BUDGET SUB MEET & CONFER
Tuesday, September 15, 2015
1:30 p.m. – CSU238

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

Attendees: Rick Straka, Co-Chair, Roland Nord, Co-Chair, Steve Smith, Kellian Clink, Lynette Engeswick, Avra Johnson, Danae Quirk Dorr, John Seymour, Bryan Schneider, Matt Clay, Joseph Lehman, Deb Norman, Sharon Sandland, Kim Rademaker, Deb Schultz, Ken Adams, Mike Peters, Lynn Akey, David Cowan, Kevin Buisman, Robert Fleischman, David Jones, Joan Roca, Susan Ward, Stephen Stoynoff, Cristian Perez, Jessica Farah and Vickie Hanson

1) **Introductions –** Member introductions were done.

2) **Changes/Additions to the Agenda -** None

3) **FY2015-FY2021 Budget Planning Principles – Rick Straka**
http://www.mnsu.edu/finadm/budgetoffice/fy15_21budgetplanningprinciples.pdf
This was reviewed as a group last year and moved forward to Cabinet. This isn't here for action, but as a review item for new members. As we are going through budgetary changes and looking at how we allocate our resources, these are the budget planning principles that should apply as we move forward.

   With the upcoming HLC visit Assessment Meet & Confer has been looking at how to make sure that we can tie our resource allocations to planning and assessment. It's a big piece of what we do even in difficult times. Hopefully we would come together through the shared governance process to figure out how we would allocate new resources. When there are new resources, what are some of the metrics or rubrics by which would be the values that we place on how new resources are allocated just as much as how we would prioritize and have to reduce resources. That is something we will have to look at this year as we move forward. Related to that, using the academic plan for reasons to look for investment this should be the guide in where we invest and the investments that we make. HLC will be looking for us to make a little progress on tying the three circles together. The last time we faced a significant challenge in FY08-09, we came together and had discussion about what would we look at a matrix of priorities for reducing.

   Lynn Akey-This is representative of the conversation that began at Assessment and Evaluation SubMeet this spring and continued at our first meeting two weeks ago this fall and also echos conversation that was started at Planning SubMeet this fall with share interest in moving that conversation forward as a campus.

   A comment was made on the data book and a subgroup that worked on it a few years ago. One of the things that we don't really count is advising and would like to see that counted when we look at prioritizing. Akey-As part of the conversation at Assessment & Evaluation SubMeet having identified and looking at the instructional data summary again and what data is included in that it will also be important to review a lot of the data that was used across campus in thinking about our academic program planning, not only from the prospective of what data did we have that was helpful, but what information did we not have that we really would have liked to have.

4) **Charge of the Budget SubMeet & Confer Group – Rick Straka**
Do we have the right mix of discussion and presentation? What I would like you to think about for the next session, are there things that you would like to see the group do? What things do you want us to address during the year, how should we try to address them and what do we really believe the role of this group is? Think about it and come back at the next meeting with how to best utilize our time and resources.

5) **Budget Overview**

a) **Report on FY2015 Year End-**Last year in February we came out and talked about a $4.2M projected structural deficit after we looked at preliminary spring enrollments and finalized the cost of our inflation to figure out what we were going to do. We instituted a number of one-time kinds of solutions as we looked at reducing that deficit by the end of FY15. Rick and Steve are looking at the preliminary results on that, we still have a payroll to post, but preliminarily things look pretty good. We were able to save $.5M in equipment. We didn't spend $400,000 on two major capital improvements. We did a portion of the College of Business that was related to the Advising Center and ask that they use outside funds to do that project so we moved ahead with that project this summer. We didn't do a major library remodel. In addition, we generated more salary savings. I don't have a good way to delineate how many of those were targeted as this one-time kind of hold positions and how much was our annual operational salary savings? In Academic Affairs there was savings of summer session dollars and we asked people in their non-salary budgets to look at them. Overall as a university in the general fund we did quite well. We might show a little bit of a cash decrease from June 30 to June 30 part of that is that we had a year of back pay in there. If you adjust for that back pay we will show we were able to overcome the $4.2M for FY15. Appreciate what that means, people are being really frugal with their dollars and it also means we are not making all the investments into our students. You can go without equipment for a year, but there are those one-time things that I would not suggest we continue as it will not be healthy for us. It's important that Administration come out soon in October with finalized division plans, here's how much we were able to make adjustments to our base budgets for FY16 and how much we might still need to do one-time kind of issues or a one-time cash flow in the budget that we can do. When it comes that time, it might be appropriate to have another set of open forums. I've scheduled an open forum on September 30 with the students to discuss student tuition and fees and what the different sources when they pay tuition and fees how it is accounted for.

It will be appropriate when we share the FY16 budget that we get out and do something similar to last February and try to spread the word the best we can.

b) **Preliminary FY2016 Forecast**
When looking at FY16 and FY17 there's been a lot of change since we met last April. We got $100M from the Legislature (a good request, nearly 70% of what MnSCU was asking for). A unique thing about how the money was given this year, usually when we think of biennial math, we would see $33M in the first year and then an additional $67M in the second year for a total of $100M, but then we would see $67M in base moving forward. The Legislature gave us $50M, then a zero increase $50M in the second year. We only have a $50M base increase moving forward. There's two pots as the Legislature gave us money, but they gave us some strings on our tuition and they said universities you can raise tuition the first year, but your tuition needs to be frozen the second year. Our tuition as you look across the country that we are in the middle. The two year colleges have the second highest tuition in the country behind New Hampshire. The tuition affordability of two year students is a big deal. They froze tuition on the two-year colleges for the first year and actually allocated to reduce tuition by 1% the second year. The first year through the tuition relief there was about $13M that went to the colleges for holding their tuition level. We didn't get any tuition relief money because we got to raise tuition. In the second year in order to do that 1%, $4.3M gets shifted out of what goes to everybody through the allocation model down to restricted for tuition relief. What does that mean? Our percent share of the allocation model says we will get just under $3.3M in FY16, but actually because there is the shift of the 1% buy down, we'll get $380,000 less in state appropriation in FY17. We calculated our tuition revenue, we had a 3.55% undergraduate tuition increase at a 3.9% tuition increase that's $3.1M. We are similar to what we projected we would be down in FYE, close to what was projected last February around 140. The first year of the biennium we are raising revenue at Minnesota State University, Mankato of about $6.4M, but when we go to the second year of the biennium we are actually $380,000 less. Note that the $6M at $150M general fund budget is about a 4% increase in revenues. Now when we look at some of our expenses we originally projected 3% compensation, that would have been $2.5M and we were projecting this again, one-third and then two-

thirds. We were told to project a zero percent increase in health care. The first week of July MMB sends MnSCU a memo stating a 7.4% increase and 6.6% increase which is $1.6M different than what we had talked about last April. FICA and retirement, 3% increase and our newly estimated salaries greater than 3% because when classified contracts settled with step increases we are estimating an effective rate of about 4.1% per year. In our initial discussion of a tentative agreement in the unclassified side, a little more in year two and it's back loaded more of an increase in year two than year one. We were told the total cost of that agreement would be somewhere around 7.34% over the two years or 3.7% a year. There is nothing in here for student salaries. Our expense change is we are going to generate $6.4M this year, but are only projecting a 3.6% increase in expenses, so FY16 we have some one-time money. Once we finalize how much base budget we were able to do in FY16, then we can see how much we can use to balance FY16 or do we have anything available for investment or possibly help fund some BESIs. In 2008-09 we had some federal stimulus money that we used to not have to use the general fund to pay for those retirement incentives. This year looks great, the second year we have a $6M increase over a two-year period. $6M increase in revenue, but a $8.8M projected increase in expenses. Our expenses actually go up about 6%, but our revenue only went up about 4%, it's about 7.9% increase in compensation when we were projecting 6%. Even after the $5M, $4.2M plus some projected enrollment loss this year that we are looking in FY17 at about another $3M. There is a note that as the Clinical Sciences Building comes on in FY17, we will need to address the timing of the debt service as payments begin with the general obligation bonds, the utility costs that go with it and a review of whether we will try to clean and staff that with increased staff or whether we are going to ask staff to figure out how to clean more space. The comment was made that stretching our staff any thinner is not a good idea at all. We are incredibly lean as an organization already in all areas. I don't think this is a case of us mismanaging our expenses. Because when you look at our performance measures and our outcomes that are looked at as part of the 22 measures that the university looks at system-wide, we are pretty efficient in those things that come down to spending we do well. It's not a result of overspending, I believe it goes back to that end flow of revenues and there is a problem with the allocation model.

Cowan-What's 100 FTE student loss, what is the value? Straka-$700,000, depending on whether they are non-residence students, grad students or undergrad students. Good news, although we have just passed through our two largest classes in history in the last three years, we are entering the pipeline of our third largest new entering freshmen class in history. Hopefully we start to bubble through and we will have that level of success next year. Also saw increases in our graduation rates. Retention and recruitment are going to be key. There will be two more years of slight declines in high school graduates in Minnesota. St. Cloud seems to be leveling off, they are getting to where 1,800-1,900 new entering freshmen is their new normal. They will be leveling off their enrollment at 11,200 students, we are about 2,500 more FYE than St. Cloud. Schultz-Is St. Cloud or Mankato considered the biggest school? St. Cloud has significantly more part-time students than we do. Jones-As of Monday, we are the largest. Akey-At Mankato 90% of our students are full-time with 10% part-time. St. Cloud 83% full-time, 17% part-time students. Straka-FY17 is not unique to us. Every CFO I'm talking to in the System is dealing with this. There was discussion on first year seminar classes and learning communities. This November forecast is going to be a critical one as there is various economists predication of the impact of some of the market fluctuations that we have. Some that for personal income tax for a state that is so dependent on personal income tax, there will be a lot of opportunity for people to take losses this year and where we have gotten some big flows in as the market is churned up for two years and that's helped our personal income tax a year when people might make some very strategic tax decisions about that might have some impact. Also read, there are concerns about the economy the effect of China and other things on our economy. The current law does push a large portion of those surpluses now legislatively into rainy day funds. There is still talk if there is room for some tax cuts, we are heading into an election year that sometimes has an impact on what the legislative agenda is. The question asked about getting the allocation formulas changed so we get the money we deserve. Straka-I think there is an understanding that the current model is broken. I'm a member of the Technical Advisory Committee for the allocation model and coming out of the System Incentive and Rewards team (TAC) is a review of the allocation formula. They put forward some draft principles that will be going to the Board of Trustees in October and then we will be doing some other work. I do think there is a recognition that the current model is broken. That being said, trying to transition at a time where resources are limited and trying to create losers so that we can be a winner will be politically difficult. We have done a lot of work to show what we believe is a pretty significant underfunding of our students. My last calculation if I used the appropriation per student FYE for what we project the enrollment to be this year, we are going to get $3,700 per student and St. Cloud will have over $5,000 per student. If you calculate it on our base they are getting 37% more per student, but if you calculate it on their base we are getting 26% less appropriation per student, that being said, the difference in FYEs of 2,500 times $7,000 per student is about $18M less in tuition than we are generating. So if you look at the net there, I don't know if I want to take $18M loss in tuition to gain $5.5M in appropriation. Clearly it's hard to justify that our students would have that much of a significantly less match of their tuition dollar in state appropriation than our sister institutions. There are some two year institutions in the metro area high enrollment schools that would argue that something similar might be happening there. This model worked fairly well when everybody was going in the same direction, but as some are going down and some are stabilizing or going up and there is a change in those enrollment trends it doesn't work. In 2009-2012 when the community colleges saw 15%-20% increases in students there wasn't the state allocation funding that followed that either.

Jones-Our incoming new first year traditional students is up over 5%. International enrollment is a new greatest number for us, graduate we are about even. Akey-Graduate 1,972 total enrollment, even on continuing students 1,300, graduate first time 1,108. New incoming graduate students we had 516 last year in comparison to 525. Stoynoff-Graduate international is up 9% over last year. Total international students is up 8.8% or 90 FTEs. Nord-Can PSEO students take online courses? Jones-Yes, we changed the policy this past year so it's available. In an effort to do that we sent messages out to all of our concurrent partners as well as strategic high schools to let them know of that opportunity. A PSEO student registers last, so when there is a seat available in an on-line course they have to get permission from their principal. It is a policy change that we made, and we are unusual within MnSCU by **not** allowing them to do that before. Nord-Did we actually try to save seats for them in on-line courses? Jones-We have not reached that point, we had some internal conversations. Straka-There is legislative language that says space available, so there are questions about if you save the space and you do not allow a regular student to get in there, is that space available or not? That is a policy question out there. Jones-The simple one is financial. We don't get reimbursed the full amount what it costs to deliver that seat. Straka-In the Star Tribune article this weekend, HLC has come out stronger with rules on high school teachers who are eligible to teach concurrent enrollment with a special emphasis to the State of Minnesota. HLC is saying now we will actually pull your accreditation if you transcript courses from concurrent enrollment if the high school teacher was not sufficiently prepared (master degree prepared at 18 credits). This is a big issue for all of higher education in Minnesota and the high school students whether they are staying in Minnesota for their education or going somewhere else there is a real concern that the legislature is going one way in giving money and trying to increase that population as much as they can, there is a real concern by the high school teacher saying, what's in it for me, I don't get paid any extra money for a concurrent course. It's an incredible opportunity for our graduate programs to put together cohorts and some other opportunities for high school teachers to come back and meet that minimum amount. The big question is going to be at the high school level it that a teacher's obligation or is that a contract compensation issue with the school district? Roca-The President of the Board of Trustees of HLC is the President of St. Olaf College, so he's getting pushback from state legislators and from school superintendents so this is an area where our legislature is pushing all of this without looking at the overall picture. Then there is the pushback against accreditation from the federal side as well. We are in an interesting environment.

6) **BESI (Board Early Separation Incentive) / Phased Retirement**

Administration shared some drafts of the proposed BESI (Board Early Separation Incentive). We have gotten some really good feedback from faculty, deans and others about the proposal. An individual would put in for a BESI, management will review the staffing needs of the department if the position would be replace or not replaced. Option 1 or 2 is driven by what's the staffing plan going to look like after they are gone? We proposed 50% of the salary if the position is not replaced and 50% of the savings if it can be replaced at a lower level. There is a change to WCSB accreditation and the ability to hire professionally certificated faculty as opposed to all PHD. Some feedback we received was on the partial replacement, that 50% may not be rich enough to incent people to retire early. There was additional feedback that even with a full salary savings 50% might not be enough. It is our goal to put forward a program to do this. This is a one-time type of expense, a bridge expense to save money overall.

In addition we put out some phased retirement and annuitant employment programs. Although the application might go to the President, it will be dependent on the department's needs for staffing.

Hopefully soon we will get out revised proposals and look at some informational sessions to answer questions. We want to get the program out and available so people can look at their options.

Another interesting feedback in the BESI was, we said at the end of spring semester, there is discussion if we would open it up to if someone had reasons to maybe at the end of fall semester for tax reasons that might make tax planning benefits to retire in December. We've considered language that may allow that. There is consideration of discussing in certain cases where because the program came out so late would we consider some type of a MOU that would allow people to not have to pay back their sabbatical if they chose to do one of these two options. In general you have to come back and do a full year, but would we give some consideration to an opportunity where someone asked. Fleischman-One of the concerns that was expressed is if there are mass retirements in certain programs and departments and the understanding that the deans work together with the chairs to look strategically at replacing those positions. Nord-If you had more than one person in the program and it came down to a differential would you have to average the different salaries? Straka-If we had a faculty member making $100,000 and one making $80,000 and the replacement cost was $60,000, we would for the person making $100,000 the differential would be $40,000 and for the person making $80,000 the differential would be $20,000. The other question we are getting if there are two people for a department that want to retire and the department feels they can only eliminate one position, who would qualify for that if there are multiple requests for limited spots? We are working on clarification with MnSCU on this. Nord-The question was posed to Fleischman, "last spring the deans were asked to look at cutting a percentage equal to $5M deficit from their college budgets. Can you tell us where they are in that process so that when we are thinking about positions and how BESIs might affect us? Fleischman-Following those plans is the answer in terms of following what plans they set forth. Nord-Do you have any sense of a timeline when we'll know that we can start searching for positions? Straka-I'll be honest I'm not as far along as the finance guy, I'm not comfortable and would prefer we would be much further along at having identified what the base cuts are for FY16 and knowing what kind of one-time stuff we have. We've got to work at the Cabinet fairly soon to come out with what we have identified so far, this is what we need to transition and then we'll be into the discussion for FY17. The different divisions are in different places with how far along they are in their planning. Fleischman-In a perfect world you would want to be searching already. It's important to remember that with the BESIs and what is coming around the corner that will give us a clearer picture of where we stand and how we can replace. Also getting deans and chairs heads around what does the academic master plan say and what do they say that they are going to be doing in terms of programs. How does the program inventory fit in with academic mapping and what courses are needed to teach. Are we replacing positions that teach large sections, upper level electives where there aren't as many students and perhaps how are we replacing and thinking more strategically?

Engeswick-What is the language for someone in the BESI as far as health care? Straka-Board policy clearly lays out how the BESI will be paid out, how much will be cash and how much has to go into a health account. It depends on the person's age, anticipated years and a formula based on your age and premium that will get you to that target date and then anything above and beyond that will be cash. The first amount is required to go to a health plan. The MnSCU policy site does explain how that works, but we would have people in HR for anyone who has questions about that and walk through their particular example. Engeswick-That would be a good thing to highlight on the proposal. Smith-For further information see MnSCU Board Policy 4.11 http://www.mnscu.edu/board/policy/411.html.

7) **Student Payroll Pay Rate**

Straka-Starting the first payroll with days that included August 1, 2015 minimum wage in Minnesota went to $9.00 per hour, so we increased our student payroll rates from $8.00 to $9.00. We made a decision as Cabinet that we weren't ready to deal with all of those differential pay ranges that might have been above the $8.00, so right now all we did is keep all of the pay ranges the same and anyone that was under $9.00 we raised up to $9.00. What we would like to do is gather a group of people who are interested. The original feedback we got from students is not just adding a dollar to the entire grid. We are looking for volunteers to look at the pay grids to come up with recommendations on how to adjust it. It's not just a one-time thing. Minimum wage goes to $9.50 next August 1 and after that is supposed to increase based on current CPI (current Minnesota legislation). What do we do with these grids annually as we see a required cost of living adjustment across the board?

Smith-Here's a little more background on the issue. We haven't had an increase to the minimum wage in nine years. Bumping pay from $8 to $9 did chew up six different ranges of categories of pay for students. It really makes a job classification and the skills that are required for each obsolete. Last year we talked about taking this task on but ran out of time. At last year's meeting we talked about forming a committee, primarily of members who supervise students around campus. In doing this review we also want to do a look at the market and what's happening now that the rate has changed for everybody, what is happening in the private sector? Are we struggling to get people hired because we are still too low at $9.00 or is $9.00 o.k. as a base? Our plan for the committee was to have that committee tackle the issue, give feedback, put together a proposal, bring that proposal to this group for additional feedback before going on to Meet & Confer and Cabinet makes the final decision. Graduate students are not included in this with the 20 hour rules and expectation of graduate students there is not any concern that they will run into minimum wage concerns. It's not an automatic pay increase right now, this would be considered a separate discussion item. The graduate assistantships also get the tuition benefit. There was a graduate studies task force committee that met last year to review a number of different things with the graduate assistant program. It's probably worth discussion again in the future.

8) **Open Questions / Rumor Control**

a) **Clinical Sciences Building Basement Funding (Rick Straka)**

There was a decision made and we went along in the process last year of having two designs and two bids. The differential was much less than what we had thought it would be between the bid with the basement and without. It was around $900,000. We still had $1.2M left that we had restricted and set aside for the Gage demolition. We transferred $1M from that fund and moved some of that savings over to take care of that. Additionally, at one time we hoped there might be significant donor possibility to offset that. We aren't going to have to take anything out of the FY15, FY16 or FY17 budget to cover it.

b) **Size of Reserve (Rick Straka)**

We will start that calculation soon. We get our cash around the end of September, we'll be expecting as we close out the last payrolls we will have a report of what our cash balance is with the State Treasury and we will be asked to determine what all of the restricted carryforwards are. We will have to recalculate how many encumbrances moved forward. At this point and time I would expect that we will be in the 5% to 7% range. The one-kind things we did last year we think generated enough savings that we're not going to see a significant buy down of reserve last year.

The question was asked if there will be any strategic priority money this year? Akey-My understanding in conversations with Planning SubMeet that Cabinet has reviewed strategic priority funding and allocations that we had. We have about $100,000 that we will look at in doing funding towards contracts that advance our academic master plan and priorities. Straka-There used to be $500,000, but we haven't given much more than $100,000 to maybe $250,000 on a big year. Each year we have been doing a supplement to our recruiting and marketing budgets and Cabinet is considering making that a base adjustment and then lowering the strategic initiative fund to the $100,000 range.

We will need to wait on institutional equipment until we have the discussion about where we are with everyone's budgets and how much base did we take care of in FY16.

Schneider-Are we in our final year of our contract in Edina? Straka-We have two years remaining on that agreement. It's fair to say that there will be substantial review and discussion about that contract and the possibility of what it would cost if we went to Normandale and what would our options be if we went to an online presence versus a face-to-face presence. As we have been tasked to work together financially, with Financial Affairs, Academic Affairs and Strategic Partnerships that we will be reviewing all of our options. It will be an item that will receive great attention whether it's here, at Extended SubMeet or at Meet & Confers, the discussion of what our physical presence in the Twin Cities is going to be will be a discussion item this year.

The meeting was adjourned.