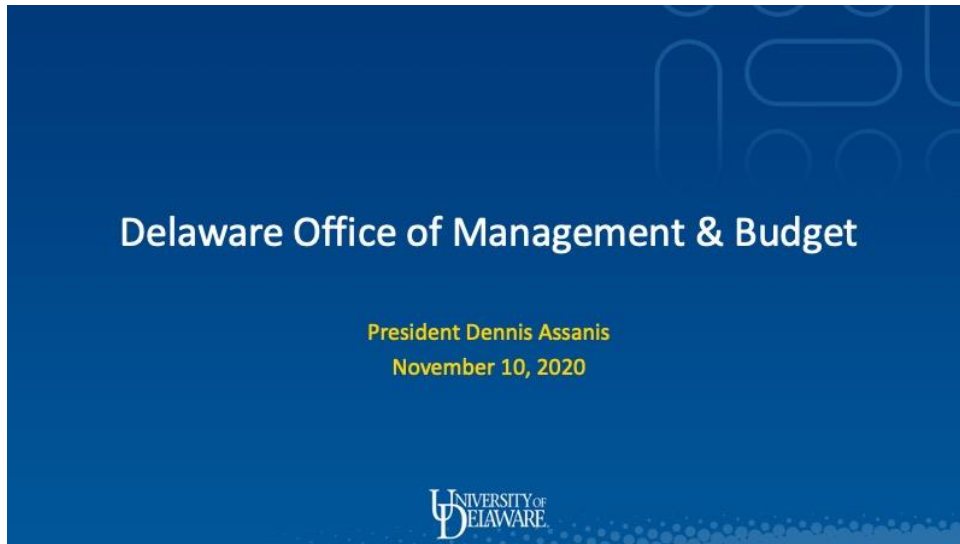


**OMB presentation — 12:30 p.m., Tuesday, Nov. 10, 2020**



Good morning, Director Jackson and other members of the OMB staff. Thank you for this opportunity to discuss the University of Delaware's operating and capital budget appropriation requests for FY22. We appreciate your time and attention today.

I have with me today Mary Remmler, Vice President of Strategic Planning and Analysis. We also have other members of our team available so they can help provide answers to any specific questions you might have.

The University values our partnership with the State of Delaware, and we are grateful for the ongoing support that Governor Carney and the General Assembly have provided.

I also want to take a moment and thank you specifically, Director Jackson, for your partnership over the past several years. We have enjoyed working with you and your team, and we wish you great success in your next position.

As we all know, this has been a year of unprecedented challenges for the state and the University — challenges to the health and safety of our communities ... challenges to our daily operations and our plans for the future ... and, of course, challenges to our financial stability.

## Putting Health and Safety First



Throughout the pandemic, we have continued to make the health and safety of UD's students, faculty and staff — as well as that of all Delawareans — our top priority. By acting quickly in the spring and continuing to move carefully over the past eight months, we have so far avoided the kinds of outbreaks that have affected many other universities around the country. Thanks to our partnerships with state, county and city governments, the protocols and policies we have enacted and refined this year are working to protect people both on and off our campuses. With these successes, we feel confident in judiciously phasing in more on-campus classes and activities in 2021. I'll talk more about those plans later in my presentation.

## FY22 Operating & Capital Appropriations

### UD's FY21 financial situation

- Deficit of \$228M to \$288M
- Cost-cutting measures, support from endowment, personnel actions

### FY22 State Operating Appropriation Request

- \$127.4M
- Only increase is \$2.25M for Delawarean scholarships

### FY22 State Capital Appropriation Request

- \$10M for maintenance projects in laboratory buildings



We're working diligently to close this budget gap by cutting spending, drawing additional funds from our endowment portfolio and, most recently, reducing personnel costs. At this point, further cuts would significantly hinder our operations and potentially diminish the quality and scope of the education, research and community service that are the primary missions of the University. Such deep cuts would have long-term impacts on not only UD but the entire state of Delaware for years to come.

We understand the state is facing similar financial challenges, and we appreciate your commitment to prioritize the educational needs of Delawareans. We fully share that commitment, so we would ask you to consider providing an additional \$2.25 million next year to help fund scholarships for Delawarean students. This is especially important now, as so many Delaware families are struggling to cope with the ongoing economic impact of the pandemic.

We also appreciate your consideration of our capital request for \$10 million to help pay for deferred maintenance in some of our laboratories. These labs are essential for teaching and research, and we have had to significantly scale back our own deferred maintenance spending to help close our budget deficit this year.

Now that I've provided this overview of our request, I'd like to walk you through some of the details of our financial situation and elaborate on why state support of UD is so essential, not only for the University but for all Delawareans.

## FY20 — Pivoting to Protect the Community



### Spring 2020

- Suspension of classes
- Nearly emptied residence halls
- Extension of spring break
- All courses online for remainder of spring semester
- Cancellations and postponements

### Result: \$20M operating deficit

- Covered by drawing on endowment portfolio



When the pandemic hit Delaware in mid-March, we took quick and decisive action. We suspended all classes, nearly emptied the residence halls, extended the spring break, and moved all of our courses online for the remainder of the semester. Faculty and staff began working remotely. We canceled or postponed all in-person events, including — unfortunately — our Commencement ceremony that so many of our graduating students and their families had been looking forward to for years.

These were difficult actions, but they were absolutely necessary to protect the community.

We refunded a prorated portion of students' housing and dining fees, as well as some student activity fees and parking fees. At the same time, we were hit with many new and increasing expenses related to COVID-19, such as the need for personal protective equipment, specialized cleaning supplies and protocols, signage and emergency operations.

By the end of FY20, we were facing a budget deficit of about \$20 million. Thanks to wise financial decisions in the past, UD is fortunate that we could draw from our endowment portfolio to cover this shortfall.

As we began looking ahead to FY21, we fully anticipated that we could return to campus this fall.

This would have meant a mix of face-to-face and online courses and full occupancy of campus residence halls. We expected that athletic competitions, conferences and events could resume under the "new normal" imposed by the pandemic.

However, we also knew we would face much higher expenses this year, even as we were coping with significant financial headwinds.

FY21 Original Projection (July 1, 2020)	
FY20 Year-end operating actual/projected deficit	\$49M
0% tuition rate increase	\$22M
First-year enrollment decline — 3,700 actual vs. 4,450 target	\$13M
Increased financial aid	\$18M
Operating gift and interest income decline	\$20M
F&A decline, reduced sponsored activity	\$13M
Increased COVID-19 expense	\$10M
International fee revenue decline	\$8M
Events and conferences revenue decline	\$6M
Investment in online conversion and support	\$6M
State appropriation decline	\$3M
<b>FY21 Operating budget projection as of 7/1/2020 (unmitigated deficit)</b>	<b>\$168M</b>



This slide shows the financial impact we anticipated earlier this year for our FY21 budget.

We anticipated enrollment challenges with first-year and returning students. Many were understandably concerned about their safety on a college campus, and many others were simply unable to afford tuition, room and board because of the economic downturn. Like most universities nationwide, we expected our enrollment numbers to be down in the fall.

To help students and their families, UD froze tuition at last year's level, rather than implementing a planned tuition increase of 3.5% to help cover rising costs. What's more, we knew we would have to provide additional financial aid this year to help students affected by the economy.

You'll note that we anticipated a reduction in our state appropriation, so we are very grateful that the state did not impose that cut last year. Thank you.

To help protect the people on our campus, as well as those in the surrounding community, we created and implemented a vigorous program of COVID testing. We are now conducting about 1,000 tests per week on asymptomatic individuals, as well as tests on those who are experiencing COVID symptoms. We launched a system of daily health checks for anyone who is coming to a campus facility, including visitors.

To maintain our high academic standards, we invested more than \$6 million this year to improve the online learning experience for our students. We enhanced online platforms, upgraded computer hardware, added instructional designers to help faculty adapt their courses for online delivery, and provided training to more than 700 professors so they could improve their teaching in this digital environment.

All of these measures were absolutely the right things to do for the benefit of our students, faculty and staff, but they presented a series of significant financial hits to the University. In addition, we expected revenue losses this year in sponsored research, philanthropy, investments and self-supporting operations.

So, this combination of diminishing revenues and increasing expenses meant that as of July 1 we projected a deficit of at least \$168 million in our FY21 operating budget.


## FY21 Budget Mitigation

**\$86M already mitigated through actions taken earlier this year**

- University-wide salary & hiring freeze
- Salary cut for senior administrators
- Spending reductions throughout UD — Supplies, contracts, equipment, travel, deferred maintenance backlog
- Reductions in part-time workforce

**\$82M covered by endowment portfolio**

- Total \$102M (>10% of value) in FY2019-20 and FY2020-21





Recognizing these challenges, the administration, faculty and staff partnered to identify immediate cost-saving measures while still preserving our core workforce. Senior administrators, including myself, took a voluntary pay cut. We froze salaries for all faculty and staff, instituted a University-wide hiring freeze and reduced our part-time workforce. We cut discretionary spending on supplies, contracts, equipment and travel throughout the University, and we reduced spending on our deferred-maintenance backlog.



These mitigation actions covered slightly more than half of that \$168 million projected deficit. The Board of Trustees approved drawing on UD's endowment portfolio to cover the remainder of the deficit.

That was during the summer. And then things got worse.

### Fall 2020 — A “De-Densified” Campus

Fall 2020 (vs. Fall 2019)		
Undergraduate	17,710	-2.3%
<i>Delaware residents</i>	6,560	-0.4%
<i>Non-residents</i>	11,150	-3.5%
Associate in Arts	908	-0.4%

- Creation of on-campus testing/screening program
- 9 out of 10 courses delivered online
- ~1,290 students in residence halls
- 90 beds for isolation; 250 beds for quarantine
- No fall athletic competition



In late July, with COVID cases increasing nationwide, we made the difficult choice to not move forward with our original plan. Instead, we decided to provide nearly all of our fall classes online, significantly limit the number of students in the residence halls and cancel fall athletic competitions. In August and September, the evolving reality of the pandemic and our “de-densified” campus created multiple ripple effects on the University.

Enrollment of first-year students is down 10% from last year, and there is a 5% drop in students returning as sophomores. Enrollment of Delawareans is virtually flat, while the number of out-of-state students — who pay higher tuition — is down about 3.5%.

Our residence halls are at less than 20% capacity, with students spread out to enable safe physical distancing. So, while our facility costs are down somewhat, the savings is not nearly enough to offset the reduction in housing revenue that we would receive in a normal year.

Meanwhile, we are spending a significant amount of money to provide frequent testing for students, faculty and staff who are on or near campus. Led by UD's medical, epidemiological and health sciences experts, we have created and implemented a vigorous program that performs about 1,000 tests per week on campus. So far, we have provided nearly 10,000 tests of individuals who were not experiencing symptoms, with results generally available within 24 hours. This testing program has enabled us to respond promptly and thoroughly to any member of the UD community who tests positive. To do so, we have set aside 90 spaces in residence halls to isolate students who test positive for COVID-19 and 250 spaces for students who need to quarantine because they were in contact with a COVID-positive individual, though we have needed only a small fraction of those beds so far.

<b>FY21 Budget Impact of De-Densified Fall</b>	
Enrollment decline, continuing students	\$10M
Increased financial aid	\$10M
Loss of study abroad & World Scholars' tuition	\$6M
Fall sports delay	\$5.4M
Winter and/or summer, 6 "free" credits	\$5M
Comprehensive and recreation fee reduced revenue – 15% discount for Fall	\$2M
No parking fees for on campus	\$4.2M
Residence halls at less than 20% capacity	\$63.3M
<b><u>COST MITIGATION</u></b>	
Auxiliary expense reductions	-\$32M
Reduced student aid related to residence halls at less than 20% capacity	-\$4.2M
Operating gift projection increase	-\$6.5M
No state appropriation decline	-\$3.1M
<b>Additional deficit due to fall de-densification</b>	<b>\$60M</b>

All of these steps — and many others — have been necessary to protect the health and safety of the entire community. And we feel like we are on the right track: Relatively few cases of COVID-19 have been identified on campus, with a small number traced to the residence halls and none linked to classroom or laboratory transmission.

But, again, these measures have come with a financial cost. The collective impact of all these factors adds another \$60 million to our initial projected deficit for FY21.

Now we're looking ahead to the spring semester.

## Planning for Spring Semester 2021

### Increased campus density

- Maximize face-to-face academic experiences consistent with safety guidelines
  - Continue to fine tune a blended mix of face-to-face and online content
- About 60% occupancy in residence halls
  - Prioritize freshmen and senior occupancy and create meaningful opportunities for in class and/or project experiences
- Classes begin Feb. 15, a week later than originally scheduled; no spring break
- No study abroad
- Return of athletics — Competitions with shortened schedules and limited travel



Our positive track record for the fall semester gives us confidence that we can proceed with a more vibrant community presence on campus in the spring.

Contingent on the health and safety protocols and guidance provided by the state and other public health authorities, we expect to offer face-to-face classes whenever possible in the spring semester, and we hope to fill our residence halls to about 60% capacity in the spring. We know that the on-campus experience is important for students. That's especially true for our first-year students and seniors, so we'll give them priority for the residence halls. There will be opportunities for sophomores and juniors, too, depending on available space.

To safely increase the density of our campus community, we will ramp up our testing program to about 6,000 tests per week, and we will continue to promote healthy behaviors while strictly enforcing size limitations on gatherings and other measures to slow the spread of the virus.

We're also making a couple of changes to the spring calendar. We'll start classes Feb. 15, which is a week later than originally scheduled. That will help us reduce campus activities during the flu season, provide more time for a longer move-in process and allow more campus activities to take place in warmer weather. Also, to help minimize off-campus travel as a precautionary health measure, there will be no spring break next year.

Of course, it is difficult to say with certainty what will happen in the weeks and months ahead, so our plans must remain flexible to accommodate the evolving nature of the pandemic.



FY21 Operating Deficit & Mitigation Measures		
FY21 Operating budget projection as of 7/1/2020 (unmitigated deficit)	\$168M	➤ Reductions in discretionary spending
Additional deficit due to fall de-densification	\$60M	➤ Drawing on UD's endowment
Possible additional deficit due to spring de-densification	\$60M	➤ Voluntary retirement incentive <ul style="list-style-type: none"> <li>➤ 134 staff members</li> </ul>
FY21 Operating budget, unmitigated deficit range	\$228M - \$288M	➤ 5% salary reduction for non-union employees
		➤ Voluntary schedule reductions
		➤ Personnel reductions <ul style="list-style-type: none"> <li>➤ 122 staff members</li> </ul>

However, if we again need to scale back our plans for on-campus activities in the spring semester, we expect an additional shortfall of \$60 million.

All told, we are dealing with a total deficit for FY21 in the range of \$228 million to \$288 million.

This budget gap presents a significant challenge.

To address the situation, we've cut discretionary spending and part-time personnel, while working to preserve the educational core of our institution. Providing our students with a world-class education and ensuring their success is our most fundamental mission. While our non-academic units are cutting their spending by a total of 25% to 35%, our academic units are being asked to reduce expenses by only 15%.

In addition, we are postponing the planning for large building projects for at least a year, and we are addressing only critical maintenance needs. The only capital projects continuing are those nearing completion or those fully supported through funds from the state and/or public-private partnerships.

Also, as I mentioned, we plan to draw about \$100 million from UD's endowment to partially defray the combined impacts on FY20 and FY21. This is over and above our consistent practice of drawing an annual dividend to support operations, which amounts to \$68 million this year. This level of additional spending is not sustainable over the long term. And drawing significantly more from the endowment would jeopardize the long-term success of the University's education, research and service missions.

So, we are now left with taking additional personnel actions.

Since the start of the pandemic, we have not filled 86 positions that were vacant. We have implemented a voluntary retirement incentive, which about 130 employees chose to participate in after having served UD for at least 20 years. We have also instituted a salary reduction of at least 5% for our non-unionized employees from November through June, implemented through nine days of unpaid leave. We are still discussing personnel measures with the unions that represent our faculty and other employees. Some employees have voluntarily reduced their salary and hours. And we recently reduced our full-time workforce by 122 positions to further close our budget gap. Those reductions were associated primarily with areas of greatly reduced activity due to the pandemic, and those activities are not likely to resume for an extended period of time.

These difficult steps will achieve temporary and permanent savings. In parallel, we continue to explore organizational restructuring, operational efficiencies and additional personnel strategies to further reduce expenses, which will likely be necessary.



The hard reality is that the financial difficulties facing UD — and all higher education institutions — are not a one-year event, and the road to recovery will extend over the next several years. We are already looking toward the challenges for FY22, including a reduced ability to recruit new students, a continuing need to increase student financial aid and the uncertainties of the economy and its effects on our students and their families.

As you can see, to reduce our deficit we've tightened our belts, leaned on our endowment and even eliminated some of our core workforce. The University has very few cost-cutting options left to help us deal with the unprecedented challenges thrust upon us this year.

## FY22 State Operating Appropriation

**Request**

- \$127.4M
- \$0 increase in base budget
- Only increase is \$2.25M for Delawarean scholarships



Director Jackson, you asked that we present a flat request for our operating appropriation, and we have essentially done that. As I said, our only additional request is for \$2.25 million to help fund scholarships through the First State Promise program.



We appreciate the increase of \$1.2 million in financial aid in the FY20 appropriation. It certainly helps, but the state's contribution is not keeping pace with the actual cost of educating Delawareans.

The state's appropriation covers a portion of the discounted tuition rate we offer Delawareans, but not all of it. For each Delaware-resident student, UD uses funds we raise from other sources to subsidize about \$6,000 a year toward their in-state tuition rate. This is in addition to need-based and merit-based financial aid. In all, it costs UD about \$33 million per year to subsidize the education of Delawareans.

This subsidy has grown over the years. And given the University's current financial status, this is not sustainable.

### First State Promise Program

- **Request:** \$2.25M in FY22
- When fully implemented — Would cover full tuition and mandatory fees for Delaware students whose families earn less than \$75,000 a year
- Laddered support for housing and dining costs for students with greatest financial need

A photograph of two young women sitting on a grassy lawn in a wooded area. They are both wearing face masks and casual clothing. One is wearing a blue jacket and the other a white t-shirt. They appear to be engaged in a conversation.The logo of the University of Delaware, featuring a stylized 'UD' monogram and the text 'UNIVERSITY OF DELAWARE'.

That's why we continue to advocate for a consistent partnership with the state to fully fund the proposed First State Promise program.

This initiative would cover full tuition and mandatory fees for Delaware students whose families earn less than \$75,000 a year. The program would include laddered support for housing and dining costs for students with the greatest financial need.

Our request for \$2.25 million this year will allow us to keep building the First State Promise program because, as I mentioned earlier, we're seeing more Delaware-resident students who need financial aid. We have to make tuition affordable for these families, and we have to fund the academic support, health and well-being services and other assistance that these students need to be successful and graduate.


The First State Promise program will be simpler for families to understand. It will encourage and enable more students to enroll — especially those from racial and socioeconomic minorities — and allow families to more accurately plan for their college costs.

Having this program in place and fully funded as we emerge from the pandemic will be a huge advantage for Delaware students and their families.


What's more, it will help the whole state's economy bounce back and grow as we recover from the pandemic.

Residents who hold bachelor's degrees from UD earn about \$43,300 more than those with just a high school diploma—an additional \$1 million over their lifetime—so they pay higher taxes, spend more money in our economy and use fewer state services, such as Medicaid. The whole state will benefit from their higher incomes, as well as the innovative mindset and entrepreneurial spirit they will bring to the state's economy throughout their careers.

### Impact of a 5% Reduction in Appropriation



- Negate the FY20 increase in Delawarean scholarships
  - Fewer students receive aid or students receive lower aid
- Equates to 58 faculty positions
  - Possibly higher student-faculty ratios, risking quality and student success
  - Look to fund positions with other means, incl. tuition increase
- Reduce support for students and faculty
  - Hinder research, teaching, community programs
  - Fewer seats for nursing, engineering, scientists, etc.



You also asked us to prepare an analysis of what a 5% cut in appropriation would mean for the University. As you can see in our budget request, such a cut would have a significant negative impact on the people and programs that are at the heart of UD, not just now but for many years to come.

A reduction in scholarship funding would offset the \$1.2 million increase from FY20. Cutting financial aid for Delawareans would mean we would have to either help fewer students or limit the amount of assistance we can provide.

We are also concerned that a 5% reduction would equate to 58 faculty positions. If we were to eliminate those positions, this would create a harmful ripple effect by increasing student-faculty ratios in some areas and creating additional barriers to student success. To prevent such a scenario, we would look for other ways to fund those faculty positions, such as increasing the in-state tuition rate or admitting fewer Delawareans whose costs need to be subsidized by the University.

Among the UD programs that receive restricted state funds through the appropriation, a 5% reduction would have multiple effects. In some cases, the cut would result in lower financial support for faculty and students, which would hinder research, teaching and community programs.



Cuts to UD's Nursing program, for example, could lead to greater shortages of nurses in the state, as well as an overall reduction in the quality of health care in Delaware. Already, there are about 800 registered nurse positions that are left unfilled in Delaware. That situation will only get more acute, as the demand for nurses grows over the next several years.

The story is similar for the UD programs that prepare the teachers who will work in Delaware classrooms and prepare the engineers, scientists, business students, public policy students and others who help drive Delaware's economy. In all cases, lower state funding will mean increased costs for Delawareans and/or fewer opportunities for UD students to make long-term contributions to the state's economy.

## FY22 State Capital Appropriation

**Request**

- \$10M, equal to FY21
- Maintenance in academic buildings with teaching/research labs
- Enable UD investment in other high-impact, job-creating projects (biopharma, fin-tech, advanced manufacturing, etc.)



As I mentioned, we have scoured our budget for every dollar we can use to carry on our educational and research mission while preserve as much of our core workforce as possible. This has meant scaling back our spending on capital projects this year.

We have postponed the planning for large building projects for at least a year, and we are addressing only critical maintenance needs. The only capital projects continuing are those nearing completion or those fully supported through funds from the state and/or public-private partnerships.

We appreciate the \$10 million the state provided in a capital appropriation for FY21. We would simply ask that this amount be maintained in FY22, which would allow us to keep up with maintenance of our teaching and research laboratories.



In several of our labs, we need to upgrade HVAC systems that accommodate specialized equipment such as fume hoods. We also need to repair the building envelope and roof systems, upgrade electrical systems, and install or replace emergency generators, fire alarms and fire suppressant systems.

By helping us meet these critical maintenance expenses, the state enables UD to spend funds on other capital projects that benefit the state economy in the long run. These include the Ammon Pinizzotto Biopharmaceutical Innovation Center on the STAR Campus and the financial-technology building that is being built near it. These facilities — and others planned for the future — will help put Delaware in a strong position to thrive as we recover from the economic effects of the pandemic.



Indeed, the pandemic has challenged the state and UD — as well as our entire world — in myriad ways. No doubt, additional challenges lie ahead.

But I believe that challenges also bring opportunities. We have the opportunity to strengthen the educational pathways for Delawareans. We can ensure that Delaware students and their families continue to have access to an affordable, world-class education close to home. We can expand our capacity for teaching, research and community service to benefit our entire state. And at the heart of these opportunities is the strong partnership we have built between the state and the University, one that is absolutely key to a successful future for us all.

Thank you for your time, and we would be happy to answer any questions you might have.

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