

BUDGET SUB MEET & CONFER

Tuesday, October 13, 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, Bryan Schneider, Joseph Lehman, Sharon Sandland, Kim Rademaker, Deb Schultz, Ken Adams, Mike Peters, David Cowan, Robert Fleischman, David Jones, Joan Roca, Susan Ward, Stephen Stoyloff, Cristian Perez, Jessica Farah and Vickie Hanson

1) **Changes/Additions to the Agenda** -9) BESI Timeline and 10) Open Discussion and were added to the agenda.

2) **Follow-Up Discussion – Budget SubMeet & Confer Charge (Rick Straka)**

The group was asked to do some homework last month and bring back to this meeting. Do you think we are on track for the types of things we are discussing here as we think about what the charge of this group is? Are there other things that this group would like to see or be doing? Are the discussions we have been having along the lines of what everyone is expecting of Budget SubMeet & Confer? Avra Johnson-If you could explain the budget process itself, like you do for my class on occasion. Straka-I did just give to the Student Senate an open forum session budget primer and would be more than happy to walk through something like that. Deb Schultz-At the opening meetings talk about what the role of a member might be and what to expect. Kellian Clink-Interested in long-term trends over a decade how many part-time, fixed term, faculty, administrators, staff, class sizes and the cost associated with those. To have those numbers would be interesting. Straka-If you can clarify which things you are interested in I can work with Lynn Akey to bring some of those. We can get a 10 year history in staffing broken out by bargaining unit. We have FTE trends. The way we look at it financially combines the fixed term and probationary, tenure and adjunct and grad assists we didn't pull into that particular one. We will run it with general fund and then all funds. It will give an idea of the staffing plan. We could run a basic number of FYE per staff and FYE per faculty to see what the trends are. Straka-I can bring some trends about state appropriation versus tuition and what the role has been, tuition increases and spending increases that might help. I can update some things I did a year ago to the College of Business Advisory Council. A good source that talks about the trends of higher education include system-wide we are members of the Education Advisory Board. They did a presentation for us at CFO Conference last year. We could bring in some of that, but understand that probably may come from a slant that is slightly more administrative in nature. It did a good job explaining what some of the trends are in public higher education. Even though tuition has gone up over the last decade, I'll bring some stuff to show that the vast majority of that increase has gone to state appropriation. Actually the amount of overall spending at the general fund level per student has been 2-3% on average. The last three years, including next year, you will see that the legislature has done some work to reverse that trend with tuition buy-downs and other things that has helped for undergraduates. There will be 13.55% increase in four years. We might have students that have been here four years and have seen only one tuition increase. Graduate students have been about a 3% increase, but graduate tuition will be frozen next year. Steve Smith-Another thing with tuition is there's changes over time in the amount of grants and scholarships that are made available to students. Sometimes what the students pay out of pocket is not always equal to what the increase in the tuition rate is. Straka-At the graduate level we have tuition waivers for graduate assistants and the stipends, but there is not grant and aid from the federal or state grant. But for the undergraduates there are. Even from the tuition side, a large portion of that tuition bill can be paid for by Pell, SEOG, state Grant and granted there are loans that make up the difference. The way we used to do our audit exit interviews each year we had a scorecard and one of the things we calculated each year was the net student aid. Tuition doesn't always mean it's coming out the of student's pocket, that tuition bubble can be broken down into state and federal financial aid that is another form of taxpayer support.

Clink-There is also unmet student financial needs, what are the trends there? At a certain point there were a lot of students needing private loans and unable to get them because of their parents' financial situation. Straka-We have seen an increase in that. With some of the changes, getting to that cap is a problem, there has been changes to the sub and unsubsidized loans and there is a step that students have to take to get an increase in their unsubsidized loan value to get to the full cost of attendance that requires them to apply for a parent plus loan and be denied in order to get the additional federal loan support that they can get. Yes, it's a concern and a concern that students who are only taking 12 credits a semester and take 5½ to 6 years could run out of federal aid because the movement of the federal government has been to lower the maximum number of credits attempted to get a degree.

Straka-Recap thoughts on charge:

- 1) Looking at the role of the member of the group or charge being something that is done in the beginning of each year.
- 2) Look at a primer overall as reminder of what we can do as part of the budget process and fund types.
- 3) Look at long-term trends.

3) Review Enrollments (Rick Straka/David Jones)

Good news, this is the week we will have to update our enrollment figures. In general we have dropped to below 1% where we were a year ago, which is better than what we had projected and given to MnSCU last spring when we updated enrollment projections. I don't know that it's enough that we will actually change that projection for this year, we will wait until January. We projected 140 FYE decline, my guess is we are on track to be a little less than that, 110-120. The trends are in the right direction. David Jones-Last Monday represented our 30th day headcounts, 15,193 which is 180 down in headcount from last year. Did that include the 70 co-hart of Brazilian students last year? Stoyhoff-Yes, that would have been included in the international headcount and since they were tuition paying students it would have factored into. A report from Monday showed that we are 61 FYE down (120) . 9%. Bemidji is even; Moorhead is down 217 x 2 semesters = 400 (\$3M); St. Cloud is down 22; Winona is down 14; Southwest is even; Metro is up 23. We are by far both the headcount and credit production leader, next highest is St. Cloud with a 1,200 full year equivalent gap. Straka-we think we will end up this year around 13,800 FYE, St. Cloud will be around 11,400. In new entering freshmen Winona and St. Cloud are fairly close in numbers. St. Cloud has more transfers and part-time students. Looking at some tuition reports that we have revenue September to September its mirroring that. We are trying to figure out the major increase in non-resident non-reciprocity tuition. Some of that will be the increase in international students.

Graduate enrollments are stable, we are down 1.5 grad students. We are seeing some growth in metro (43) and St. Cloud. St. Cloud over the last couple of years have made some investment into graduate programs, growth around 47. International is included in our overall totals, 1,126.

4) Financial Recovery Plan Update (Rick Straka)

The Board of Trustees will be looking at the plan at their next meeting. The first thing in our milestone, what are you expecting for our CFI results, operating margin and other things? The good news is people took last spring's crisis pretty seriously. People watched their spending and were very frugal. We are very thankful for that. In almost all of the institutional type budget situations that we had the variances all went to a positive last year. We had a mild winter so we saved \$.5M in our utilities. We had some significant savings in our severance budgets and fringe benefit savings. With the other one-time things we did, we actually ended up a cash flow in the general fund in accounting systems in SWIFT for the year of just under \$100,000. Now the work for us will be to make sure that we switch from one-time kind of things to making that on the base. Some of the one-time decisions that we made are not good decisions to make year after year. I don't want to do equipment multiply years in a row, as you fall too far behind in our instructional areas. It does appear that we will end up with an operating surplus for last year. Which will get us out of the financial recovery plan reporting cycle. Which is really helpful. Our CFI will increase. If we take out the effects of GASB 68

accounting for pension liabilities, our CFI would have gone from about 1.2 to 1.6. Back up to a healthy HLC standard. Even after that adjustment, we will be around .8. CFI is Composite Financial Index (four financial ratios that measure, two are balance sheet related, two are operating related), they are to measure relatively the financial health of higher education institutions. When we input the GASB, the effect on our financial statements is \$44M liability we had to take on for MSU Mankato's portion of the unfunded liability associated with the pension plan we participate in. We had to bring on \$44M onto our financial statements as our portion even though we are not responsible for managing the state's pension fund. We are going to restate our beginning net asset value by \$44M, we will still be positive as not all in higher ed are seeing that. The CFI has really only been the last five-seven years is when it has really come on. HLC says if you have a 1.0 or above you don't need to report any more on your finances. If you are between 0-1.0 you will be on a watch list and if you get below 1.0 you need to give us additional financial assurance that your institution is healthy and is addressing the situations. We are still going to be a .8 after this. HLC is really not quite sure how they are going to handle this pension liability issue. The private institutions are responsible for their pensions. We are talking about defined benefit plans where you take years of service and your salary and you get that much in a salary. We are not talking about a number of our plans have switched over to defined contribution which means you put in some out of your paycheck, the employers puts into, like a 401K where you go out and manage our investments. But when you retire it's whatever the cash balance that you have in that retirement account is what you retire on. It is a personal decision after that if you to do annuities or something else to lock in a return on that. For example, the State of Minnesota for our TRA and MSRS you might hear every so often that the state pension plan is \$100,000M underfunded. What happens is there is actuarially tables that project how long people are going to live and based on their retirement what are the expected payouts, what happens the markets over here takes the value that goes against that projected liability and the assets in a good year when the market was at \$18,000 are more closely funded. When the market drops to \$16,000 they are more underfunded.

Illinois is in a horrible situation in Chicago with their pensions. They are only 30-40% funded. There is talk about considering throwing out the CFI for public higher education and start working on some new more cash based kinds of measures for public higher ed because of the impact this has being part of larger state pension plans that just isn't the case with private institutions. Question-How does the HLC factor in MnSCU System Office? Straka-I don't think they look at the System as part of our institution's financial statement. Smith-They are just picking up the portion of our employees. Roca-They look at every institution individually with the understanding that you are part of the System. In the documentation we present, part of the assurance argument is to explain how the System allocates budgets, what the Board does, how independent it is from the institution. There are things they look for, but the System is not an HLC concern. They look at institutions and also the GASB changes is also to compare more closely with private who have to include those liabilities in their asset sheet. In Illinois, the state institutions have been working without a budget for four months and they are running out of reserve and running into big trouble. Their legislature is not doing anything at this point. The reserves make a big impact on your CFI. Straka-Our system has been shifting more towards defined contribution plans. We lagged behind the private institutions who have made that switch, so their liabilities are continuing to shrink. There are grandfathered people in the defined benefit plans, but new faculty and staff have tended to be in defined contribution plans for a much longer period of time, they are filtering out the most senior employees who are still in those plans. The other liability that is out there is retiree health insurance, it's been quite a while since new employees have had that kind of a benefit. When I started at South Central and they were part of the school system, faculty members and administration who retired were given guaranteed health insurance for life, throughout their retirement. You don't see those kinds of things anymore.

As we look at the Clinical Sciences Building coming on next year will again give us a big increase in our net assets. As we bring on \$25.8M of asset, we only have to do 1/6 of that as our debt, 2/3 is picked up by the state and half of the remaining 1/3 is picked up by MnSCU. We bring onto our balance sheet 5/6 of that major capital project in an increase in our physical plant property assets for

next year we will see a huge change in net assets. What comes along with that is 30 years of \$1M a year depreciation expense. The discussion remaining ongoing on how to deal with that non-cash expense. In years when you don't have a major capital project, do you sock it away in cash or do you recognize that you have an accrual based accounting loss but watch our cash flow and unrestricted reserves because what changes is the reserves in your physical plant.

We talked about our residence halls. We actually added 100 beds to our residence hall portfolio last year. As of the 10th day count, we had 2,932 out of 3,004 beds filled, which is 97.6% occupancy rate. That is not the case at a couple of institutions that are in the 60 and 70s for occupancy rates. St. Cloud now has one or two residence halls that are not operating.

The general update and look this year will be a good year. Our salaries for faculty and ASF are back loaded into FY17, we also got to raise tuition this year. We got our increase in state appropriation and got a smaller part of our expenses for salary so this year the cash flow is good. Next year there will be a slight decline in our revenue and we will take on the back loaded salary increases. Next year will be a big change and we are estimating a \$3M base deficit for FY17. FY17 is a problem all across the system. All of my colleagues that I'm talking to are talking about going through processes on campus about how to address base deficits for FY17 and beyond. The newspaper reported \$9.5M for St. Cloud and \$4-\$5M for Moorhead.

Our financial recovery plan will be received positively by the Board. We actually are performing better than what we had first laid out last February and better than we had reported in May. I want to be sure to balance that with knowing that there are some opportunity costs that came with how good everyone was at saving their money.

5) HLC Update / Budget SubMeet Role (Joan Roca)

Lynn Akey, Roland Nord and Joan Roca are the representatives on the HLC Assurance Committee. We are to the point where we will be finalizing a draft that will be available for the campus to review within the next week or two. We should be on the agenda for the November 17 Budget Meet & Confer. When this goes out we will send a note to the submeet pointing out a couple of areas we want you all to give us feedback on. One will be Criteria 5 which has to do with planning and budget as the university closes the loop on assessment and budget processes and also some parts of Criteria 2 that describes the university as a whole and our general processes. Those two are the areas that would be of interest to this committee. You are welcome to review anything else, but we will appreciate feedback on those two specific areas to make sure that 1) we include all of the evidence that's necessary to demonstrate what's in the criteria components and subcomponents and that there is nothing missing there 2) Also, that we don't make any misstatements on our end. I think from what I've seen so far the document is shaping up very well, but it's always open for revision. Stay tuned, we will be sending out that as part of our roles and we'll put in on the agenda for discussion.

Straka-M&E Budget Policies were last updated on our website in 2005. Thank you to the HLC folks as they are looking at our assurance file to make sure we did this. We did discuss as a group in January 2014, what we didn't do is close the loop back and formally recommend and update going forward. We also had input from the policy committee, saying we don't believe this is much a university wide policy as perhaps it might be fiscal procedures for carryforwards. Should we at that time say this is less of a university policy than it is a fiscal procedure for the university? We have the Budget Planning Principles that we reviewed and updated last year, this is more the mechanics as how we would handle what we want to do. On the Budget Meet & Confer website if you look in February 2014 there are notes that do detail some of the discussion that came up around our budget policies. Maybe some homework would be to talk about how to better document the difference between these mechanics and the principles that we do. The principle in the budget principles say even in times of declining resources we will look for places to invest. There were questions that we had discussion here do these policies or procedures reflect that? I'm not so sure they do, this is more of what do you do at year end as opposed to looking forward and planning. I would like you to review these and look

at the notes from February 2014, bring back for discussion in November on what we can do. Look at the carryforward and where we have given some flexibility or inflexibility in salary savings throughout the year. I would like us to make any changes including the title of the document and getting it updated so it is in place for our assurance file. A big thank you to the HLC folks. That's the level of detail that is going on right now with that group.

6) Dining RFP Update (Rick Straka)

The RFP went out, we had responses this summer. We had interviews on campus in October and we are in the process of trying to evaluate the responses. This might be the most apples to oranges comparison I've ever tried to make in two responses and sometimes I think its fruit and vegetable. Clearly they want to make unique points, but hard to balance how much capital they bring to renovate the food service facilities, residential life facilities or the student union facilities and how much do we want to change the physical aspect versus what is the impact of that on the return for commissions that really affects what the student union has to operate on for a budget for their commissions and also the real concern is how to I ensure in these proposals what actually ends up on the plate and what the food experience is in our dining program for students in the board program. You don't want someone to come in and low bid and then it means you might get fresh fruit two mornings a week instead of five mornings a week. It's a really interesting process to try to figure out. Some of the capital improvement will cause us to say how much of our money do we need to put in to make a couple of those proposals happen. We hope to make a decision by February or March 2016, because if there is going to be a transition, we need some time to transition and lead time. The contract ends June 30, 2016. We would be looking at a five plus five contractual opportunity.

7) Verizon Lease Update (Rick Straka)

We are getting very close to having an eight year lease signed. We did have to do a short extension of the lease from last year to the end of October. We received authority in June from the Board of Trustees to enter into an eight year agreement at the Verizon Wireless Center for moving our men's and women's hockey programs down. If we go back to 2008 when we were still paying on a capital lease for some improvements for All Seasons Arena we will be paying very similar rates in the next eight years in what we were paying between All Seasons Arena and Verizon two leases. We used to have the most expensive lease in the country by far for the amount of use we got out of the Civic Center. But that was the circumstances and what the City could do when they came to bat to build that arena for us in the first place. With the help we got from the state and what we are doing here, I am comfortable to say based on our amenities and what our facility is going to be I think we are getting a fair lease rate, we are in between Bemidji and Duluth with a reminder that Duluth came with \$8-\$10M to the project up front. We have a reasonable lease as we move forward for the use.

8) Allocation Model TAC Process (Rick Straka)

The allocation framework should support the following: Academic and student success goals. It should support financial and functional sustainability of diverse institutions, programs and students. Delegation of authority to colleges and universities. Success and viability of system of colleges and universities and collaboration and systematic change by leveraging the power of the system. We really want to encourage collaboration but I will tell you that nobody has an idea how to measure collaboration. Some of the design concepts that they are hoping from this system is that it be flexible, simple and transparent. The current one is incredibly complex. It should incorporate measureable outcomes that recognize the diversity of institutions. We want to be looking at student success outcomes. What should they be? There will be a lot of discussion from other Charting the Future groups, but will be just graduation rates or certain credit bench marks, do we recognize 30, 60, 90, 120 credits, how do we recognize graduate credits, how do we recognize closing achievement gap, are there going to be awards for closing the achievement opportunity gap, will there be rewards or incentives for diversifying your workforce. There is a number of institutional and student success initiatives that are part of Charting the Future. It will be an interesting role in how do we look at what other places in the country have done to measure. Then to make sure that we don't set up a game

where people alter their inputs to get better results. It is challenging as we look at this. We want to incent or reward student success an example would be retention, graduation, transfer, employability, improvement of the achievement opportunity gap, how do we incent and reward collaboration around academic planning, student access efforts. Administrative resource development, there is a goal throughout the system on how can we be more efficient with our back of the house administrative side so that we can put more money into the student directed instruction and student support. We want to reach an appropriate balance between stability and responsiveness to changing conditions. That is probably one of the most controversial right now. Our President and I may argue that stability is way too heavily weighted to the stability side right now than to the responsiveness side. Implementation of the new design should provide for a smooth transition. The last two were added by the Leadership Council by the Presidents in discussion. How to you actually put this into play and when we do this model how do we do a model that if it affects changing the size of the slices of the pie because the pie of tuition and appropriation isn't going to change in the system, how do you change the slice that will creates winners and losers. Ideally when you do that is when you have more resources so people are lessor winners, it's really hard when the resources are already tight. We will continue to move forward. An idea on performance funding, we are looking at the current Charting the Future recommendations, we've reviewed the current 22 measures we use on a system level, do any of those work? We are going back to look at states that do performance funding right now. I believe Tennessee is 100% performance or outcome based funding. We also discussed at the meeting the major change in Tennessee where they are paying for two year college tuition so it's free and the impact that has had on universities new entering freshmen classes. Then what areas should we explore and create a performance metrics again, success, access, diversity. How do we count credits and students? Advocate for full year equivalent measures.

9) **BESI Timeline (Rick Straka)**

We will be coming out soon with the final BESI offers. We are waiting to get a signed MOA, we are trying to extend the date of the contractual October 15 faculty deadline and move that date out so that people are able to look at all of their options at the same time. The feedback from the original BESI programs we had two options in the BESI: 1) If we are going to replace the position. Not all positions are going to create savings, we have some disciplines with the Faculty Association where it may cost more to hire a new faculty than the one we are replacing. Then there are other disciplines where there's up to a 50% savings between a full professor and assistant professor. The original recommendation was that we would get 50% savings. There was really good input that would not be rich enough to drive people to make a decision. We are going to turn around and offer 100% for those partials. 2) If the position is not going to be replaced, the original offer was 50% we are looking at enriching that value to 67%.

Hopefully formal plans will be out soon to be able to move forward with those programs. This ends up being a good financial cash flow kind of year for us to be able to do that. We also have built up over the years a very restricted reserve that doesn't count against our 7% reserve for compensated absences. We are in a financial position to offer BESIs this year. It is also a year where we will bring on 5/6 of a \$20M value of a building on for our change in net assets. The timing works out for us on our financial statements.

It will be open to faculty and staff. However, for the partials, other than faculty it is going to be hard to find staff position where we can guarantee any savings when someone turns over. In most classified bargaining units if anyone has the ability to bid in we are never guaranteed within the classified system that we will get someone less expensive. It's hard to guarantee savings there. As well as in the ASF it depends on the years of experience and the worksheet that comes in with whomever you are hiring. If you are a Range D replacing a Range D it's hard to say you are going to generate any savings. There is still an opportunity for reorganization that if you had an area where you had four positions and now only have three and reorganize somehow and show that it will be something to be reviewed and looked at. An employee can put in for a BESI, its management's decision to figure out if we will replace the position or not would you be eligible for. An employee can't come in and say, "I don't want to be replaced, so I want a full BESI, my department is going without my position". We need to remember that this is a management tool to help create budget savings. It is not an employee benefit.

We are not foreseeing any program closures at this time. We would have to make those decisions fairly soon and we have not announced at this time any intention to retrench. We are hopeful that doing the kinds of voluntary things we are doing, will allow us to generate the kinds of savings we need without having to go to retrenchment. Last time we offered BESIs we did have a couple of classified and some ASF employees. Schultz-If a department isn't replacing someone and that work is put onto other people, do you ever have where people would do a grievance in that respect? Straka-The bigger grievance issue is we cannot replace that work with student workers in any of the bargaining units, especially in layoffs. Decisions will have to be made about quantity and priority of work. If we used to have five people and now only four, doesn't mean that everyone will be working 50 hours a week when you were working 40. Divisions will have to make priorities about what duties will get done and what doesn't and how can you help people become more productive and help create that work. Becoming more efficient so that we can do the same amount of work with fewer people. That's what drives business and industry is continued productivity. I suppose someone could grieve it but there are lots of things that all of us have experienced in growth in our positions and additional work. Now if someone is a classification level that is expected to take on a different type of work that is at a different classification, then that brings up a question of whether we look at reclassification, how much of the job description it is, are you going from something that is ranked as clerical to something where you are given great responsibility for policy and procedure? Those are things we would have to address.

10) Open Discussion (Rick Straka)

Nord-Have you thought anymore on the open forums? I will need to get back with Cabinet and it would be most helpful if we come out and truly be able to communicate and delineate what exactly people have done to come up with the \$4.2M that we have already done. What are those base changes that have already made? At some point in time if we are not there, we may still need to go out and give a very basic overview of where we are at. I was hoping we would have a more detailed documentation of what base cuts have been made by division so far, I just don't have that information completely so far. I would hope that open forums could happen in November, but can't guarantee it. There's a lot of great things, the third largest freshmen class in history, really stable enrollment, we did great things with our budget challenge last year, we will continue to move forward and do great things. There is a lot of exciting things going on and a lot to celebrate. I hope we don't just dwell on our challenges and opportunities, but continue to celebrate all of the amazing things we do. We still do 98% of the great things that we do to educate students and I don't want all the great stuff that we do to get lost in the adjustments and challenges we face.

The meeting was adjourned.