Online Faculty Senate  
June 9, 2020

Stay muted unless you are called upon to speak.

Use ‘Raise Your Hand’ to request permission to speak. Stay muted until recognized. Once unmuted, **you have 2 minutes** to pose a question or make a statement.

You can submit online questions or comments via the Chat or Comments function. Be brief. Time permitting, questions/comments will be read to all participants.

‘Gallery View’ within Zoom allows you to see this slide and the participants.

Audio and Chat will be posted on the meeting webpage

Captioning is available on this zoom; available at ‘more’ in the zoom menu
FY21 Budget Projections

Faculty Senate Presentation

Mike Kotlikoff
June 9, 2020
Principles

- Caring for Students
- Safeguarding our Future as a World-Class Academic Institution
- Maintaining our Staffing to the Degree Possible
- Seeking New Knowledge
FY21 Budget

• The pandemic has caused significant uncertainty in next year’s budget

• We project that we are facing a roughly $210M shortfall for next year, but it could be much higher

• What I want to do today is show the state of our financial planning and provide some detail about the steps that have been taken and those that we are contemplating
FY21 Budget Uncertainties

• Undergraduate Financial Aid

• Housing and Dining

• Tuition
  – Masters Programs
  – Undergraduate Enrollment

• Cost of Operations
  – Testing
  – Social distancing/PPE measures

• Other reduced revenues
  – Hotel
  – Other Enterprise Units
Approach

• Three Speculative and General “Scenarios”
  – For budget purposes only
  – Scenarios bracket the likely range of possibilities

• Measures to Close the Gap

• Proposed approach and budget will be brought to the Board of Trustees at a special meeting in June

No Scenario Decisions Have Been Made
Scenarios

1. Full Residential/Hybrid Instruction
   - Shortened In-person Semesters with some period online
   - Limited International graduate students
   - Modest enrollment reduction

2. Limited Residential/Hybrid Instruction
   - Shortened In-person Semesters with some period online
   - Partial Undergraduate Residence
   - More limited International graduate students
   - More significant enrollment and housing/dining reductions

3. Online Fall
   - Most significantly reduced undergraduate enrollment
   - Least International enrollment
   - Least housing and dining
Ithaca and Cornell Tech Actions Taken to Date ~ $110M

<table>
<thead>
<tr>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>$35 million</td>
<td>• Capital spending reductions</td>
</tr>
<tr>
<td>$25 million</td>
<td>• No salary increases for FY21</td>
</tr>
<tr>
<td>$20 million</td>
<td>• Hiring pause</td>
</tr>
<tr>
<td>$5-10 million</td>
<td>• Eliminate discretionary spending</td>
</tr>
<tr>
<td>$5-10 million</td>
<td>• Travel pause</td>
</tr>
<tr>
<td>$10 million</td>
<td>• Shift philanthropy to current use</td>
</tr>
<tr>
<td>$1 million</td>
<td>• Senior leadership voluntary pay cut</td>
</tr>
</tbody>
</table>

*Amounts are estimated annual savings*
### FY21 Budget – Scenario Projections (Remaining deficit)

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>FY21 Budget Scenarios</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Scenario 1 Residential</td>
</tr>
<tr>
<td><strong>OPERATING REVENUES</strong></td>
<td></td>
</tr>
<tr>
<td>Tuition &amp; Fees</td>
<td>$ 1,119</td>
</tr>
<tr>
<td>Investment Distributions</td>
<td>253</td>
</tr>
<tr>
<td>Gifts</td>
<td>149</td>
</tr>
<tr>
<td>Sponsored (Direct &amp; Indirect)</td>
<td>419</td>
</tr>
<tr>
<td>Federal &amp; State Appropriations</td>
<td>139</td>
</tr>
<tr>
<td>Housing, Dining &amp; Other Auxiliaries</td>
<td>105</td>
</tr>
<tr>
<td>Educational Activities &amp; Other Sources</td>
<td>217</td>
</tr>
<tr>
<td><strong>TOTAL OPERATING REVENUES</strong></td>
<td>$ 2,402</td>
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<tr>
<td><strong>OPERATING EXPENDITURES</strong></td>
<td></td>
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<tr>
<td>Personnel Costs</td>
<td>$ 1,359</td>
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<tr>
<td>Undergraduate Financial Aid</td>
<td>372</td>
</tr>
<tr>
<td>Graduate &amp; Professional Financial Aid</td>
<td>171</td>
</tr>
<tr>
<td>General Expense &amp; Services</td>
<td>412</td>
</tr>
<tr>
<td>Maintenance &amp; Facilities</td>
<td>131</td>
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<tr>
<td>Debt Service</td>
<td>53</td>
</tr>
<tr>
<td><strong>TOTAL OPERATING EXPENDITURES</strong></td>
<td>$ 2,499</td>
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<tr>
<td><strong>NET BEFORE TRANSFERS</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$ (98)</td>
</tr>
<tr>
<td>Transfers (To)/From-FFE &amp; Other</td>
<td>$ 5</td>
</tr>
<tr>
<td>Transfers (To)From-Plant Funds</td>
<td>(43)</td>
</tr>
<tr>
<td>Use of Fund Balance</td>
<td>39</td>
</tr>
<tr>
<td><strong>NET FROM OPERATIONS</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$ (98)</td>
</tr>
</tbody>
</table>
Closing the Gap: Scenario #1 - $98M

- 5% Reduction through attrition – ~$20M
- Other Savings (miscellaneous additional cost reductions, reduced faculty hiring, additional use of reserves) – ~$20M

Still short ~$60M
Additional Steps To Consider (Totals ~ $60M)

• 1-year pause in Retirement Contribution (Endowed) 1-year salary reduction (Contract)
  - Contribution to plan and full salary return in FY22
  - Retirement:
    - Individual retirement contribution can still occur
    - All employees – contribution capped
  - Salary:
    - No reduction below a fixed salary level
    - Progressive reduction from 1% to 5%

• Voluntary Retirement Plan
  - 6 months incentive payment + 1 year retirement contribution
  - Future savings need for out years
Closing the Gap - $226M

- 10% Reduction, as much as possible through attrition and reassignment ~$40M

- Other Savings (miscellaneous additional cost reductions, reduced faculty hiring, additional use of reserves) ~$40M

- Retirement/Salary Program ~ $60M

- Furloughs in enterprise units – ~$5M

- Voluntary Retirement Plan – future savings

- Use of debt
Closing the Gap - $314M

• 15% Reduction, as much as possible through attrition and reassignment ~$60M
• Furloughs ~$5M
• Other Savings (miscellaneous additional cost reductions, reduced faculty hiring, additional use of reserves) ~$40M
• Retirement/Salary Program ~ $60M
• Furloughs in enterprise units – ~$5M
• Voluntary Retirement Plan – future savings
• Use of debt
• Use of endowment
The Endowment

• The endowment supports essential university activities that are not otherwise funded—mainly financial aid, endowed faculty positions, academic programs
  • These costs are covered with 5% annual payout—averaged so when the endowment is down (like now), the payout is higher; when up, it’s lower
  • Cornell’s endowment per student is by far the lowest of our peers
• The endowment is actually a large collection of funds, the vast majority of which have restricted purposes
  • Donors provide gifts for a particular purpose, e.g., an endowed chair. The expectation and requirement is that this will be supported in perpetuity
• Even when it’s possible to draw down the endowment for an intended purpose, doing so results in a permanent decrease in funds available for that purpose
  • So drawing down the endowment now means we’ll need to make more operational cuts later
  • Our strength as a university comes in part from the generosity of our predecessors; we have an obligation to our successors to keep Cornell strong
• There is massive uncertainty about the next year, and if necessary we can seek approval from the board to tap the endowment, but it should be preserved as the last lever we pull
FPC Presentation to Senate

9 June 2020
FPC Engagement

• Regular meetings over the past three months.
• Meetings with Provost and VP Budget.
Broad Financial Impact of Crisis

• Three scenarios for FY21, with budgetary shortfall ranging from around $100M, through $200M, to $300M (depending on the nature of reopening)

• This is after $100M of cuts already announced and being implemented.

• Key drivers:
  • increase in undergraduate financial aid
  • anticipated decrease of undergraduate and graduate tuition
  • reduction in state appropriations
  • increased operating expenses for virus testing and mitigation strategies.
Core Values

• Equitable distribution of sacrifice across the University.
• Preserving jobs and sustaining the community in which the University operates.
• Protecting of financial aid.
• Maintaining our greatness as a research university through investing in and retaining excellent Faculty and staff.
• Shared governance in discussing and evaluating the tradeoffs in the University’s financial decisions.
• Addressing a shortfall of $100M must mean that our values are front and center.
• FPC concurs that protecting financial aid is a core value. The incremental cost of this is almost equal to the budgetary shortfall of $100M for FY21.
• But this means that the burden must fall elsewhere.
Closing the Gap

• Five Broad Sources:

- Faculty/Staff Salary/Retirement

- Organizational Reduction/Furloughs

- Other Cost Reductions, Reduced Faculty Hiring, Additional Use of Reserves

- Borrowing

- Tapping the Endowment
Closing the Gap

• FPC’s understanding is that on present planning, the first three sources will meet all of the burden of the $100M cuts needed for FY21, with the net financial asset position being protected through no extra borrowing and no tapping of the endowment.

• Faculty/Staff salary/retirement will bear the bulk of the burden of the $100M.
Closing the Gap

• As deficits projections escalate from $100 M to $200M the University envisages holding the burden on Salaries/Retirement constant, the incremental burden being borne by other items, except the endowment.

• As the projected deficit climbs to $300M the burden on Salary/Retirement will continue to be held constant, the incremental burden being borne by other items, now including the endowment as well.

• The FPC has discussed the various tradeoffs involved in this pattern of sequencing of cuts.
To Tap or Not to Tap the Endowment

• This is a contentious issue on which the FPC did not find full consensus.

• Drawing on the University’s net financial assets, through increased tapping of the endowment, will reduce the financial resources available in future years for University programs.

• One calculation is that drawing down $30M from financial assets in one year will lead to a reduction in flow of $1.5M every year into the future. And the $30M has to be paid back the principal if a loan, or to make the endowment whole for future generations if it comes from that source, leading to a further charge on future flows.

• The question is how should we reason about this tradeoff between present needs and future generations of Cornell faculty, staff and students?
To Tap or Not to Tap the Endowment

• Those in favor of touching the endowment only as a last resort make these observations:

• 1. The annual payout is a renewable resource that, if managed successfully, can help sustain many types of essential university operations in perpetuity including faculty/staff salaries and financial aid.

• 2. It is not a simple bank account; it is comprised of hundreds of separate accounts that often carry restrictions for use made by donor intent.

• 3. Cornell has (by far) the lowest endowment-to-student ratio among its peers and should not take additional hits.
To Tap or Not to Tap the Endowment

Those who argue for a modest increase in endowment payout in the first scenario make their case as follows:

1. It will create a tolerance for sacrifice. Employees who are asked to make a sacrifice through salary and retirement cuts need to see the institution doing a measure of sacrifice.

2. Faculty and staff are also an asset, perhaps the major asset, of the University. There is an argument for protecting that asset from a sharp negative shock.

3. The political consequences of being seen to protect a multi-billion dollar net financial asset position. A rigid stand against even a modest increase in endowment payout will be read negatively in the political arena.
To Borrow or Not Borrow

• Just as the cost of tapping the endowment is reduced flow of funds in the future, the cost of borrowing is the need to repay with interest in the future. In either scenario, the financial burden is being shifted from the present to the future.

• The present low rates of interest could be an advantage for borrowing.

• But there are limits to borrowing, and the extent of borrowing relative to assets can affect the University’s credit rating.

• The Committee does not have the detailed information to take a view on the tradeoffs involved in borrowing, but the University should clarify the basis on which no borrowing at all is contemplated in the first scenario of a $100M shortfall, with salary/benefits and employment bearing the lion’s share of the cuts.
Salaries and Retirement Benefits

• The FPC concurs with the administration that cuts to salary and retirement contributions in FY21 should be scaled progressively, protecting those with the lowest incomes.

• Retirement benefits can only be cut by Cornell on the endowed side because NYS handles retirement benefits on the statutory side.

• As we understand it, the University is considering graduated salary cuts for the contract side but across the board retirement contributions hiatus for the endowed side.

• But a number of complications arise in implementation:
Salaries and Retirement Benefits

• Should not the retirement contributions cut on the endowed side also be progressive?

• What is an equitable distribution of retirement/salary cuts across endowed and statutory colleges?

• Could individuals be given a choice between salary and retirement cuts? (Administrative and legal issues involved)
Other Ideas

- FPC discussions have surfaced ideas which go beyond the avenues currently being considered by the Administration.
  - (i) A tax on the endowment payout to fund recurrent items in FY21;
  - (ii) The possibility of constructing salary/retirement cuts as a zero interest loan from the Faculty/Staff, to be paid back over time;
  - (iii) Work sharing rather than employment cuts in organizational reduction, using currently available Federal and State funds for this purpose.
  - (iv) Cuts should be done for six months in the first instance and then evaluated.
- These need to be scrutinized to test for feasibility and desirability. The FPC urges the administration to consider these and other ideas and to think creatively in addressing the current crisis.
Future Engagement

• We urge the University Administration to share broadly the up to date information on which financial decisions are being based, and to be open and transparent on the tradeoffs we face in meeting our values.

• From a longer-term perspective, the crisis highlights the need for closer Faculty and Staff engagement in shared governance on financial matters, including the health of the endowment, developing contingency plans for downturns, and the values which underpin the University’s expenditure choices.

• To that end, the FPC believes that having one of its members, and a staff representative, serve on the Provost’s Budget Planning Committee is important, as is greater faculty and staff involvement on the Provost’s Administrative Costs Committee.
Discussion