

UNM RESPONDS TO TODAY'S ECONOMIC CHALLENGES

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As we all know, we face a global economic crisis, one with consequences we will not be able to escape. I don't think anyone knows how serious this is going to get, or how much it will impact us directly at the University of New Mexico. But one thing is certain: higher education will not be exempt from the effects of the economic conditions we are facing.

If history is a guide, the crisis will involve two likely waves of negative economic fallout, both of which we already have begun to experience. The first wave is the crisis in the credit and stock markets, with credit tightening as equity values have declined.

The second wave, which could be even more serious and difficult to predict, will affect the "real economy." It will affect consumer demand, real wages, unemployment and the prospect of real and sustained business failure. Already, we have begun to see significant effects in the retail and manufacturing sectors, as the huge slump in housing is rippling throughout the economy.

The federal government is likely to face larger deficits, with the consequent risk that less federal money will be available. As Washington grapples with the consequences of trillions of dollars in deficit spending, we must remember that federal education dollars are, after all, discretionary.

Many states, including this one, already have serious budget strains as state revenue from sales, corporate, and income taxes continue to nosedive in the struggling economy.

In New Mexico, the Governor recently confirmed that revenue for the ongoing 2009 budget year will be about \$344 million lower than previous estimates, and \$253 million less than FY 09 budgeted expenditures. State revenue has dropped primarily as a result of the drop in oil and gas prices.

Because of these circumstances, on October 17th the Governor ordered state agencies under his direct budgetary authority to immediately freeze hiring and to reduce operating expenses by 5%. The Governor advised higher education institutions to develop a strategy for reducing next year's budget. While his executive budget authority does not directly apply to higher education, we have been told by Legislative leaders to expect the possibility of a midyear rescission in the FY 09 budget.

Like other college presidents, I am deeply concerned about how all this will affect our students, our faculty members, our staff and alumni. The debt crisis is especially likely to have a significantly negative effect on institutions enrolling economically-challenged students in greater numbers. Families are watching the equity in their homes decline. They see the value of college savings eaten away. Others face the effects of a business slowdown. And across the board, student loans are becoming more difficult to obtain. Students whose families strained to afford college before, now will find it even more difficult to do so.

This may require us and other institutions to dig deeper into our budgets to provide aid to needy students, and perhaps to expand the numbers of students who will be eligible for assistance.

Here at UNM, the economic crisis could affect our ability to raise funds, launch new initiatives, and maintain enrollment. Doubtless, we will be faced with declining revenues and increasing costs. Like most public universities, UNM relies to a considerable degree on tuition and fee revenues. Given the strains on family budgets, it may become more difficult for us to raise tuition and fees at rates sufficient to offset declines in state and federal funds. Finally, it is possible that universities like ours with teaching hospitals could ultimately see a decline in Medicare and Medicaid revenues, regardless of how the election turns out.

As we at UNM determine the best way to address these challenges, I want to be clear: our long-term interests will not be served by panic. However, neither can we proceed as if none of this were going on. My commitment is to move forward in a responsible and proactive manner. That's the best way to keep us in charge of our own destiny. We need to understand and take stock of where we are right now, not where we thought we were just a few months or even weeks ago. The longer we wait to conduct a strategic and tactical review, the more we will use up the resources and flexibility we will need to respond to our fast-changing and threatening environment. Now is the time to assess our risk factors, and to mitigate them as quickly as possible, with as little negative effect as possible.

We are making these assessments one-third of the way through our current fiscal year. And, facing the prospect of a mid-year budget rescission, we face uncertainty about the level of higher education appropriations for next year.

I believe we should immediately take some preemptive steps to slow spending and increase savings at the university. Therefore, I am issuing today a "strategic spending pause," with the following actions to become effective on November 4:

- We will immediately pause hiring of all new employees whose positions are not "absolutely critical." The Executive Vice Presidents will have authority to make these determinations.
- We will immediately suspend future salary adjustments (reclassifications, promotions, career ladder, etc.) that are not already approved by the Executive Vice Presidents.
- We will suspend minor capital allocations and equipment purchases ("BR&R" and "ER&R"). The Executive VP for Administration will have this authority.
- We will institute a 10% reduction in travel expenditures. Deans and Vice Presidents will implement this requirement.
- We will centralize all of these resources to "budget holdback accounts" under each of the Executive Vice Presidents.

- We will immediately review our commitments to all new capital projects for which construction contracts are not already in place, irrespective of the source of funding.
- We will immediately review and prioritize all special and capital projects funded by the legislature. We have been told to expect possible reductions in these funds this year and next.
- We will immediately review all projects in the 2007 bond issuance to ensure that revenue projections are sufficient to meet bond requirements. It is possible that changes will be necessary given that it is not likely that the development of university-owned lands will yield immediate income.

It is important to note that these restrictions will apply only to state appropriated I&G funds (ca. 17% of the main campus and 5% of the HSC budgets, respectively).

The goal of these measures will be to accumulate revenue in the budget holdback accounts until it has been determined whether or not we will face a mid-year rescission. The “pause” in the use of state I&G funds will remain in effect through the remainder of this calendar year, at which time we expect to know more about the state’s revenue forecast.

I have just outlined what we are going to do to address the challenges we are facing in proactive ways. Now, I want to discuss what we are *not* planning to do.

- Currently, there are no plans for across-the-board reductions. Grants, contracts, auxiliary budgets, and mission critical activities will not be impacted. However, the Regents’ policy relative to harvesting 25% of prior year unused I&G budgets will remain in effect.
- There will be no changes to the planned distribution of F&A resources from the Office of the Vice President for Research (OVPR). Maintaining faculty research productivity and recent progress in the OVPR will remain a top priority.
- As the fifth largest employer in New Mexico and the third largest in the City of Albuquerque, we clearly understand the role that UNM plays in our region and we want to assure our faculty, staff and employees that we do not envision any actions that would compromise our current workforce.

During times of uncertainty, we must act with prudence and foresight. Our greatest strength is foresight, and we must be willing to be flexible to conserve our resources for what might be a sustained and difficult period of economic downturn.

I want to state unequivocally that none of the funds in the budget holdback accounts will be allocated for expenditure in other areas. In the event of an economic upturn and no call for a mid-year rescission, we will restore the funds to the original accounts, every single dollar and cent.

As we move forward to cope with the ongoing economic news and prepare our budget for next year, it is important to reflect on the four priority strands of our strategic framework as well as our institutional values. Every decision we make must take into account those priorities -- student success, excellence in research, healthy communities, and economic and community development. To the extent possible, we will prioritize our resources to reflect our commitment to moving forward in these areas.

It is also important to be transparent and disciplined in how we react, and to keep open all lines of communication. Toward that end, I will be putting into place some mechanisms for ongoing communications with the University Community, including using my Monday Morning Message to keep you apprised of developments. We will also schedule a Town Hall Meeting in the very near future, so we can share concerns and answer questions as we work through these challenges together.

Most importantly, we will avoid haste, and instead, respond in a sound, reasoned and rational manner to what we have been asked to do by the Governor and the Legislature. This proposal is a proactive approach that represents a first step in that direction. Other institutions of higher education in our state are responding in a similar manner. Although our challenges are serious, we have come through the initial period of distress in good shape. Now we must move forward in a collaborative spirit to ensure our ability to weather the storm that may be headed our way.