**Claim: The University does not need to reduce spending because the Governor and the Legislature have proposed level funding the University’s State Appropriation.**

**The Facts**

Although it is not yet signed into law, the University is now hopeful that we will secure level funding from the State. If level funded, the University will avoid a $76 million dollar anticipated loss in funding which will:

* Off-set anticipated $57 million dollar reduction in Spring 2021 residence hall and dining revenue for FY2021.
* Assist with funding $21 million in additional costs associated with COVID-19 testing and other related health and safety measures for the Spring 2021 semester.

**Claim: The University could use endowment funds to close the budget gap.**

**The Facts**

* Endowment funds are restricted by donors to be invested in perpetuity and can’t be used to close the budget gap.
* Some interest earnings on certain endowment funds can be spent by the campuses, but these funds are often restricted to specific programs and initiatives by the donors, and are already incorporated into each campus’ budget each fiscal year – including in FY2021.

**Claim: The University could just use reserves or the stabilization fund to close the budget gap.**

**The Facts**

There are three reasons the University can’t simply “use reserves or the stabilization fund” to resolve the budget deficit:

* The term “reserves” is commonly misunderstood: Much of the University’s net worth is already financially and/or legally committed to a designated purpose. It is not all “available cash” ‘and it cannot all be liquidated to close the budget gap. In fact, the University’s unrestricted net worth is negative due to the liability associated with postemployment benefits, totaling over $1 billion. The stabilization fund is one of the funds that is included in the University’s reserves.
* The magnitude and duration of the COVID-19 pandemic means it cannot be treated as a “one-time” unanticipated event. The financial fallout of COVID-19 impacted revenue in FY2020 and 2021 and it will likely have impacts in FY2022, creating uncertainty as to when our revenues will return to normal. It would be financially unsound for the University to spend down its reserves to cover operating costs during what we now know is a multi-year pandemic. Instead, the University needs to have a near term structural response that allows the University to manage through the pandemic without creating long term financial instability.
* Available reserves are low: The University only has enough available reserves (known as operating liquidity) to sustain operations for 2.7 months on average -- less than the recommended 3-month minimum industry standard.  This operating liquidity is needed to manage current spending. If we don’t maintain these balances, further cuts would be needed.

**Claim: The Federal Government might provide aid to the State or directly to the University to help resolve the financial situation.**

**The Facts**

* It is unknown whether or when any future federal stimulus package will include aid to the Commonwealth or to higher education.
* If a stimulus package does materialize, it could include significant restrictions on how the money could be spent.
  + - For example, the last stimulus package required higher education to use 50% of the federal money for direct student aid.
* If it does become available, federal aid is a one-time resource that does not address structural deficits that may continue into subsequent years.

**Claim: There have been no cuts in the UMass System Office (UMSO).**

**The Facts**

The UMSO has reduced its assessment to the campuses by 5%, providing $4.7 million in relief for FY2021. The UMSO accomplished this by taking the following actions:

* Implementing both a spring and fall furlough for employees earning more than $100,000 – a 4% salary reduction (on average).
* Restricting hiring, which resulted in 11 funded positions being frozen.
* Reducing the workforce by eliminating 30 vacant position and laying off 7 employees resulting in a 10.5% decrease in the number of budgeted position in FY2021.
* Requiring forced vacation usage for employees with 2-plus weeks of vacation.
* Implementing a 10% spending cut in all non-personnel costs.
* Continued controls on non-personnel spend; only essential spending which requires a justification to demonstrate its criticality.

**Claim: The reduction in Fall 2020 enrollment was less than anticipated so there is extra money in the budget.**

**The Facts**

The lower-than-expected reduction in Fall 2020 enrollment was offset by the dramatic loss of Fall 2020 housing and dining revenue.

**Claim: The University could remove depreciation from its budget, since it is an accounting mechanism and not cash.**

**The Facts**

Depreciation is a required accounting method that allocates the cost of a physical asset over its useful life. Governmental Accounting Standards Board (GASB) requires governmental entities to produce financial statements which depreciate capital assets over their estimated useful lives.

If depreciation were not properly accounted for the auditors would qualify their opinion, or at worst issue an adverse opinion on the University’s financial statements. These negative audit opinions could result in:

* Debt could be called by bondholders;
* Future debt would be significantly more expensive and difficult to secure;
* Grants could be canceled or recalled;
* Student federal financial aid for students could be in jeopardy;
* Fundraising would be adversely impacted; and
* Consequences from the Commonwealth.

The complete presentation that the Senior Vice President for Administration and Finance made the University’s Board of Trustees on September 22, 2020 is available at:

<https://www.umassp.edu/sites/umassp.edu/files/publications/BOT.pdf>

The University’s Annual Financial Report is available at:

<https://www.umassp.edu/sites/umassp.edu/files/publications/2019%20Annual%20Financial%20Report.pdf>

Additional financial information including the University’s current and previous year operating budgets and financial forecasts can be found at:

<https://www.umassp.edu/budget-office/annual-budget>