,222	5,092,489	19,381,711	843,104
Total Administration	59,974,275	29,526,252	89,500,527	3,893,272
	<u>Compensation Base</u>	<u>Non-Comp. Base</u>	<u>Total Budget Base</u>	<u>Total Budget Reduction</u>
<u>Total Budget Cut</u>				
President	0	5,935,465	5,935,465	258,193
Provost: Academic Affairs	109,605,126	7,304,362	116,909,488	4,514,374
Provost: Health Affairs	31,818,813	2,445,804	34,264,617	1,357,654
Finance	5,518,841	738,214	6,257,055	272,182
Gov'tal Relations & Univ. Comm.	1,267,891	941,555	2,209,446	96,111
Research & Advanced Studies	1,096,656	345,260	1,441,916	61,814
Student Affairs	5,651,773	1,838,629	7,490,402	325,244
Information Technology	232,068	12,968,826	13,200,894	574,239
Admin. & Business Services	14,289,222	5,092,489	19,381,711	843,104
Total	169,480,390	37,610,604	207,090,994	8,302,915