



April 20, 2022

Dear Members of the Campus Community,

As we work toward next steps of our financial exigency process, I am sharing an overview of our progress and challenges, further defining decision-making metrics and tools, and providing a timeline of actions needed to build a sustainable, student success-driven model for Henderson State University.

### **Our Progress**

During the past four months, we have worked together to build [Henderson's Strategic Resource Allocation Model](#). This includes our [modified cash budget](#), position management, and reclassification of roles and responsibilities to improve cash position and organizational efficiencies.

The shared sacrifices of furloughs, hiring freezes, and slowing overall spending are helping monthly to improve our cash position and provide the required resources to service our debt, pay our bills, and provide the required cash to pay our salaries and benefits through the summer.

We are enhancing net revenue with changes to our financial aid and scholarship models—working to implement a comprehensive student success initiative to increase persistence and completion and restore pathways to degrees to students who have left Henderson with outstanding balances.

We have set priorities for [Academic Performance and Program Viability](#). This includes the creation of four academic meta-themes—Business Innovation and Entrepreneurship; Applied Professional Science and Technology; Health, Education, and Social Sustainability; and Arts and Humanities. We also have appointed [leadership for the new Office of Academic Success](#) to build academic programs that align with community workforce needs.

### **Our Challenges**

As we have discussed at Campus Conversations, Henderson faces three structural deficits as we reimagine college to work for all students. These deficits include:

- **Fiscal Deficit**—defined by our overall cash position and the significant shortfalls in annual operating revenues compared to our operating expenses to include unpaid vendor invoices
- **Student Success Deficit**—defined by our low overall persistence and completion rates that have had a direct impact on our net tuition revenue, overall student accounts receivable, and available cash balances
- **Instructional Allocation Deficit**—defined specifically by the overall levels of our instructional spend compared to the revenue generated and attributed to academic programs

To help us permanently and successfully address these structural deficits, the Arkansas State University System Board of Trustees approved a [declaration of financial exigency](#) on March 28. This launched a series of events defined by the [Faculty Handbook](#) and described in my [February 9 letter](#) to Faculty

Senate, including the formation of a Financial Exigency Committee to develop recommendations to reduce or eliminate approximately 40 percent of academic programs or instructional lines.

### **Decision-Making Metrics and Tools**

As communicated in the Academic Performance and Program Viability document, decisions concerning academic programs will be based on four primary metrics:

- Net cost basis of delivery and overall net revenue production
- Unit-based cost of instruction defined at the seat level
- Student success rates with weighted priority for degree completion
- Alignment to community-based needs and 21st century durable skills

Today, I want to provide access to dashboards and additional context for the first three metrics that are being utilized to evaluate academic programs in the financial exigency process.

***Net Operating Costs and Revenues***—Analyzing net academic costs and revenues allows us to understand the financial sustainability of academic operations, identify pathways to restore fiscal integrity, and define a new academic success model. For example, using this calculation, in 2020-2021, Henderson’s combined academic portfolio lost \$13.7 million on an operating basis (overall instructional dollars compared to the net tuition and fees generated); all academic units operated at a loss. This degree of revenue loss is unsustainable and why we have struggled to cover payroll costs even with state and federal funding.

Given the size and structural nature of the operating losses, we cannot grow our way out of this challenge in the near-term. Our only choice is to reduce instructional costs to better reflect actual revenues and reposition ourselves to offer academic programs that best fit student and community workforce needs.

For context, in 2020-2021, instructional salaries and benefits comprised 70 percent of total academic costs. Tenured and tenure-line faculty represent 75 percent of that amount. At the same time, total credit hours produced across the university have fallen roughly 9 percent every year since 2019. This means we are teaching fewer students with an instructor cost base that is substantially misaligned. That is why we must reduce instructional positions to meet financial sustainability targets.

***Unit-Based Cost of Instruction***—The following department-level data will provide more insight into inputs that are guiding decisions to meet financial sustainability targets.

- **[Compensation Share of Total Cost](#)**—This dashboard breaks out the share of costs in each department that are tied to instructor salary and benefits. The high proportion of compensation-related costs is why we have to focus on headcount reductions to balance the budget.
- **[Reliance on Tenured/Tenure-Line Instructors](#)**—This dashboard breaks out the share of costs in each department tied to tenured and tenure-line faculty. Tenured and tenure-line faculty make up the majority of our instructional costs.
- **[Credit Hour Production Changes](#)**—This dashboard breaks out changes in credit hour production since 2019. The decline here indicates that our teaching productivity is decreasing and is misaligned with our costs.
- **[Net Operating Costs and Revenues](#)**—This dashboard breaks out estimated operating margins (revenues minus costs) as well as total operating revenue and total cost on a per credit hour basis. The decline here indicates widening margins between net tuition and instructional costs and a need to reduce instructional positions to align with available revenue.

- [Student Success Metrics](#)—This dashboard includes departmental level-data for important metrics that drive overall institutional performance, including first-year student retention, six-year graduation rates, overall program completions, and the subsequent impact on available net tuition revenue.

## Timeline

The Financial Exigency Committee will submit its recommendations to the chancellor by April 27. I, along with the senior leadership team, also will develop recommendations, and we will forward all information to the Arkansas State University System Board of Trustees as soon thereafter as possible with the intention of scheduling a board meeting during the first week of May. These are difficult decisions, and I want to thank the faculty members who are reviewing the data and developing recommendations that are so important for the future direction of our campus community.

The recommendations generated by the Financial Exigency Committee and separately by me, as your chancellor, must build a new framework to reallocate resources for cost savings and to prioritize academic programs based on net cost and alignment with workforce needs.

Our next steps are difficult, but necessary, given the multi-year financial recovery process of the university. We must continue our progress toward financial recovery even as we reimagine Henderson as a college that works for all students. I remain available for questions and will continue to provide information as we move forward together.

Joining you in service,



Chuck Ambrose  
Chancellor