Representative Faculty Senate Meeting

Minutes for 11/5 Session—Budget 101, Session 1

I. Opening Remarks from Faculty Senate President Mike Bognanno (MB): We have now moved from Responsibility Centered Management to a new budget model, one that promises more transparency. We encourage you to attend the second and final session in this series on 11/17.

II. Remarks from Temple University President John Fry (JF): We plan to be more transparent around the budget and the challenges we face, and perhaps we can make this a regular fall update on the state of the budget. We need ongoing and regular conversations on these matters because we all stewards of Temple's finances. Two important developments along these lines: 1) the establishment of the Budget Advisory Committee, which includes 4 faculty nominated by the Senate, and 2) faculty representation on committees of the Board of Trustees, with the help of Trustee Lon Greenberg.

I plan to meet twice a semester with MB and once a semester with all of the Senate Officers. Provost Libby Wentz and COO Rich Sobieray will follow the same schedule.

III. Budget 101

- **Rich Sobieray (RS), COO:** As we move forward, we are looking for feedback. Thank you for the 50 questions you sent. We will address them either during these sessions or through a FAQ. Our aim is to introduce faculty to how Temple's finances work and how they connect to the strategic plan so that we have a shared understanding of our finances—such as the idea that not all dollars function the same way. The next meeting will focus on the challenges facing us, the One Temple budget model and the role of shared governance. But a key takeaway is that our budget is the financial explanation of our mission.

- **David Marino (DM), CFO:**

    - I'm going to begin by explaining three key financial statements: the balance sheet (analogous to a savings account), income statement (analogous to a checking account), and cash flow statement.
    - This fiscal year Temple has a structural deficit for the first time in 25 years, noting that expenses have increased from 98 cents to $1.16 per dollar of tuition revenue over the past five years due to increased financial aid and inflation.

- We also have to be ware of our different revenue sources:
    - general operating funds: tuition and fees
    - Commonwealth funds: which underwrites a 45% decrease in tuition relative to those out of state, though Temple has to match this amount and also includes capital funds (for buildings), which are not fungible.
    - Auxiliary (e. g., parking and dorms): Auxiliaries are designed to support themselves and, with the exception of athletics, they do for the most part.
    - Debt Service Fund: We've been conservative there, and it's below $500 million in long-term debt for the first time in many years. Right now, we are spending $47 million a year in debt service.
    - Capital funds: New buildings have not added to debt because they've been covered by Commonwealth grants and philanthropy.
    - Sponsored Funds (e. g., grants): In response to a question from a faculty member, we're in no danger of losing our R1 status ($50 million a year vs. $300 milllion we actually generate.
    - Philanthropy: This is on the uptick; but many of these pledges can't be collected now. They are promised for the future. The endowment is now at $1.3 billion, and the law requires we spend between 2 and 7%. We are currently spending 4.5%. Our endowment generates $40 million a year, which is far short of, say, what we need to cover financial aid, something that Penn State and Pitt's much larger endowments do cover.

    - It's crucial to distinguish between recurring and non-recurring expenses. We've been running a deficit for the last 4 years; it has been shrinking, but it's still there. Our deficit this year is $25.5 million. The strength of the stock market has helped fill the gap and saved us from having to draw from other sources.

The recent and current state of our sources of revenue

    - The most significant recurring source of revenue is **tuition and fees**, which have declined from $850 million prior to COVID in 2019 to $740 million, and we have to add to that the 30% decrease in purchasing power due to inflation over that time. This translates into $300 million in lost recurrent revenue The cause of this drop-off was the loss of

roughly 10,000 PA students and 1,000 international students. U.S. students from outside PA remained flat.

- We have to continue the strategy to rebuild partnerships with transfer community college partners, particularly in Philadelphia and other county colleges, to increase in-state enrollment.
- We have to reemphasize research opportunities and experiential learning in Philadelphia as part of the student recruitment and success strategy.

- The basic **Commonwealth appropriation** has remained flat at $158.2 million. Last year, we also received $80 million in capital funding for the new Public Health and STEM buildings. For the refurbishment of Paley, $125 of $167 million came form the Commonwealth, as did $140 of the $218 million for the Kimmel building. $30 million was provided for Terra Hall, purchased from the University of the Arts for $17 million; the rest is going toward renovations.

- **Auxiliaries** are almost back to pre-pandemic levels at $124.2 million

- **Grants and Contract**s have fluctuated, from $184.2 million in [year x] up to $197.9 million in [year y] and then back down to $181.5 million in 2026

- We raised our cost structure to reflect the infusion of extra funds during COVID, but the problem is that those were non-recurrent.

- **Philanthropy** has improved considerably. we are aiming for $220 million this academic year, as we launch the silent phase of a $1.5 billion capital campaign. It will be split 50:50 between main campus and health sciences, with half of that $750 million for academic priorities, $225 million for the endowment itself; and $150 million for capital projects.

  Our endowment has been out-performing our peers; last year a 19.7% increase, which places us in the top 1%.

Expenses:

- We have 11 million square feet of space, and that means significant depreciation: $121.7 million last year.
- Compare our $740 million in tuition and fees to $880 million in expenses for Education and General; we weren't running a deficit here in 2019.
- This year we had a $80.1 million operating deficit, but that includes the pay-out for the Voluntary Retirement Incentive Plan, which will soon pay for itself in salary savings. Our actual structural deficit is $25 million.
- Expenses can also be grouped in terms of natural rather than functional categories. For instance, salaries and Benefits cost $934.3 out of $1.3 billion total
- In total, we have $1.4B operating revenue vs. $1.5 operating expenses. This means an $81 million deficit—that is, a 6% deficit from operations.

Solution: We have to grow as well as get more efficient. Investments may cost us in the short-term but will pay-off in the long-term.

Q and A

Iyad Obeid (Engineering): If you build new buildings, aren't you also signing up for expenses like utilities and depreciation?

RS: Yes, but it can also help us avoid leases.

JF: Commonwealth allocations go to academic buildings, but as we look toward a new residence at Broad and Norris, we want that to be a public-private partnership.

RS: These private-public partnerships account for half of Ohio State's $8 billion endowment; that $4 billion represents profit from a $1 billion investment years ago.

Ilene Hollin: How can grants help offset other costs?

RS: That's one way we have to diversify and increase our revenue streams—and also increase philanthropy, esp. unrestricted philanthropy.

DM: But if the federal government reduces the Facilities and Admin costs/overhead from $.58 for every dollar to $.15, then you can't really afford to pay for buildings.

Del Doktor (Boyer): It's good to see this greater commitment to transparency and investment in student success. But that investment has to include more advisors and people in finance and faculty; students don't have the access they need to them. =

RS: The audit from the National Institute for Student Success points in the same direction, and there are regular meetings between the Finance and the Provost's offices to see how we can fund those investments. The problem is that we've had a decrease in tuition revenue AND an increase in financial aid. That's backwards and unsustainable.

Danielle Ramella (CST): While we do see attrition from poor academic performance, it usually takes 3 semesters for that to happen; a more immediate problem is finances, which accounts for 10% of attrition.

RS: Yes, we are looking into a better way of doing this. Policies around financial holds prior to this were too black and white. We also have to get to students to help them understand finances before they even get to Temple. Philanthropic giving will also improve if donors feel it likely that our students stand a better chance of succeeding.

Danielle Ramella: I also want to point toward the unintended consequences of cuts to the academic sector. There's high demand for forensic chemistry but recent cuts mean that the faculty are almost entirely adjunct, and the director of the program is looking to retire.

RS: We're working on getting better data so that we can make better decisions. We need new technology to address demand and employability, but we also have to guard against simplistic understandings of the value of programs. It's often not just a straightforward plus and minus.

JF: We had 32 budget sessions last Spring with Deans and the heads of other units. If a case had been made for, say, the ongoing demand for that program, we would have saved it.

RS: Budgets have to be built from bottom up: Deans have to engage with faculty and the new budget guidelines will direct them to do that.

Provost Wentz: We also have to figure out which new programs we want to establish.

RS: We have some cash/runway on the balance sheet for such investments.

Note: SN had to leave for another commitment just prior to the session ending.