

January 12, 2010

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Senator Lavon Heidemann
Nebraska Legislature
% State Capitol
District 1
Lincoln, NE 68509

JAN 14 2010

STATE BUDGET DIVISION

Dear Senator Heidemann:

In accordance with the requirements of LB 1, I am writing to report on the University's plans regarding implementation of budget reductions that resulted from the 2009 Special Session.

The University's four campuses function under shared governance, in which faculty and staff participate in significant decisions concerning the operations of the University. As such, the process of determining how to implement budget reductions at the University of Nebraska includes, at a minimum, the following steps:

1. discussion with the chancellors regarding the magnitude of the required reductions for each campus;
2. preparation of specific budget reduction recommendations by the chancellors after consultation with pertinent campus groups including the chancellors' cabinets, faculty senate representatives, academic planning councils, and other groups as appropriate;
3. discussion with the chancellors on proposed budget reductions;
4. finalization of plans to reduce the budget including the approval of the Board of Regents, where appropriate.

As a result of the recent special session, the University's state appropriation was reduced by \$8.8 million this year and an additional \$15.3 million in the second year of the biennium. Because of the process we follow for permanent reductions, I expect we will make one-time reductions this year, followed by permanent cuts which will take effect in the second year of the biennium. Over a number of months, I will be having discussions with the Board of Regents, chancellors, and others on issues such as 2010-11 salary obligations and tuition increases. Decisions on these issues are not likely to be finalized until the Board approves the University's 2010-11 budget and tuition rates in June 2010. Therefore, the overall budget reduction the University will be facing in 2010-11 is still unknown.

One immediate impact of the current year's reductions is known. I decided, after prior consultation with the leadership of the Board of Regents and the Business Affairs committee, not to invest \$3 million that was originally included in the University's 2009-10 operating budget for Programs of Excellence. This will delay funding of new faculty positions and programs that are important to achieving our long-term strategic goals. This is not a practice I want to continue over the long term, but in this difficult fiscal environment, it is action I can take that will help protect existing jobs.

While we will not know the specific actions that will be implemented to manage the remaining reductions until the shared governance process is completed, past history indicates the reductions will have a significant negative impact.

The budget reductions will almost certainly permanently affect jobs on our campuses and across the state. In our current 2009-10 operating budget, new revenues from a 1.7% state appropriation increase (passed last Spring by the Legislature) and a 4% tuition increase were not sufficient to cover projected operating expense increases. Permanent spending reductions of \$8.5 million were required to bring the budget into balance. As a result, 103 positions, 27 which were filled, have already been eliminated this year prior to the special session reductions. While personnel expenditures are by far the largest part of each campus's budget, we are also reviewing non-personnel operating expenses for savings opportunities in travel, utilities and other areas. The budget passed in the special session effectively doubled the reduction required for this year – and the next cuts will be more difficult.

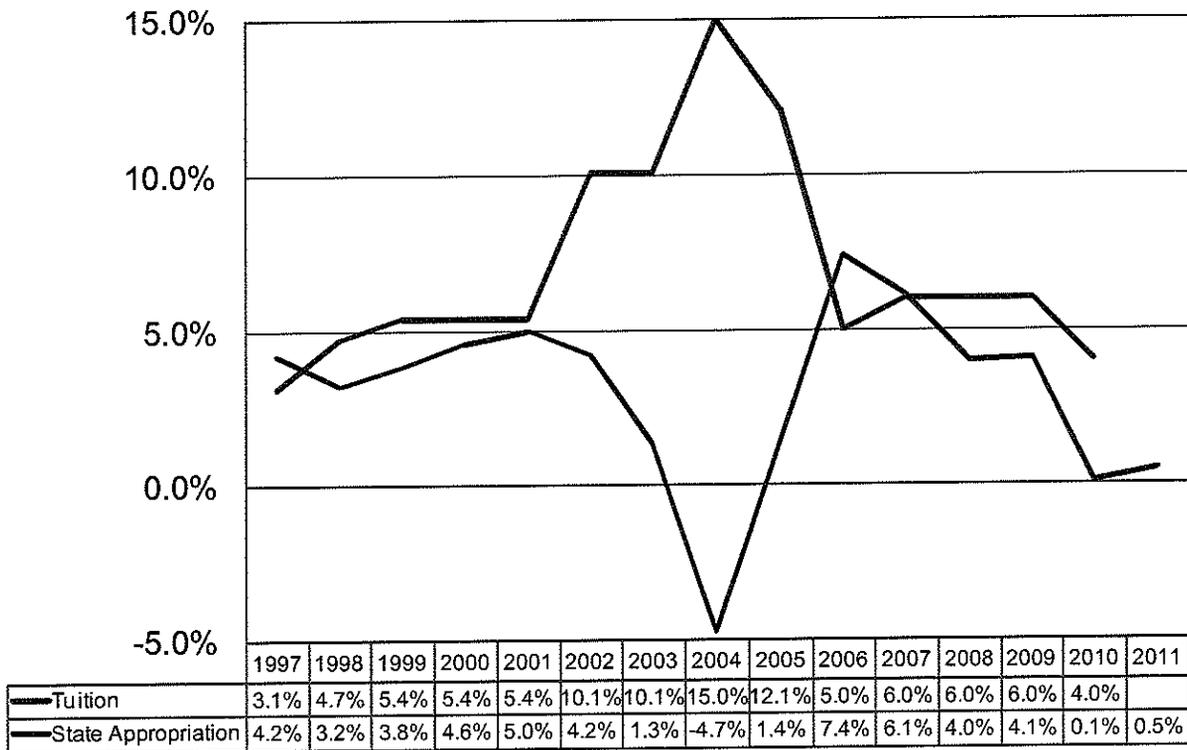
University jobs were also impacted earlier this decade when the State of Nebraska experienced fiscal problems. As a result of state funding reductions in 2003 and 2004, the University eliminated over 650 positions, 385 filled, by consolidating administrative positions, closing learning centers and veterinary diagnostic labs, and eliminating academic programs. Job eliminations would likely mean a reduced presence and reduced accessibility in greater Nebraska as well as on our campuses. It may affect our ability to address state priorities and to leverage state funds. And, it may have an impact on the significant momentum we have seen in the past five years – not only with five straight years of enrollment growth, but with success in keeping top Nebraska students in the state, record research funding in 2009 that was 20% better than our previous best year, and – especially considering the economy – a very successful year in private fund-raising.

I know vacant positions and furloughs have been of interest to this committee in the past, so let me briefly address those issues. The fact that a position is vacant does not mean it is not essential. For example, the position of dean of business at UNL is now vacant. This is not a position we would even consider eliminating. While we do not have a hiring freeze in place at this time, we are evaluating every hiring request with extra scrutiny to ensure that it is necessary to achieve our priorities. It is my view that we must continue to make strategic decisions, including in some cases making new investments and new hires, to advance our priorities and keep this University moving forward. Furloughs have been discussed as a potential strategy; however, they could be

difficult to implement at the University given issues of tenure, contractual rights, and union membership, among other considerations. And they are at best a temporary – not permanent – budget solution. The chancellors and I agree that furloughs are not a cost-savings strategy we will pursue in the short term.

In addition to the impact on jobs, I am especially concerned about the long-term impact of budget cuts on affordable access to a high quality education – which is our promise to Nebraska and our highest priority. There is a direct relationship between state appropriations and tuition. Historically when appropriations have gone down, tuition has gone up – sometimes substantially, as shown in the chart below. When state support is stable, we are able to meet our goal of moderate, predictable tuition increases that allow Nebraska families to plan for the cost of college.

**University of Nebraska
 History of State Appropriation and Tuition Increases**

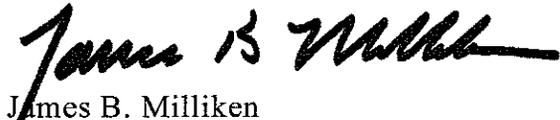


Because of the economic challenges facing Nebraska students and their families, we held the University’s general tuition increase for 2009-10 to 4 percent—the lowest level in over a decade and second lowest in 20 years. In addition, we put more funding into need-based financial aid. While I still believe this was the right thing to do, we acknowledged at the time tuition was set that the combination of lower appropriations and lower tuition increases would not sustain over time a university at the level Nebraskans expect and deserve—and especially a university that has the track record and additional potential ours has to contribute to a strong economy and quality of life in our state.

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Although we are not in a position at this time to describe additional specifics regarding the impact the special session budget reductions will have on the University, I hope it is helpful to understand the process and timeframes by which these decisions will be made. I would be pleased to provide additional information to you later this year after the budget process has been completed. Please let me know if you have any questions.

Sincerely,



James B. Milliken
President

JBM/ck/dt

cc: Appropriation Committee members
Kathy Tenopir, Legislative Fiscal Analyst
William Scheideler, Department of Administrative Services Budget Analyst