BUDGET SUB MEET & CONFER
Tuesday, November 18, 2014
1:30 p.m. – CSU238

Please note: Budget Sub Meet & Confer agendas and supporting documents are located on budget web site http://www.mnsu.edu/finadm/submeetconfer/.

Attendees: Rick Straka, Co-Chair, Roland Nord, Co-Chair, Steve Smith, John Seymour, Casey Duevel, Avra Johnson, Marie Pomije, Bryan Schneider, Joe Lehman, Jerry Jeffries, Sharon Sandland, Deb Norman, Deb Schultz, Sara Granberg-Rademacker, Lynn Akey, David Cowan, Kevin Buisman, Kim Greer, David Jones, Sandra King, Joan Roca, Susan Ward, Sandra King and Vickie Hanson

1) **Changes/Additions to the Agenda –** None

2) **HLC Appointment from Budget SubMeet (Roland Nord)**
Lynn Akey recently sent a request to appoint a representative from Budget SubMeet & Confer to serve on the Higher Learning Commission subcommittee. The Sub-Committee is charged with reviewing the development of the University's Assurance Argument and Evidence File in preparation for the University's HLC Reaffirmation of Accreditation and Site Visit scheduled for March 28-29, 2016. In addition, the Sub-Committee is responsible for providing leadership and support for institutional involvement in reaccreditation activities and visits. The Sub-Committee will meet on a regular schedule and carry out its work under the governance of the Assessment and Evaluation Sub-Meet with leadership provided by Don Larsson, Professor; Andi Lassiter, Professor; and Joan Roca, Dean of Library Services. Appointments are requested to serve a term beginning in January 2015 and ending May 2016. Roland volunteered to be the representative from Budget SubMeet.

3) **Institutional Equipment (Steve Smith)**
We are beginning the planning process for 2016 institution equipment and are looking for committee volunteers. The committee will begin reviewing equipment requests in January. The following have members volunteered to be on the committee: Susan Ward, Casey Duevel, Bryan Schneider and David Cowan. If you are interested, please contact Steve Smith.

4) **Student Employee Rates / Pay Codes (Steve Smith)**
Seeking volunteers to review student pay rates and pay codes and make recommendations back to this group with a proposal before going to Cabinet. In the past we had a student payroll advisory group made up of primarily some of the people that oversee some of the larger student help areas on campus. The last time we the following attended, Lucette Hurley from Advancement, a couple representatives from the CSU, Sandra Loerts from Financial Aid, Leslie Peterson for the Library, folks from Residential Life, Norleen Turensky from ITS. Wondering how this group would feel about us doing something similar and putting a call out to invite some of the major people that oversee students on campus.

The minimum wage will increase from $8.00 to $8.50 per hour in August 2015 and from $8.50 to $9.50 per hour in August 2016 and after that is tied to inflationary factor increases each year. This will be a big impact to the budget. One of the other things we have to ask do all of the other rates above minimum wage increase at the same rate. Looking for feedback from hiring managers to know, are they able to hold and keep people with that initial rate and are the other rates that pay above the minimum sufficient.

VP Straka-Impact of Affordable Care Act-We recently received the revised frequently asked question document about when students and graduate assistants are eligible and when would they have university paid health insurance? Issues we are going to have to deal with are, graduate assistants should average over the semester 20 hours. If we are knowing putting them into 30 hours or more a week are they going to be eligible for health insurance? What are we going to have for documentation on graduate students and will we have to move to hourly timesheets so we can verify our compliance with the Affordable Care Act, because if GAs are putting in 30 hours or more they will have to be offered state paid health insurance and it has to be the same insurance program that we have. The difficulty we have is there is not any way to sign a student up for the state health plan because they are considered student employees and they are treated differently. We have lots of questions about how we are going to implement and what the impacts will be. Students are we going to move away from during the academic year of 20 hours, but during breaks they can work up to 40 hours, then you would have to offer them health insurance. International students cannot work off campus.

We must comply by January 1, 2015. Information is gathered from October, 2013 through October, 2014 to determine the average hours that each student worked. Anyone that show up averaging more than 30 hours, we have to offer them insurance beginning January 1, 2015 and we also cannot reduce their hours. If you are hiring someone new, you could lay out that the position would be 29 or less hours. One thing to change with our processes, is when we add new student employees we will have to ask up front what the expected work schedule for summer is. Any hours a student works at another MnSCU institution would all combined and be considered toward the 30 hours.

Unpaid internships are no exception. With full-time internships the cost of the insurance would go to the employer, if they have more than 50 employees, because they would not be in the MMB payroll system.

We will need a process to inform students and help them go through open enrollment.

If interested in being on the Student Pay Advisory Rates Review Group, email Steve Smith.

5) **CFI Review (Rick Straka)**

The Composite Financial Index is the one health factor that HLC looks at and based on where we fall on the scale we either have to provide more financial information in our assessment or we are o.k.

An asset is what you own of value. A liability is what you owe. Net assets is what you own minus what you owe. You want that to be a positive number. Capital asset is our property and equipment, things that depreciate. The big value for us is our buildings. Expendable net assets is our reserve. Revenues is the cash in. Expense is the cash out and our operating margin is the difference between the cash in and cash out. The CFI is the sum of four weighted financial ratios. The first and third are based on our balance sheet and that is our primary reserve and the viability. In this process the balance sheet is are more heavily weighted than our operating results. The primary reserve ratio is our expendable net assets divided by total expenses. What you own minus what you owe versus what you spent for the year. What does it measure? It measures how many months of operating expenses do you have available if needed. Return on net assets is a change in net assets over total net assets, this does include our buildings and they have a major impact on this. When we bring on a new union building/addition or new res hall/addition we bring on the new asset and also bonding and long-term debt. Not a huge change in the net assets there. Where we really see a big change is in our general obligation bonds. The State of Minnesota picks up two-thirds of the debt service; one-third goes to MnSCU. One-sixth is spread evenly among all the institutions, the remaining one-sixth falls down to the institution. With the Clinical Sciences Building we will bring on $30M of value onto our balance sheet and $5M of debt. We will show a $25M increase in net assets. The year that we get those we have a big impact. When we don't have that happening, we have across the university, last year, $14.5M of non-cash depreciation expense. This is a big driver of what happens in MnSCU, it's unique in the way our capital projects are funded versus a private institution. Higher ratios means the institution has more protection against year to year volatility. The impact of depreciation is one we are still trying to work through with the group of CFOs and have asked the System staff to discuss strategies in December.

Viability ratio on the balance sheet, expendable net assets over a long term debt. How leveraged is our institution? Do we have the capacity to issue more debt, capacity to invest in new buildings or property? The lower value of that viability ratio may lead to lower credit worthiness and higher interest rates. Operating margin of the revenue. Dollars in and dollars out, this does include non-cash accrual expenses (depreciation). It does include non-cash payments for increases in compensated absences.

HLC metric on this, if you are a 1.1 or above, no review. Zero to 1.0, if you have two or more consecutive years, the HLC will request further financial information from you, what is your plan, explain your situation, tell us why you are in that situation. If you are below the zone in the negative CFI, then they review now, and ask what your recovery plan is?

The scoring scale-A weaker financial position is anything two or below. That's what MnSCU uses as a review. If we have two years' below 2.0 we have to explain to MnSCU why and how we will get back. We are in that position right now. We are at 1.9. Other than the two universities that got capital projects that flow through their statements last year, the rest of the institutions are below that. Two year institutions don't have revenue fund debt primarily.

The CFI is the single tool that HLC will judge us on about our financial health. Without foundation, our CFI this year was at 1.22 and 1.3 last year. We had a .1 deficit on our return on net assets, our primary reserve has been fairly steady .88 to .82 to .83. Big changes there would be spending down the $4M in big ideas. We did have some other spend down and carryforward that we allowed people to spend this last year and we had the gage project this past year. Those are some of the things that would have caused us to buy down last year. We also ended up last year a little short on tuition budget and are expecting to be short this year, which will lead to a discussion how quickly we will take a negative tuition bubble and take it to base or just say that's a temporary thing and do one-time kind of budgetary solutions to take care of it. The operating margin as we are looking at the return on net assets we are very limited, no HEAPR money for capital projects, no capital project in the general capital (because Ford Hall and Trafton had been done), so that return on net assets aligned again, you can guess if you got capital bonding money they will be positive, if they did not get significant capital bonding money it will be a negative, because the depreciation is each year, lowers the value of your net capital assets. With bringing on the Clinical Sciences Building is fully expect the next two year depending on how much we spend that we may end up with very close to a zero return on net assets if not actually a positive return on net assets.

Key drivers behind this year, the declining net assets ratio, minimal capital appropriations, significant one-time spending on Gage and big ideas strategic plans, significant growth in total net assets. In 2006 we had $120 in net assets, 2004, $110. We have doubled our net assets which means we would have to double the amount of our operating increase in net assets to have the same percentage. As you increase your net assets you need an ever bigger amount to have the same percentage return. Significant growth in our depreciation and interest expense again from $10.5M in 2006 to $18M in 2014. With the increase in those assets does come the depreciation expense for a long time, its non-cash and I believe the investments we have made have been very prudent but they do have an impact on the financial statement? We did pay down our debt over the last year, we haven't take a lot on, but we will be taking on $30M worth of debt for the bond sale for the dining facility in February so our viability ratio should go down next year. That's probably the last major improvement in the residence hall plan for a while. It will be difficult to cash flow anything significant in the residence hall side if it's at the current level of required building standards as opposed to a stick based wood construction. That was part of the 10 year residence hall master plan.
The operating margin, we had a slight enrollment decline. We had a very high summer session enrollment last year. There were some changes to the nursing curriculum which required a number of people in Allied Health and Nursing to take some courses to get back on structure. This year we are a little bit down in summer. If you look at a five year trends it really a year ago that's out of the trend line. State appropriation increase of $4M but we had a one-time spending of gage hall and strategic plans and $5M on significant depreciation expense. The last one deals with the settlement that happened in the 24th month of the 24 month biennium prior. We really haven't had a chance to adjust our base budgets to that yet because it happened not that long ago.

As accountant's we read right to left, starting with the current fiscal year and move to prior fiscal years. Actually, you will see that we have gone from a 2.23 down to 1.3 to 1.2. We are in decent shape. If we look at it with the foundation it is much more level. From 2.21 to 1.8 to 1.9, really close to the MnSCU level of 2.0 and still almost doubled the HLC level. Very consistent there.

Our CFI without the revenue fund is 3.01 and 2.99 and 2.55. Again we are heavily leveraged in our revenue fund that was planned, it was prudent and we can explain what that does in the viability ratio, those investments do have an impact on our balance sheet.

- Metro State has a negative CFI, so they are in a one-year reporting to HLC and Board of Trustees.
- St. Cloud State has a .07 CFI. They spent down their reserve by $9.5M last year in their general fund. They have gone from a $40M reserve to under $30M reserve (closer to $24M). They will have a significant buy down in their reserve this year. They are looking at $11M adjustment to their budget.
- Southwest State .18. They have been in a difficult situation, under 1 for quite some time. They have an annual workout plan that they have to MnSCU and HLC.
- Mankato at 1.22.
- Winona 1.38, similar to us the real change we have more debt than they do.
- Moorhead and Bemidji both had significant capital projects last year that helped both their operating margin and return on net assets.

Every single state university right now is on the MnSCU watch list for CFI, three institutions are on the HLC list that's a concern about our funding as we move forward.

Our unrestricted net assets trend, we had significant growth in our net assets in FY11 and FY12, in FY13 very level. That $3M operating loss, the vast majority of that is contributed to loss in the physical plant, depreciation to buildings. We still are staying pretty level with our viability ratio and primary reserve ratio.

Future financial projections as we look at project 22 is something we will have to report to the System, we would like to see between a 1%-2% growth in revenue each year, we are projecting a 1% decline this year. We are going to have enrollment management challenges and state appropriation increases and continue to see pressure on our tuition levels, continue to see pressure on inflation, health insurance cost increases. We have inflation in utilities, software is expensive and we have some major technology infrastructure issues that we have to deal with. We are hopeful that we will remain stable or improve in the next two years we should see improvement in our CFI with the impact of the Clinical Sciences project and the final phase three of the residential life master plan is going to have a negative impact on the viability ratio as we bring on another $30M of debt.

Joan Roca asked the question about Armstrong renovation. VP Straka, we have put forward two capital requests that are in the MnSCU prioritization process right now. One for $6.4M for phase three of the Clinical Sciences building and we put forward planning money for the master plan process that showed tearing down the art gallery part of Nelson and building new space moving forward. We may have some significant political challenges with the new addition part of that and we may have some issues with the debt we bring on. The renovation of Armstrong for the deferred maintenance is a major project that we have to keep on our agenda to get additional square footage, the capital projects scoring guidelines have devalued additional square footage and have more highly valued renovation and highly valued demolition of academic space. There are schools with declining enrollment and their utilization rates are such if they could be more efficient with a little less space that's actually highly valued at some of the institutions. The Chancellor and Board of Trustees are looking at the financial sustainability of square footage. We might be asked to retool the Armstrong project to more renovation and less new space and bring it back again in 2017 for the 2018 process.

6) Budget Update (Rick Straka)

Not a lot different than what we've talked about. Steve and I will know more in January when we calculate the final cost of all of the settlements and see where the final inflation comes into base, how much of the settlements were one-time and how much was base. After that process we had estimated that we would be somewhere around $1M out of balance to our base budget. On top of that this year, we are anticipating about $1M tuition shortage. Our FYE is not down, we have an increase in concurrent enrollment, we get the FYE but it doesn't generate any tuition for the general budget and we have an increase of FYE in the metro area, which is great, but we don't get 100% of those dollars it goes to paying for expenses to operate those programs in the metro area. Bemidji is in a similar situation, where they are only showing a .8% decline in enrollment, they have enrollment increases in areas that really don't help their general fund. We will have to talk about tuition and whether or not we make that base or try to do some one-time things. When we get back in January before we take any FY16 variables into consideration to get our budget balanced we will be looking at $1M-$2M in adjustments for FY16. Then we will have to talk about again what use of permanent things we will do and what use of one-time things will we consider. It is clear that President Davenport has said we are going to try to do what we can to hit areas that are not directly in the classroom. Knowing the importance of enrollment, recruiting and retention it will not be much of a change from what we've seen the last three to four years.

John Seymour asked the question about summer monies and if they have been released? VP Straka-No the monies haven't because we still have not calculated what all the back pay is for the last two summers. HR hasn't settled up the final costs, so what we've talked about doing is releasing 70% of the estimated summer profits, but we won't even see the final back pay and what those costs are in the accounting system until the December 5 paycheck. Our response will be can we try to get 70% out to the deans and then clean up in January after we fully cost back? There is two summers of back pay, 2013 and 2014. John Seymour, how likely is summer money in the conversation about the solution to the $1M-$2M gap? Is changing the way summer money is allocated one of the things on the table? VP Straka-I don't think there is anything off the table in future years and looking at future base. We haven't taken anything off the table. We are just starting the discussions. I did ask the question last Friday at the CFO meeting, I believe three of the institutions do a summer model similar to ours, three do not and three build the cash flow from summer to help support their academic year base.

Here is a brief understanding of where we stand with our sister institutions. St. Cloud is in the midst of an $11M budget deficit; Winona $1.5M last year, they are not planning so much this year; Southwest is looking at $3M; Bemidji is a little more stable, but they are looking at something; Moorhead just came off an $8M reduction; Metro has issues with a cash loss for last year and their enrollment is down.

7) MnSCU Legislative Request-First Reading (Rick Straka)

a. Preliminary Planning Distribution of $142M

There was a second reading today of the legislative request, the request is still for $142M to the legislature which is a 3% increase each year for compensation and other inflation. What really changed was language by the Board of Trustees instead of saying they will guarantee their offering up the tuition freeze, they are asking for these increases. "The Board of Trustees has been entrusted in state statute with the authority to govern and operate Minnesota State Colleges and Universities. The Board after full consultation with MnSCU constituencies will make final budget decisions including the matter of tuition at the conclusion of the legislative session. If the legislative request is fully funded the Board intends to hold resident tuition rates at current levels".

The November budget forecast will be coming out in a couple of weeks, what we have seen through the first quarter is that the State is about $46M behind, which is less than a percent. The good news was September was significantly higher and reversed a trend of being really down in July and August. I'm not expecting to see a $1B plus or minus out of the revenue forecast, I would say we would be somewhere $100M up or down which since we are not looking at any major revenue increases for the state, there will not be significant sums of money. The Governor's budget will be interesting that comes out in January to the legislature and it will actually be the February forecast that comes out in March that sets the spending limits and the checkbook for the State of Minnesota legislators. It's usually April before we get a firm guess on what the spending targets will be as we move forward. I don't know what FY16 will be, but am hopeful we will see between tuition and appropriation that we do end up somewhere near that 3% increase in spending.

The meeting was adjourned.