



**To:** Faculty and Staff  
**From:** Nariman Farvardin  
**Copy:** Board of Trustees  
**Subject:** Improving Stevens' Finances  
**Date:** November 17, 2011

Stevens has made great strides to strengthen its budgeting and financial controls over the past few years with a significant amount of cooperation from the entire Stevens community. We have seen how these efforts have led to improved annual operating results. The trustees and I are pleased with the direction in which we are moving, but we still have more work to do before Stevens will be on solid financial footing.

I am writing to inform you of two key issues that we must address. First, we have a projected graduate revenue shortfall of \$3.5 million in the current fiscal year (July 1, 2011-June 30, 2012). Second, we must take additional steps to strengthen the long-term financial health of the university.

Our primary goal in devising solutions to these issues is avoiding significant impact on the academic units within Stevens and protecting our academic and research programs. After considerable discussion with the senior leadership, we developed preliminary ideas that were subsequently shared with the Faculty Council (FC) and the Academic Planning and Resources (APAR) Committee. We then incorporated input from both groups and now have concrete plans to announce, which we believe address both the issues with Stevens' finances for the current year as well as issues relating to the long-term financial health of the university.

### **The Current Fiscal Year**

The plan for addressing the current-year (FY12) financial issues is described below.

1. Significant reductions will be made in the amount of approximately \$1,900,000 to the budgets of Enterprise Development, Academic Administration (not including the school budgets), the Washington DC office, the Finance Division, the Facilities Division, the Office of Development, various Auxiliary Units, Enrollment Management and the General Counsel's Office (in each case, through increased efficiency, more effective administrative structuring, delays in filling vacant positions and reduced discretionary budgets);
2. A reduction in the budget in the amount of approximately \$500,000 attributable to expenses for outside consulting fees, lobbying firms and a delay in implementing the business service center;
3. A reduction in the budget of approximately \$400,000 from the combined salary and incentive compensation pools; and
4. Budgetary savings of approximately \$350,000 in reduced depreciation and savings on employee benefits cost.

These actions will result in a total combined savings of approximately \$3,150,000 in the current fiscal year.

We still need to identify an additional \$350,000 in savings in order to fully address the projected revenue shortfall, but this level of detail may be deferred until the budget review in January, 2012. At that time, we should have a better projection of Spring 2012 tuition revenues.

The savings from the compensation pools consists of a reduction of \$300,000 in the incentive compensation pool (from a total of \$500,000) and a reduction of \$100,000 in the salary increase pool (from a total of \$438,000). The remaining amounts will be devoted to modest salary increases for our faculty and staff. We have decided that no salary increases will be allocated for executive level staff (President, Vice Presidents and Academic Deans) in the current fiscal year.

### **Overall Financial Health**

On an ongoing basis, ideally, Stevens should have a positive working capital balance of approximately \$45 million to support the ebbs and flows that occur in our cash position during the year and to allow the university to support new initiatives and respond to special opportunities. Currently, we do not have working capital at this level. In fact, as many of you know, we use a line of credit from a bank to support the cash requirements of our operations. If we can reach a point where Stevens maintains a strong positive working capital balance and can eliminate the use of the line of credit, Stevens' position will be dramatically improved.

Our current working capital deficit hampers our efforts at every turn. Readily-available examples include the condition of our classrooms and laboratories (which was reflected very strongly in the faculty and staff survey), the number of Stevens' faculty today which is similar to the number 5 years ago, and our administrative IT and student systems that are quite old (although we recently replaced our 26 year old accounting system). These limitations also hold us back from creating new programs and initiatives of the type an institution of our caliber should be pursuing. I think we all agree that Stevens has very strong programs which we can all be proud of, but they could and should be even better!

The answer to our long-term financial issues is easy and hard at the same time and derives from our own experiences with our personal finances: spend a little less than you earn so monies may be set aside, with the result being an improvement in security, stability and future capabilities and options.

The conceptual framework for our longer-term plan is as follows:

We have identified permanent reductions in the operating budget of approximately two percent (as described below). Next fiscal year, FY 2013, we will set aside that two percent, as well as another small percentage of the FY 2013 increase in total revenues. A significant portion of the total amount will be used as our first installment against our working capital deficit balances. In fiscal 2014, we will again set aside a significant portion of the same two percent identified in FY 2012, the small percentage of the FY 2013 increase in total revenues, as well as another small percentage of the FY 2014 increase in total revenues. This cumulative process should continue indefinitely and, as we reduce the operating line of credit, we will begin to use a growing portion of these annual "set aside" amounts to reinvest in the strategic priorities of Stevens. Of course, in the meantime we will do our utmost to increase other sources of revenue, including our fundraising and development activities.

As with the current year budget reductions, a critical principle of this long-term plan is achieving our goals without significant impact on the academic and research programs of the university. This plan also incorporates feedback and ideas from both the Faculty Council and APAR Committee.

The actual plan for developing the 2% permanent budget reduction is as follows:

1. A reduction in the amount of approximately \$800,000 from the budgets of Enterprise Development, Academic Administration (not including the school budgets), and the Washington DC office (in each case, through increased efficiency, more effective administrative structuring, and reduced discretionary budgets);
2. A reduction in the amount of approximately \$380,000 in outside legal, lobbying and other consulting fees;
3. Savings of approximately \$775,000 by eliminating the subsidy for off-campus student housing;
4. Savings of approximately \$700,000 due to improvements in the efficiency of procurement systems;
5. A reduction of approximately \$125,000 in financial aid for incoming freshman;
6. A reduction of approximately \$200,000 from the pool of salary increases (this is the annualized amount of reduction from the pool of salary increases described previously under The Current Fiscal Year); and
7. Savings of approximately \$150,000 in employee benefits costs.

These steps will result in a total savings of approximately \$3,130,000 on an annual basis, approximately 2% of our non-research operating budget.

### **Moving Forward**

This plan involves a long-term commitment. Stevens must have financial plans that don't simply enable survival, but allow Stevens to flourish and thrive. Budget decisions must be made on a multi-year basis and closely aligned with the university's long-term goals.

In my short time at Stevens, I have been impressed with the dedication of the community and the conviction on the part of many I have met that, working together, we can make Stevens an even greater university. I assure you that, with discipline, patience and the modest level of shared sacrifice described above, we will pave the way for a much brighter future for Stevens.

As we move ahead, I ask you to join me in supporting these plans and to raise constructive questions and comments with me and others along the way. I greatly appreciate your support.