



Evidence Document

for Higher Learning Commission Reaccreditation

Document Title: Chancellor's Remarks to the Higher Education Subcommittee

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Document Summary:

The university's function is more than just education; it seeks to improve quality of life for Arkansas's citizens through the benefits of education and research. Cost containment, transparency, and responsible spending are priorities.

The Office of the Chancellor (<http://chancellor.uark.edu/>)



Chancellor's Remarks to the Higher Education Subcommittee

HIED Subcommittee Meeting

Little Rock, AR

1:30 p.m., January 25, 2010

Good afternoon. I would like to begin by thanking members of the subcommittee for allotting me time to speak today. In particular, I would like to thank Representative Roebuck for extending today's invitation.

I really appreciate her desire to work together with us on the issues of cost containment.

At the University of Arkansas, we have made cost containment a priority, both out of necessity and out of a desire to be accountable to our stakeholders. I am eager to share with our state legislators our ongoing efforts in this area.

Before I get into the specifics of our cost containment efforts, it's important to ground this discussion in a few matters of importance. I would like to give you a sense of the philosophical underpinnings behind our cost containment efforts, and why we feel accountability is so vital. After we get into the nuts and bolts of our cost containment efforts, I also would like to address some larger concerns we have about the funding of higher education in general.

As we talk about the dollars associated with higher education, I think it's important that we recognize its impact on our state. At the University of Arkansas, we believe that we have a higher mission than just the education of students. Though that is indisputably the core of our work, our mission is really much broader.

We believe that the larger function of the university is to improve the life of the student, the state, and society at large. Educating people is the surest way to improve public welfare. The positive impact of higher education on the individual is both remarkable and undeniable. Setting aside the skills college graduates acquire, there are still numerous other benefits.

For instance, someone with a bachelor's degree can expect to make almost \$1 million more than someone with a high school degree over the course of his or her lifetime. On a societal level, they are far less likely to utilize social programs, such as food stamps, housing subsidies, or welfare programs. They are far less likely to be incarcerated, and they pay far more in taxes.

For instance, a person possessing a bachelor's degree is likely to pay \$192,000 more in taxes and contributions to social insurance over his or her lifetime than a high school dropout. \$192,000 dollars more.

One person.

That's just what they are contributing in additional taxes. The overall net benefit to the state, if you calculate the additional benefits of not needing social assistance, soars to roughly \$240,000. When you talk about 'bang for your buck,' little beats a college degree. Perhaps nothing better illustrates the purchasing power of state funding for higher education than this.

But the university improves life in other ways as well.

We are deeply engaged in research, with almost \$118 million in research expenditures last year. Not only does research lead to new technologies, medicines, materials, and practices, it often leads directly to job creation. The focus of the Arkansas Research and Technology Park, located south of campus, is to commercialize the work of campus researchers and turn that work into profitable business ventures that create high-tech and high-paying jobs.

Approximately 31 small businesses providing around 250 jobs currently call this park home—we plan to have 50 businesses within the next five years. In fact, one of these companies, Nanomech, recently received a \$770,000 grant from the Navy to complete development of a lubricant additive.

Another company, Space Photonics Inc., just received a \$1.2 million grant from the Department of Defense.

Companies such as these being spawned by university research bring new money into the state of Arkansas. These efforts are very much in line with Governor Beebe's Arkansas Works initiative to promote high-tech job growth that attracts and keeps highly skilled people in-state.

What I've covered doesn't even address the cultural benefits of higher education. An education at the baccalaureate level ensures a richer, better-rounded life and enables the recipient to experience life to its fullest. So for these reasons, and many more, we are able to say that we

improve the life of the student, the state and society.

Of course, none of what we do matters if the money that is being spent on education is not being spent responsibly. Nothing engenders public ill will like waste and inefficiency. I have brought with me for the members of the subcommittee a document we produced a few months ago, called Providing Transparency and Accountability to the People of Arkansas. This document details the leadership principles, goals, and accountability measures that we will use to guide the university over the next decade and beyond.

As the personal price of an education has risen, along with the debt load students are assuming, transparency is at a premium. We must be able to document our claims and track institutional efforts. We must be able to show stakeholders what we are doing and where we are going. We must be able to show that we are good stewards of not just state appropriations, but of tuition and fee dollars as well, not to mention the extraordinary gift support we continue to receive from literally thousands of our constituents. This document will keep us focused on where we are going as an institution.

This brings me to our overall budget. Overall state appropriations during the most recent academic year accounted for less than \$126 million of the university's budget – about 25 percent of our nearly \$496 million total budget. Tuition and fees also accounted for 25 percent of our income. Other significant sources of revenue in this overall budget include gifts, grants, and contracts, as well as auxiliary enterprises, such as athletics.

When viewing state appropriations specific to unrestricted educational and general purposes, removing line items such as the agricultural experiment station in Fayetteville, appropriations amounted to less than 45 percent of our unrestricted educational and general revenue. Tuition and fees in this case represented about 46 percent.

Needless to say, in terms of budgeting, the last few years have been difficult. We have had great success in growing the endowment in recent years, reaching nearly a billion dollars before the recession. This provides a much-needed supplement to state funding, and augments our ability to provide fellowships, scholarships, and some faculty salary support. But as a result of the ongoing economic situation and stock market plunge, we've seen a decline in our endowment.

In a time of budget constraints, the university continues to look for ways to lower operating costs and improve performance. Cost containment is one way to drive down operating costs. Significant cost savings can be found in obscure areas within any large, complex organization. Our strategies for cost containment are to free up resources, fund new initiatives, and improve our management of resources.

The university continues to refine its cost containment strategies and to seek new strategies that can reasonably assist in ensuring a good return on the investment of funds. To this end, we commissioned a taskforce on affordability and cost containment about a year and a half ago. This taskforce is charged with identifying and recommending ways each college and administrative unit can be more efficient in the delivery of academic programs and services.

The primary purpose of the commission is to root out any funds, programs, or personnel that could be better utilized, and assure the people of Arkansas that their funds are being spent wisely, efficiently, and carefully. In fact, over the past year the commission's work has helped identify approximately \$11.5 million in savings that has been reallocated for mission-critical priorities.

Heading up this taskforce is vice chancellor for finance and administration, Don Pederson. Don has been at the university for 37 years and knows every nook and cranny of the budget. Don also is a past provost of the university.

Let's go ahead and look at some of the things we've done to contain costs. During the 2009 fiscal year, the university awarded a major contract to Energy Systems Group to make energy saving improvements to 56 buildings, comprising some three million gross square feet of educational and general operating space on the Fayetteville campus.

The Razors EDGE program, as we call it, already is underway and is designed to reduce annual energy consumption by 30 percent in these buildings, with a guarantee that energy savings over a 13-year period will cover the capital cost of implementing a range of energy conservation measures. The total annual savings for our three current ESPC contracts combined will now average more than \$6 million per year across their respective 11-to 15-year durations.

Once we have completed our debt service for each of the contract time periods, all future savings accrue to the university. A final thing I wanted to mention on the subject of energy savings is our facility renewal and stewardship effort, funded by a facility fee implemented by our Board of Trustees. This plan is addressing the renovation and rehabilitation of some of the campus' and the state's most iconic buildings, and also is providing for the modernization of nearly 200 classrooms and teaching labs.

Addressing this long-deferred critical maintenance need will not only provide our students and faculty with cutting-edge educational facilities, it also will yield cost savings in the long run as we update our aging infrastructure to the most modern, energy-efficient standards.

Another cost saving measure was the realignment of the university's student affairs operations within the division of academic affairs. Like the recent merger of men's and women's athletics, this should better address the needs of students both inside and outside the classroom, increase efficiency, and streamline the administrative structure of the university. It also resulted in the

elimination of the vice chancellor for student affairs position. Altogether, we have eliminated five senior administrative positions and units, including the office of community service, the economic development institute, and two assistant to the chancellor positions.

We've also eliminated some academic units as well as some majors that are simply not attracting the requisite number of students to be an efficient use of limited resources. With board approval, we will eliminate a few more this month.

Just last week, due to state cutbacks, we instituted a hiring freeze on all positions.

Another decision that we made was to forego the traditional investiture ceremonies when I became chancellor in July 2008. Fifty-thousand dollars in private funds had been earmarked for this event, but in light of what was going on across the state and country economically, we decided to convert it into 50 Chancellor's Scholarships valued at \$1,000 each. When you're talking about a budget of half a billion dollars, this gesture was probably more symbolic than substantive, but to misquote a notorious line: \$50,000 here, \$50,000 there – pretty soon it adds up. It certainly didn't seem symbolic to the students who received these scholarships.

I'd like to share a few other examples of widespread cost-savings initiatives completed or underway on campus: The university has optimized credit card transactions to reduce bank fees with annual savings of \$240,000.

These savings increase the revenue streams of the units being paid by credit card including tuition and fees.

The university has identified potential savings of some \$300,000 on its business expenditures of \$108 million. By developing an item-level data base for every purchase, it is anticipated that the university will be able to control costs better than it has in the past based on some trials done in other parts of the country.

The University of Arkansas Police Department is expanding the use of alternative patrols to save money and maintain the safety and well being of the campus. Plans are to send several more officers to bicycle patrol school with the emphasis of patrolling the campus more often by bike. This will assist us in reducing the mileage driven in patrol cars thereby reducing maintenance expenses and gallons used.

There was a reduction of 4,805 gallons used from fiscal year 2008 to fiscal year 2009 – however, increasing fuel prices turned some of the savings into cost avoidance.

The university's Razor Temps program, a temporary staffing service administered by human resources, provides cost savings to departments who previously contracted with outside staffing agencies for temporary workers. Departments pay a fee for Human Resources to find and refer qualified workers for temporary staffing needs, administer all required employment paperwork,

and provide assistance in orienting the temporary employees to their responsibilities. The fees charged are lower than those of outside agencies and the funds are kept within the university, resulting in a savings of \$53,172 last year.

Information technology services is another area where significant savings are being realized. Every year, the university experiences increasing demand for services and the associated costs as the use of internet and computer technology increases. Using the ARE-ON Network to secure internet services in 2009 reduced the overhead of transporting internet service to campus users, with a cost savings of about \$75,000 per year.

Likewise, the applications of computers for instruction, research, and administrative purposes increase every year at the university. Our IT staff has developed virtual servers that could provide some of the required services. This has resulted in a savings of about \$250,000 per year.

Keeping with the subject of efficiency in technology, the Integrated Student Information System, called ISIS, is the largest application on campus and provides for online student registration, financial aid processing, financial management, and student admissions. Vendors recently proposed that university purchase a new, much larger computer server to support the ISIS processing. Instead, our staff restructured the software processes, enhanced the software and the databases structures to make the purchase of a new and more powerful server system unnecessary, thus avoiding a cost of about \$900,000.

As you are well aware, e-mail has become an integral part of communication. Within two of our academic units – the Sam M. Walton College of Business and the College of Engineering – we consolidated Exchange Servers dedicated for this purpose into one system. The unified e-mail system saves about \$116,000 annually while enhancing email services.

As an institution that has gone to great lengths to foster a culture of putting students first, we need to be very cautious when it comes to finding savings in our services to students. However, over the past year we have been able to realize significant savings without eroding the quality of the student experience at the university.

More than half a million dollars has been saved simply by turning the Arkansas Union Theater into classroom space, alleviating the need to construct a new classroom.

In the dining halls, the simple measure of eliminating trays from dining halls has yielded multiple benefits. By not having trays, students are less apt to overload themselves with food that winds up not being fully consumed, thus cutting down food waste. Not only is less food being thrown away, savings from the resulting reduction in food service costs over the last year totaled \$373,800.

Our outstanding students themselves have lent a helping hand in saving money through their service to the campus community. For example, during last year's devastating ice storm, in which 70 percent of the campus foliage was damaged, the university worked with students to mobilize a clean-up effort. By collecting smaller limbs and debris from around campus, countless overtime hours for maintenance staff were avoided.

Combined with other measures, such as student organizations volunteering to paint their own office spaces in the Arkansas Union, more than \$80,000 in labor costs were saved over the past year as a result of enabling our students to contribute to their own environment.

Despite these and many other cost-containment efforts, it was necessary to freeze salaries for faculty and staff for the current fiscal year.

We had really hoped to give them a one-time stipend at the end of 2009 if the economic situation improved, but unfortunately we were not able to do this. We were not even able to fully implement the state's classified pay plan.

On the bright side, the athletics department also allocated \$1 million for academic purposes. If you are not aware, our athletics department is entirely self-sustaining, and is not funded by any tuition, fee, other auxiliary transfer, or appropriation dollars.

Something else that has really helped us manage finances is enrollment growth. We have actively been trying to grow the enrollment to 22,000 or 23,000—possibly more. This year, our enrollment grew by approximately 655 students, which represents significant revenue growth.

We expect the state lottery to assist us in attracting even more students who will directly benefit from the financial aid the lottery will provide them in the form of scholarships. Enrollment growth inevitably has led to larger-than-usual class sizes, as adding additional class sections would have proven too costly. We are, however, monitoring classes to make sure that quality remains high. This is a delicate balancing act because we know that students thrive most with opportunities to interact with the faculty.

The careful management of all these resources enabled us to do something we have not been able to do for some time: give our students some relief on tuition. We did not increase tuition for the first time in 24 years, and we instituted our lowest fee increase in 45 years.

It has made our budget situation very, very tight, especially in light of recent cuts in our budget. But we believe it was the right thing to do as students and parents struggle to pay for tuition.

So the work of the cost containment commission continues, and we welcome the opportunity to provide you with further updates as we progress.

As previously mentioned, we can identify \$11.5 million in savings this year. I am sharing with you a spreadsheet listing the savings as well as my recent communication to the UA community regarding cuts. Keeping costs down and tuition and fees low is important to all of us, and we will continue to do everything in our power to keep the price of an education as affordable as possible.

There is a limit, however, to how much cost cutting we can do. After a certain threshold, it's like amputating parts of your body to lose weight. It begins to affect the quality of staffing and academic programming.

The truth is that our tuition and fees are not particularly high, especially when compared to our other SEC peer institutions. We are in the bottom half of tuition costs when ranked against comparable institutions in our region. At seventh place, in fact, packed together with Auburn, Tennessee, and Georgia, there is nothing to suggest our tuition is particularly high or unreasonable.

No, we are not the cheapest in the state, nor are we the most expensive.

In fact, we rank second, just behind UCA, and a little ahead of ASU. As the state's flagship institution, many would hope and expect our programs to be more expensive than perhaps other more regional institutions, yet we have tried to keep our costs as low as possible. There is a reason we have been cited by more than one publication as one of the 100 best college buys in the country. We provide much, much more for a comparable cost.

There is, unfortunately, no denying that tuition and fees have risen dramatically over the last several decades. Some of the reasons for this, specific to our campus, included:

- Paying—or doing our best to pay—competitive salaries for quality faculty. We need to do more here, as our faculty currently is paid 15 to 40 percent below their peers at comparable schools.
- The profusion of new technologies and technology support, including software licenses, computers, and cyber infrastructure.
- Increased outreach efforts and centers dedicated to outreach.
- Increased faculty funds to support research and scholarship.
- Increased research opportunities for undergraduates.
- Maintenance of old, energy-inefficient facilities and related campus infrastructure.

At the same time as costs have gone up, state appropriations have too, just not at a commensurate rate. While appropriations have increased by approximately \$300 million statewide since 1996, in terms of purchasing power, spending has stayed relatively flat. Though funding has increased modestly, what it purchases has decreased significantly, forcing us to make up the shortfall from increased costs through tuition and fee increases.

Over the last decade or so the percentage of state appropriations for each full-time enrolled student has declined from 58 percent to 46 percent. The additional expenses are being born by the universities. This has been especially difficult the last couple of years.

In fact, as a result of the economic recession, the Association of Public and Land-grant Universities conducted a survey of 188 institutions. More than 85 percent reported decreases in state appropriations, and nearly half saw decreases of 10 percent or greater. The majority of respondents reported that declines in state appropriation are harming their ability to hire and retain faculty and staff, invest in new technology, sustain student services, and maintain campus infrastructure.

Here in Arkansas the cuts have not been nearly as severe as they have been in a number of other states, and we're grateful to the governor and the legislature for that. Nevertheless, according to the funding formula developed by the Arkansas Department of Higher Education, we're underfunded by approximately \$40 million.

State funding is key to keeping tuition costs under control and is a critical way to serve the continuing educational needs of our state as well as provide the basis for attracting better-paying and longer-term jobs to Arkansas.

Ultimately, what I want you to know is this:

One: The fortunes of this state are deeply and inextricably connected to the quality of our universities and our ability to produce Arkansans with bachelor's degrees.

Two: Investing in higher education pays a lifetime of dividends to society as well as to the individual as measured by what is paid back and what is not required in terms of social assistance.

Three: We are doing everything in our power to keep costs low and quality high and to secure our own resources through every method available to us—and we are stretched to the limit.

Four: We urge you to recognize the funding need and fully fund the higher education funding formula as expeditiously as possible.

And five: I want to thank you for the support you give to our institution.

As chancellor of your flagship, I want to assure you we do not take your support for granted and we are most grateful for your acknowledgement of the importance of higher education in Arkansas.

Thank you for listening.

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