



To: UAHuntsville Faculty and Staff Colleagues

From: Dave Williams  
Ray Pinner

Re: Budget Planning for 2008-09 and 2009-10

Date: February 9, 2009

UAHuntsville has historically delivered high quality education, research, and public service due primarily to the intelligence and work ethic of our faculty and staff. Our progress continues even as we are faced with significant financial challenges: student credit hours were up last fall and again in the spring, applications are trending upwards, and research funding is growing. Our hard working faculty and staff deserve the credit for the University's continuing success.

Unfortunately, our university is not immune to the downturn in the national and state economies, a slowdown that many economists project will last for several years. As detailed further below, our appropriations have been reduced for FY 2008-09, requiring the University to institute reductions to save \$4.6 million by September 30, 2009. Additional continuing or recurring reductions of \$1.4 million are also included in Governor Riley's proposed Education Trust Fund budget for FY 2009-10 which begins October 1, 2009. This leads to the necessity of cutting the University's permanent base for personnel and operating costs by \$6.0 million.

At the Board of Trustees meeting last week, Chancellor Portera clearly stated that the University of Alabama System must continue to operate in the black. Operating at a deficit or borrowing funds to balance the budget are not options available to the campuses.

Our last correspondence to the campus, dated December 17, 2008, outlined the Governor's proration announcement for FY 2008-09. Governor Riley announced a statewide reduction in appropriations of 12.5%, mitigated to a 9% reduction by some of the rainy day fund. Additional reductions are possible for FY 2008-09 and FY 2009-10 beyond those already announced.

Appropriation reductions are not the only issue. Additional costs over which we have little or no control are routinely added to our expense base by the State: the required contribution to support your retirement plans has escalated from about 4% in 1994 to over 12% for 2009-10. The cost of providing a State insurance plan for our retirees continues to grow, and is passed along to us annually. Utility rates are beyond our control, and have increased dramatically over the past few years. Other contracted costs and additional expenses rise with inflation.

A budget reduction of this size requires significant adjustments to the University's organizational and business models, while protecting mission-critical activities. These adjustments must be formulated to address both the current year budget deficiencies and the anticipated long-term impact of reductions. Realignments have already begun in several University departments: Student Affairs, University Advancement, and Information Services, and planning is underway in Finance and Administration.

### **2008-09**

UAHuntsville opening state appropriations were reduced by 11.3%, or \$6.6 million, from the 2007-08 base. Also, incremental costs for employee retirement plans and retiree insurance were added by the State. The University formulated a budget plan to balance the operating budget, and the Board of Trustees approved this plan in September 2008. Opening budgets effective October 1, 2008 were adjusted accordingly.

The Governor's December 2008 proration action reduced the University's FY 2008-09 appropriations by an additional \$4.6 million. Accordingly, the University must implement plans to save \$4.6 million between now and September 30, 2008, equating to a 5.8% reduction in unrestricted Ledger 2 budgets available for reduction. The following are some of the options to consider:

1. Create personnel savings through reorganization/reduction.
2. Create operating savings through streamlining business processes, or eliminating or delaying expenses on a one-time basis.
3. Reduce existing fund balances if absolutely essential.

Each budget unit must plan for recurring budget reductions for FY 2009-10 and beyond as savings are generated for the current fiscal year. All budget reduction plans for 2008-09 must be submitted to the Budget Office by **March 2, 2009**.

### **2009-10**

In addition to the 9% reductions announced in December, the Governor has proposed additional appropriation reductions of about 3% for the FY 2009-10 Education Trust Fund budget, including higher education. However, the FY 2009-10 operating appropriations may not be finalized until the end of the legislative session, currently scheduled for May 18. UAHuntsville must be proactive to establish a sustainable budget model by planning for long-term appropriation reductions effective October 1, 2009.

**As stated previously, forecasts for State appropriations available to support the University and other economic factors affecting our budget will be updated periodically. Projected reductions are not final until the State budget is final later this year. Adjustments to our plans may be required.**

Additional information about the University's finances can be found through the following links:  
Complete operating budget <http://www.uah.edu/admin/Budget/budgetinfo.php>  
UAHuntsville operating budget presentations to Board of Trustees (same link as above)  
Audited Financial Reports FY 2003 – FY 2008 <http://www.uah.edu/admin/Finance/reports.html>

More information will be provided as it becomes available.