

Comments on Higher Education Budgets in HB 6380

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I want to praise Governor Malloy for the balanced approach he has taken to close the projected deficit in both FY 2012 and FY 2013. I do not believe that it is possible to close the gap through spending cuts alone, or with revenue increases alone. Not only has Governor Malloy taken this position, he has been pretty consistently prudent and fair in his recommended changes on both the expenditure and revenue sides.

So it should come as no surprise that I agree with the Governor that the budget must “ask our colleges and universities to step up just as the rest of state government must.”

Unfortunately, I must bring to your attention that the budget as written does NOT in fact treat our colleges and universities like other state agencies: the recommended appropriations for operating expenses for UConn, CSU, the Community Colleges, and Charter Oak State College, all of which go for personal services, provide no funds for the following PS costs which in all other agencies are fully funded before the targeted Labor-Management Savings are removed in a separate line item.

1. In all other agencies, funds are provided for the 27th payroll. Not in higher ed. (For CSU, that's about \$6.1 million for GF personnel)
2. In all other agencies, funds are provided to pay the new base salaries that resulted from salary increases for General Fund-funded personnel in FY 2011. Not at CSU, and perhaps not in the rest of higher ed. (For CSU, that's about \$6.2 million.)
3. In all other agencies, funds are provided in the PS line to pay for increased salaries in FY 2012 for collective bargaining contracts that are already settled for that year. Not in higher ed. (For CSU, that's about \$5.5 million for GF personnel.) [Because the Governor wants to negotiate a wage freeze for FY 2012 and FY 2013, an amount equivalent to a wage freeze is included in the \$1 billion Labor-Management Savings he is projecting for state government overall. But funding for settled agreements are still in each agency's PS line, except in higher ed. Moreover, Section 12 of HB 6380 would permit OPM to reduce the block grant a second time, after Labor-Management savings are negotiated, to remove an amount that could be equivalent to this cut in current services. ¹]

¹ With the potential exception of UConn, which would no longer be a “constituent unit of higher education” under the Governor’s restructuring plan, and hence not subject to the language of Section 12.

In all other state agencies, current services for these PS items is fully funded. In higher ed, the recommended 10% reduction from the current services block grant eliminates these items up front.²

Moreover, for all other state agencies, fringe benefit costs for these three items are included in the proposed budget, with savings for this line item to be reduced after Labor-Management Savings are achieved. For higher ed, since the PS costs are removed up front, my guess is that the associated fringe benefit costs are not included in the fringe benefit line in the Comptroller's budget.

So in higher education, colleges and universities are asked to do step up MORE than all other agencies in state government.

What are the consequences of these cuts in higher ed? One possibility is that higher ed units restructure, perhaps eliminating the system office at CSU and the CCCs and cutting administrative staff at UConn. But the restructuring plan proposed by the Governor does not anticipate any such action at UConn, and continues to provide for some "executive staff" at CSU, the CCCs and COSC. Indeed, the proposed restructuring of CSU, the CCCs and COSC under a new Board of Regents anticipates 67 MORE positions than were authorized in the General Fund at the separate institutions in FY 2011. And even if the System Office at CSU were to be completely eliminated (I can't speak to the situation at the CCCs), "savings" would be only 1.05% of the total operating budget for CSU – a "savings" that would likely be mostly eaten up by the "executive staff" that would still be necessary under the Board of Regents.

A more likely possibility is that almost all of the General Fund cuts would have to be taken at the individual colleges and universities, and here there would be two main options:

(A) reduce faculty and support staff, which would limit or reduce enrollments, with less ability to increase the number of graduates and less ability to meet the knowledge needs of the state's economy – a result which is in direct conflict with the primary goal that all of us have of creating jobs. Enrollment reduction would also mean a concomitant reduction in tuition and fee income, which in turn would require further expenditure reductions.

² Just to be clear, I'm NOT suggesting that turnover (\$3.3 million for CSU, or 2% of the total FY 2011 block grant) should be included in the current services figure. Excluding turnover is a reasonable recognition of likely cost reduction in PS because turnover does in fact occur.

(B) shift faculty and support staff positions to the "Tuition Fund."³ Cost of this shift – including paying the associated fringe benefit cost⁴ ranging from 32% to 65% of salary (and assumed in the following calculations to average 45%) – would be, at UConn, \$25.5 million after turnover is removed, plus about \$11.5 million in fringe benefit costs, at CSU, \$17.6 million after turnover, plus \$7.9 in fringe, and at CCS, \$16.6 million after turnover, plus about \$7.5 million in fringe benefit costs. This alternative would result in either:

(1) an increase in tuition and fees to pay for these costs moved from the General Fund to the Tuition Fund, or

(2) spend-down of any remaining reserves by a comparable amount. Such a spend-down is essentially a one-shot use of funds, and would not be available in the future, so Governor Malloy has rightly taken a stand against such one-shots in the appropriated funds of the state. Such a spend-down, moreover, is likely to be difficult, since the reserves – not a dime of which has come from state taxpayers – have been raided repeatedly recently, leaving the colleges and universities with little cash-flow flexibility.

So if the consequence of cutting these three PS items is that personnel funded on the General Fund are moved over to the tuition fund, then the result could be a substantial increase in student tuition and fees – ranging from about \$1,500 per full-time equivalent (FTE) student at UConn to about \$900 at CSUS to about \$800 at the CCCS. Although these projections are only ballpark figures and must be updated to reflect current information for 2011, the table on the next page shows the nature of the computation, based on data reported by the Department of Higher Education in 2009.⁵

³ That portion of the Operating Fund which comes from students' tuition and fees.

⁴ You will recall that fringe benefit costs for personnel salaries not paid from the General Fund must be paid for by the fund – here the higher ed Operating Funds – which does pay these salaries.

⁵ DHE, "Connecticut Public Higher Education System Trends," May 2009, pp. 10, 35. DHE does not have a similar report for 2010 on its website, so these are the latest validated data.

	UConn	CSUS	CCCS
Total Cost per FTE Student	\$ 28,788	\$ 19,333	\$ 13,934
State Share (\$/FTE)	\$ 14,105	\$ 9,170	\$ 8,860
Student Share (\$/FTE)	\$ 14,683	\$ 10,163	\$ 5,074
FTE	24,726	28,416	29,288
Calculated Total of Student Cost	\$ 363,051,858	\$ 288,791,808	\$ 148,607,312
Additional \$ Shift to Student Share	\$ 37,000,000	\$ 25,500,000	\$ 24,100,000
New Calculated Total Student Cost	\$ 400,051,858	\$ 314,291,808	\$ 172,707,312
New Total Student Share/FTE	\$ 16,179	\$ 11,060	\$ 5,897
Calculated Additional \$/FTE	\$ 1,496	\$ 897	\$ 823

Such a cost shift is not unprecedented. For FY 1992, the Governor and General Assembly deliberately reduced appropriated block grants with the understanding that tuition must increase in order to continue the desired higher educational outcomes. Since that time, in Connecticut and throughout the nation, governors and legislatures have recognized that there is an inverse relationship between state funding levels for higher education and the tuition and fees colleges charge to students. If one increases, the other factor commensurately decreases. If one decreases, the other must increase.⁶ In Connecticut, for FY 2012 and FY 2013, that means that if state support of current service levels goes down, maintaining the current level of educational services requires that tuition go up. If state support goes down far enough, then tuition must rise faster than the rate of inflation. The question obviously is, do the Governor and the General Assembly want that to occur?

⁶ A line item in the current and proposed budgets for each of the higher ed units reflects recognition of this reality. When the governor and legislature decided that tuition should be frozen at about the turn of the century, a line item increasing the state block grant was inserted in the budget. That line item for the amount of state funding required in that year – and rolling forward to the present – remains there today.