BUDGET SUBMEET & CONFER
Tuesday, January 15, 2019
1:30-3:00 p.m.
CSU245

Please note: Budget SubMeet & Confer agendas and supporting documents are located on the Budget Website: http://www.mnsu.edu/finadm/submeetconfer/

Attendees: Rick Straka, Lisa Baures (Co-Chair), Gregg Marg, Scott Page, Claudia Pragman, Leah White, Bryan Schneider, Matthew Potocnik, Anne Ludvik, Deb Norman, Jane Kolars, Mark Constantine, Mike Peters, Robert Fleischman, Marilyn Wells, Lynn Akey, David Jones, Matthew Loayza, Jean Haar, David Cowan, Steve Smith, Sheri Sargent, Kevin Buisman, Matt Cecil, Brian Martensen, Kris Retherford, Skye Dauer and Vickie Hanson

1) **Changes/Additions to the Agenda**
Agenda item 10) Tuition Student Related to New Board Policy was changed to Tuition Task Force Related to New Board Policy.

2) **Parking and Buses (David Cowan)**
Cowan-This committee asked us many years ago as a Parking and Transportation Advisory Committee to do a multi-year plan on parking and transportation costs and revenues. The 7 year plan which is updated every year was distributed. Column 3, we have a cash balance of $413,343, this is a good thing, but it will evaporate. Last year we ended up with a shortfall of $203,957 off a $1.7M revenue package. Most of that was tied up in improvements and lots of $276,000 which drove that into the red ink. We don't have a reserve for parking and transportation. Straka-Which I might add is a problem. We really should be keeping about a 5% reserve in the parking fund at any point in time. Right now we have balances in other funds in the university that are offsetting this. That is something we are going to have to look at. I would argue as we look at 2022-2026 we will have to figure out how we get to a point where that is more balanced and we have non-red numbers at the bottom. Cowan-The committee a couple of years ago recommended that we try to create 3% compounded annually on our revenue side of things. This constitutes the fourth year in a row that we have done 3%. We are recommending that we continue that 3%. Column 6, 7 and 8 are all 3% on top of the prior year. Spending we haven't done that for 3% we've usually done about 2-3%. We hope if this works in Column 6 we will have taken down the carryforward balance. We think we will end up with in a couple of months to $19,395 in red. That would be carried up to the top of Column 7 and then offset and that would be the year we have a positive balance. Not for long, Column 8 sees us trying to tackle Lot 1 which is the old lot behind the Gage Towers when they were imploded. That lot continues to deteriorate with the freezing and thawing. We did work with the grounds folks, they bought a patching machine from the City of Mankato that has pretty much addressed the bigger potholes, but it isn't designed to take care of the entire lot. Lot 1 is still our priority and it's going to be $1M. The Parking and Transportation Committee will be meeting this Friday to go over any reactions that you might have or they might have to the existing plan and come back to you.

Straka-The big picture thing that I see that we need to look at is we are barely meeting our operating expenses and last year we didn't even meet our operation expenses. Before we look at doing what we need to do for capital outlays and major repair and replacement to the lots, we have a couple of choices as we move forward. We've had declining enrollment so probably declining revenues. Like we do with tuition, declining parking revenues, what expenses might decline with them, so we can look at expenses. We can either raise revenues more with rates as I don't see us garnering a whole lot more in parking permits. We've been very successful with the busing that also has been a source where we have fewer permit sales. Not looking at increased revenue, what expenses can we look at? A number of our expenses are somewhat fixed. We have very little negotiating power with the City on the bus cost and what they are charging us for the busing. If we are going to lower those expenses we are probably going to lower the number of routes or the frequency. As we go out in the future, we've got to have in front of us an idea that something has to change. Somewhere in this equation if we are going to hit our deferred maintenance and the big deferred maintenance is Lot 1. We have about

$1M there, but also coming up is the Performing Arts lot. Those are the two big chunks that we have. We should be thinking about a plan and some input on whether we think we are going to do that through revenue enhancement, cut back some services and cut back some other expenses (traffic control), or do we have to cut back some of our overhead, possibly with a new ticket software coming up. David Cowan has been working with Security on something that might allow the ability for online payment and some other things with tickets, but clearly something has to change as we know we are going to have to put some capital outlays into the parking areas and we are not generating enough money to do that now. Haar-Are all the parking lots at capacity and are all still needed? Cowan-No, we actually have one lot that has not been used much, Lot 22S, Orange Lot. Straka-Plans are that is where the new bubble will go. Cowan-That might be a revenue plus for us because we are planning to put some meters in there and doing some other things to enhance it.

Cowan-Busing we had 500,000 rides last year in 8½ months, which is stellar when comparing to other campuses in Minnesota. The bus people came up with a grant to help create a new route down to the Hubbard Building, which is an express downtown bus, which touches Hubbard, Social Security Office for the international students, Hy-Vee, Western Union for the international students, but Hubbard was the destination, that leaves Nelson every 30 minutes. Straka-Where we save the most money, not much money on an empty lot, but if you don't replace Lot 1, one of the dominos you push then is a lot of our students who live in the res halls are we going to push them another half mile away from their res halls. I can imagine some not exciting support on that from the students. That is the issue we have, we might be able to eliminate some, not replace all the stalls in Lot 1, but there is still significant green parking that happens in the area. Cowan-We do have the expense of shuttles going back and forth to those lots. It's a 10 minute walk from Sears to their lots.

Cowan-We are planning to raise permit rates as you will see at the bottom of the spreadsheet. We haven't as a committee endorsed anything yet, that it will probably happen on Friday. Straka-3% changes in revenue are what people seem to be somewhat comfortable with, but that is only going to cover the inflation, it's not really going to eat into the structural problem we have right now of having to make significant repairs and upgrades on lots as they come due. We have a cash flow right now that just barely pays for the operating expense. Demographics, hopefully we can get stable as we move forward, but I don't think we are going to grow our way in the number of parking users. Cowan-We lost about 10% of our potential revenue growth when moving from 200,000 rides a year to 500,000 a year. Rick mentioned that is basically why we have that empty lot and why we have the ability to have something close to the bubble which is empty. Straka-We have a plan that gets us to at least a positive cash balance through 2021, but I think we need to be thinking about 3-7 years out saying we have a structural issue in our parking budget coming up and we are going to have to plan for it eventually. Question-Do you foresee an increase in the amount of people riding the bus? Cowan-That is all dependent on enrollment. I made a pitch in front of 110 new international students, most of which have no vehicle. They seem to be surprised that Mankato has a relatively robust busing system with its reach further out to the apartment complexes, several of which they are the ones that are renting. That busing thing I find is a recruitment tool for the international population, which it was not originally designed to be. I think as the international tuition dollar is helping to keep other things a float, so too is their ridership numbers helping the City and us to keep our ridership up. No, I don't see a major increase.

Kolars-How are other campuses paying for their maintenance and repairs? Are they paying for it through the parking? Straka-Yes, that is actually a state requirement. Parking funds for universities and colleges are separate funds, all expenses related to parking, operating expenses, etc. are to be paid for by user fees. It's not from the general fund, it needs to be a user fee. Other people do it differently than we do. The universities tend to be different than the colleges. Most of the colleges tack a fee on everybody and say here is your $3 per credit parking fee. Everybody pays a parking fee regardless, they don't worry about permits and other things. Southwest is a little bit of a mix, you pay a certain fee, but if you want to be closer you can buy a permit in addition to your fee. Metro has a pretty high parking fee because they built a big ramp. Everybody has to either through a per credit fee or per permit based user fees and the ticket revenue and other things is what has to pay for the parking expenses. Tuition is not to go to pay for parking. There has been an exception occasionally if there has been a major capital outlay in terms of a new ramp. Metro took about $6 or $7M of soil remediation. There was no way they could generate that. Going back 10-12 years when St. Cloud built their ramp, they were allowed to tap a one-time, got special permission, to use money out of the general fund to go 50/50 on their parking ramp.

Cowan-We will come back to the group with our committee recommendations. Buisman-Regarding the pay lot has any thought been given about going from an attended lot to more of a metered lot approach where you have a centralized pay station, where the stalls are all numbered? Cowan-There would be a savings in personnel costs. Buisman-It might even be an arms free type thing, you are dependent more on enforcement instead of corral them in there. There are lots of unattended lots in the Twin Cities. Cowan-The meters we are thinking about putting out in Lot 22 would be tied to credit cards. Buisman-Maybe the opportunity is there with the visitor lot. You are paying for a convenience, you want to park close and you don't want to buy a permit, so you are paying for the convenience, maybe there is an opportunity to bump up the rate a little bit. Haar-I guess I don't see the visitor lot as convenience, it's trying to make us have a welcoming campus when we have off-site visitors. Straka-When we have major events we have visitors, but we have significant student use on that. Cowan-We will continue to look at these options.

Straka-When you are talking 15% of your revenue that you need to figure out how you will create 15% more to pay for the $280,000 a year in improvements, that is significant, that is not going to be nibbling around the edges, there is going to have to be a significant change to make that happen. We may not have to address this next year, but we are going to have to have a plan eventually. Another alternative is do we go out as part of a revenue bond and try to get an influx through a revenue bond. But then we are moving our parking fee from being a local generation, we would have to move everything into the revenue fund, then we get a revenue fund assessment every year. You are paying debt service, you get a capital improvement right now, but what do you do for the 10-20 years it takes to pay off the bond, your precluding other improvements in that meantime. There is a lot of balancing to do on what is the best way to move forward. It's important we try to at least cash flow this and it's not a continued annual deficit. In 2022-23 I don't think a $700,000 increase in deficit is something I'm going to recommend to the President.

3) **Enrollments (Rick Straka)**

Straka-As of Monday morning we are down about 118 FYE for this semester. That is actually a little bit of an improvement from last semester when I think we were about 130 down the first semester. Bemidji is down 2.2%, Moorhead is down 1.9%, we are down 2.1% and St. Cloud is down 7.7% (344 FYE). They look like their loss will be somewhere between $650,000 and $700,000 FYE in one year. That is probably $4M in tuition revenue lost in one year. Winona is down 3.1%, they are up a little bit in Rochester and Southwest State is down 3.7%. We are trying to separate out the concurrent, we don't have a lot of activity yet because of the way that concurrent schedule is, most of those will come in January and early February. We are hoping for a concurrent increase in enrollment this semester from where we were. If we are down double this is just one semester, we had projected being down 250-300 FYE this year. We were down in summer a little bit and down in fall. We will have better information when we get back next month, but at those numbers I would say between $1.5M and $2M in tuition is what we will be down from what we had talked about. If you remember when we showed that legislative impact and where we were at, we were about $2M structurally out of balance. We showed that we had another $1M out of balance for tuition from a year ago, when we had a decline in enrollment, now another decline in enrollment maybe $1.5M-$2M. We are going to have to do something structurally to deal with the fact that just inflation and the money we got in state appropriation was about $2M out of structural balance and this year we used reserve and some of the savings from last year. The System got more money in FY18 than we did in FY19, but we added all the expenses. We carried forward some money, applied about $2M to balance this year, but we are going to have to get that back in structural balance. I've talked about $4M, and bring a number of other items that Steve and I have put together that have also happened. When we look at the cost of what HR TSM is, picking up Outlook 365 centrally has been, what our charge back for Marketplace is, what our chargeback for a few other things from the System Office is, we are going to have to talk about how we make some restructuring as we head into FY20 and beyond. A big chunk of that $3M is going to be our enrollment loss. Last year it was really centered on new entering freshmen. We had a smaller new entering freshmen class, this year we recovered with our NEF class. We really saw a much bigger transfer out of sophomores from last year to this year. Positive news, our commits for next year are really looking positive. We are up about 140 in housing reservations compared to a year ago, and we are almost 60% in to what our ending housing numbers would be. We've passed the more than half way to housing numbers. Jones-We have 100 students who have completed the confirmation step for next fall, we are up just over 6%. Our transfer students for next fall is up 5.8%. Straka-There are some positives on the horizon for what we are doing for our new classes and hopefully we will continue to work on things that we can do to work with retention and completion. Those are going to be critical for us as we move forward.

Did anybody listen in to the Reimagining MN State yesterday morning? I thought a great deal of what was discussed was that in public higher education, not just MN State, but higher education across the country financially it makes business sense as well as it's the right thing to try to improve our graduation rates. The right thing to try to lessen our opportunity achievement gaps and as our underrepresented students become a bigger part of our population it makes business sense to lessen the gap, otherwise you really are building in a lower retention rate every year. If you've got that gap and those students are a bigger part every year of your demographics, then you are building in a retention rate loss. They talked a great deal, both John O'Brien from Educause and Tiffany Mfume from Morgan State University. Really the focus was on student success, retention and completion and trying to eliminate reduce. Effectively eliminate those gaps that it's not just a nice to do financial thing for us, it's a, we need to do that to be financially sustainable.

Provost Wells-You mentioned a few minutes ago how we recovered in first year students and some other areas, but you mentioned this year that we have a bigger sophomore transfer out rate. Can you talk a little bit more about that in terms of what you looked at? Straka-Clearly we can see transfers out of students who want to be nursing majors and we can see the four primary institutions that they are transferring out to South Central, Normandale, Metro and Rasmussen. The second big chuck that we saw was the College of Business. A lot of that has to do with those students are in good standing overall, but they are not able to meet the major entrance requirements into the college or we just don't have enough spots. I can tell you that looking at that issue as well as looking at the Strategic Budget Planning issue, Marilyn you maybe want to talk a little bit about what you have done to reallocate some resources for next year and moving forward. Wells-Thank you for that clarification. As you are all aware our programs ended up being candidates for investment, maintenance or reallocation. In the past couple of years we've reviewed requests for positions as they came in on a rolling basis. But we know we don't have new revenue so in order to invest in some areas we have to look at other areas where maybe a position may remain open vacant at this point in time or filled or needs met in a different kind of way. We do share the vacancy lists, if you look at where positions are approved you will see a correlation with programs that were on the candidate for investment list. Also, the Strategic Budget Planning Process with the candidates for investment, maintenance, etc. if we are going to keep doing what we are doing in certain programs, like Aviation. Although they were a candidate for maintenance, if we added more resources, we could admit more students. That is one of the high demand programs. It's not always the faculty line. Sometimes it's an advisor line or other support services for students in the program. The students in many cases meet the academic qualifications, we just don't have the capacity in those programs. We've been investing in the program that were candidates for investment. That is not always positions, but technology resources and all the resources that programs need to do that. Certainly the programs that are receiving those resources, Automotive Engineering Technology is one of those that comes to mind. Likewise, looking at programs that may have requested a position and that was not approved to move forward at this time, looking at things like class enrollments, are we offering more sections of an elective that we need to, are we offering three sections and none of them were even filled half-way to capacity. The frequency of which we are offering courses so that we can be absolutely offering the courses that students need, but to be efficient and enable us to put the resources where we most need them to serve the students we have.

Haar-We've known about nursing for quite a while, is it just even more leaving than typical? Is that in the College of Business or has the amount stayed the same or is it more prominent? I'm trying to understand if there was a difference in the transfer out last year. Akey-In particular we have noticed a higher loss of transfer students that come to us and they stay with us for a semester or two and then they leave us again. They are transferring back out, transfer back in and then transfer back out at a higher rate. We are starting to understand that a little bit more. Wells-That is not just nursing but many other fields.

Straka-There was some really interesting data. The piece that I took out of the data that I saw was that those students who transferred out really had decent GPAs mid-2 to high 2s on average but they only had a 75% class completion rate. That I believe is indicative of, I have a C, I need to retake this or I'm dropping and I need to retake this because I'm not getting the grade I need to get into my major and so I'm going to drop it and retake it again. That creates an issue then that your freshmen want to get into that class, but now it's sophomores who are in that class because they are retaking it again and again and it's a domino effect to some of the issues that we have. There was a significant difference in course completion. Wells-As an institution we are investing a lot of money in certain courses and as an institution we don't have the retention and completion to show for it. How do we address some of those program challenges or whether it's tutoring support or whatever that might be? There are certain courses where we see that clustered pretty heavily. Straka-We don't have the best data because we haven't required everybody coming in to say exactly what their major is. They may show interest in multiple majors is if we have static enrollment into a program but we have a larger number of people showing up as freshmen saying they want to be in that program, then you can expect that if we are keeping the same number of co-horts you probably are going to see a larger transfer out unless we can convince or advise early students that they are not going to get in and they might want to choose another similar major.

Pragman-The College of Business did change its requirements trying to get the students into their major earlier. The GPA was lowered to 2.5 and 2.7 and they have to have 15 credits specific courses with a "C" to get into them. We don't have the long list lower level requirements. It's too early to tell, but this is the first class coming in that has those requirements. We do see students going to the catalog who are not able to get in for the current catalog. Wells-Those are positive measures. Another great opportunity to share our data has shown us for a number of years that the longer a student hangs out in undecided land, the less likely they are to graduate. Previously we would like a student be undecided at 95 credits. Our data also shows that students who declare a major by the end of their first year, have a 17% higher graduation rate. We have a new policy that went into effect this semester that students must declare a major by 30 credits. At least they begin to start thinking about where they want to go. A lot of our policies have been geared to tell students what they can't do, we haven't had a lot of policies to guide the students in the ways we know will help them towards their success. There will be more coming to this campus, we at present have 455-500 students that are technically undecided. We have them coded as interdisciplinary studies. Straka-Good discussion. I don't think there is a silver bullet that is going to change everything right away, it's a number of changes that affect 2-3 students here and 5-6 students here and when you add up 100 programs and 2-3 students, we can have a significant change moving forward. It is all something we will work together on and see how we can move forward. I would recommend in the Reimagining Minnesota if you do get a chance it's about 2 hours. The main part of the presentation was a little over 1½ hrs. http://minnstate.edu/board/reimagining/index.html.

Page-What percentage of students do we have that leave after their freshmen year or between their freshmen and sophomore year? Straka-About 1/4. Page-Do we know who they are? Are they first generation, or are they leaving because of GPA? Straka-A wide variety of financial, social and academic reasons. Wells-I just received last week, of the students who ended the fall semester, grades at the end of fall semester, we had 750 who were on academic warning. 60% of those were first year students. There were another 20% sophomore students and then there were equal percentage of junior and senior students. Students who land in academic warning, 80% of them leave the university that next semester or never graduate. Those students are beginning this semester on academic warning if they came back to us, we need to do everything we can to make sure come May they are in academic good standing as opposed to suspension. They are going to go one way or the other. There is many reasons why they can't get into the major they want. Page-I've had three kids come through this university, my youngest who is going through PSEO she came here and had no idea how to navigate D2L. No way to get access to Mav mail. Had I not been able to help her with D2L and find out information on her classes, she would have failed. She didn't know that information was out there, so how many of those students do we have that just don't have the tools to navigate our system. Wells-Excellent suggestion. We are doing a number of things with the PSEO program and I certainly would welcome the conversation with you about that.

Enrollments are an important topic for us. The system as a whole if I were to go back, we are down almost 3% as a system from where we were a year ago at this time. Community colleges, I just looked at a 10 year FYE from their peak in 2012 are down 25-30% overall in enrollment in the state. The state universities are down closer to 15-20%. Jones-Since the high point in 2012, there are 4M fewer higher education students. That is a trend that continues. It's the first time in 30 years that it happened that the percentage of high school graduates going on to higher ed is less than the previous 15 year average. It's the third year in a row that we have slipped below that line. That is something that is happening, unless you are in a really high demographic state like Florida or Arizona or California, Texas you are struggling with those. If you are in a state where your right next to those states and you can benefit from their demographics. It's the southern tier that can grow their way out of this. Starting from Maine and all the way across the upper tier of the US, these are pretty consistent stories for public higher ed.

4) Capital Scoring Process Update (Rick Straka)

Straka-The scoring teams met for all capital projects in the MinnState System on January 2 and 3. Groups got together and scored projects, nobody could score their own campuses' project. We may get some hints of some feedback on our project, but the first really good idea we are going to get where we are in the quartile or top/bottom half of the scoring will be at the Leadership Council in April. The first reading of the capital priority list is scheduled for the May Board meeting, which means that the final priority would be in June. I talk about that and the timing because by the time we have commencement and leave for the spring semester, we may not have yet where we stand on that capital scoring list for next fall. That has to go to MMB the first week of July. Usually in August and September we see MMB and the Executive Branch visit and look at potential sites for capital investment. Later on in the semester we will see the House and Senate Capital Investment Committees make tours. In 2020 is when we would expect that major bonding bill would move forward. Our major project is a three biennium ask. We will ask for planning money and money to complete the build out of the lower level of Clinical Sciences Building in 2020. We will ask for construction money for the Armstrong replacement in 2022 and then in 2024 as we move people into the new building, we will be looking at going into the library and other places that through design say they need renovation. We will probably use Armstrong as swing space for that, then when we complete the renovation, move people in. Ask in 2020 for planning money and lower level of CSP, ask in 2022 for the new building, and ask in 2024 for renovation and then finally demolition of Armstrong. That is going to be about a $90M ask over those three bienniums. The first real feedback we will have to share will be in early April about how the scoring process went.

5) Seasonal Dome Update (Rick Straka)

Straka-We will be going to the Board on January 29 or 30 to seek formal approval from the Board for that project. At this point in time we are not seeing any real pushback or real concerns at the Board level. At that point in time we would move forward with a contractor and look forward to setting a guaranteed minimum price and moving forward with the project. Hopefully to still stay on track for completion by November 1 and get the project up and running by November 1.

There is a January Board meeting, there is not a February Board meeting. The next Board meeting would be in March. The Board will be meeting in January, March, April, May and June. With the June being the final operating budget approval and tuition rate approval. Hopefully they will know what the legislature is going to do by then and then the capital approval. Lots of stuff happening at that June Board meeting.

Wells-With that Board meeting scheduled, I know that you have asked me and I've had some conversations about programs that might be requesting or thinking about tuition differentials and what our timeline will need to be for that. Particularly some of these where we could get a fall start date. Straka-If people are considering a differential tuition we need to get that consultation started early. We will need to consult with the students more than just once prior to April. Generally the timeframe has been even though the reading is in May, they have wanted an idea of differential tuitions in early April. I will tell you in the past it's been much easier to put forward a request and justify a tuition differential for a new program than an existing program. We still have not heard a change that though there is market rate we are still hearing that there has to be some expense out of our control expense rationale in order to offer it there are expenses that are out of our control that make it more expensive than other programs. Wells-Thank you for clarifying. Sometimes folks talk about that through the CBS process, or their program review experts that are supportive of that, but we still need to follow the consultation process on campus. Straka-I would hope that if somebody is thinking about it that we could get to the February Meet & Confers to have a first reading and some consultation with our students in February and March so that we can submit that data in early April. On program that we are looking at is the Bell Program and when we might need to get to the Board either in March for final approval of that tuition. Since it actually is our tuition that we are charging, we are going to need to make some presentation to the Board about that program for sure.

6) **Legislative Update (Rick Straka)**
Discussed previously.

7) **Reserve Discussion (Rick Straka)**

Straka-Reserve is something that has come up as a topic. The university reserves and reserves in general. Cowan-We haven't done as St. Cloud has dug into their reserve? We've used it for bridge money? Straka-We have used it for bridge money. Our reserve level overall, the first thing to clarify is there is unrestricted reserves and there are restricted reserves. As we have added to the amount of online course work, we have a policy where we have been collecting that differential one year and allocating it to be spent the next. That is creating an increase in cash each year, even if we were to spend everything we allocated we are putting more courses online, we are creating more differential, that doesn't give us anything more in the central reserve and unrestricted but it is part of what you could consider restricted reserves. The true unrestricted reserve, there is still policy in place that talks about reserve and you should have an unrestricted reserve between 5%-7% of your budget. I will tell you in national levels that is low. A more common level of reserves would be $20%-30% nationally. That is in unrestricted reserves.

At one point in time St. Cloud and we had around $45M in cash at the end of a fiscal year in the treasury. They got down to $15M, going through almost $30M of that cash balance. They have since recovered some. They were back over $20M this year (20%). What we look at is we also get a report at the end of the year that says what your cash balance was in the general fund as a percentage of your prior year general revenues. We are at about 32%. We have 3-4 schools that are down around 20%, Winona and Southwest is closer to us at 30%. The two year institutions average about 35-36%. The two year colleges as a percent of their prior year revenues actually have significantly higher percentages. Because we are so much bigger our value is going to look higher. In order to get through our financial recovery plan and the things that we needed to do to get an operating reserve, we have a lot of depreciation. That is a non-cash expense so in order to get accrual based accounting, we actually end up building some cash through that process. I think we are to the point we can be a little more aggressive in building in our budgets some anticipated salary savings. I'm willing to take a little bit of an accrual operating loss now because our cash is getting to a level where I don't know how much we can justify building cash much more compared to the rest of the System. It's a really complicated process.

In general, yes, I consider the use of reserves, you make a capital investment but if you are looking to use it to supplement your operating that is usually a bridge. Which usually with a bridge there is a known beginning and a known end or a known beginning and a planned end of where you want to be. Generally speaking it's not a good idea for a very long time to dig into the reserves and see what happens in the future. One case where we might consider it, we had that one year dip in our new entering freshmen last year. We recovered a year later. It looks like next year should be similar to that. Would I look at the reserve and say with the amount of tuition we are losing for that class, should I take 4 years of that and say it's o.k. if we dip into our reserve a little bit because we are building back to that? I would be comfortable doing that. If we had continued enrollment declines and just say we are never really going to recognize that we have enrollment declines and we will just spend reserves and hope that it recovers, I wouldn't be comfortable with that. If you can make a one-time capital reserve, if your operating budget is still pretty stable, and you are saying you have enough cash, that I need to take care of some deferred maintenance, I need to make an investment either in a capital investment, is a good place where you would look. Or you would say I've got a one-time expense to make an investment in some kind of software or a student success plan, some scholarships that you think will have a payback or investment in a new program that you think is going to have a payback but you should have a pretty good idea of what it is going to do and measure how you are going to do it. Again those are kinds of things that you would want to do. You don't want to head into an unbalanced structured area and say we are just going to use reserve to cover it. It should be a planned use of that, there should be a start and end date that you have as the plan.

Haar-Can you remind us what you would like us to be at with the reserve? Straka-There is a couple of ways to look at it. We need to be at that 5-7% of truly unrestricted reserve. I will tell you some of the things that we internally have restricted reserve. We have restricted reserve to part pay for depreciation each year and part of that is we know we are going to have some major kind of things happen at the university that are going to come up. A couple of years ago it was Ford Hall and $250,000 to deal with that. Our share of the Stadium Road project, we got assessed about $300,000 for our share of the road assessments. We know some of those things are going to come up. We keep a restricted area for that because we know, last year one of our underground fuel oil tanks by the Physical Plant, we had to fill up and take care of and basically take it offline and won't be able to use ever again, it was starting to deteriorate and at risk of a leak. We may have to use our reserve to take care of the Armstrong roof. We would love to take the 6-8 years until Armstrong is going to be done, we are to the point where when we go up to fix a hole in the roof right now, I think as we walk across the roof to fix the leak, we are creating new leaks along the way. It's a rubber roof that was meant to last 20 years and we are 30 years. I would want us to be at least at 5-7%.

We also have restricted reserve that we have put aside for unamortized. We are going to have a change in leadership at the Central Office, we did go forward with the 7700 lease. It is a 5 year, plus 5 years. Currently leadership would like us to figure out how not to have that space and not have to renew it for the second 5 years in current Board of Trustee leadership. They would like to see how we could use existing space on our sister campuses. So we have a reserve if we left that lease we would have about $480,000 payment for unamortized leasehold improvements. We set aside all of these restrictions. Steve and I can share what the cash balances are across the System. We can share what we have reported to the System Office. We have set aside for compensated absences that if something dramatic happens that we have a portion of what could be severance pay, vacation payouts, those kinds of things that people have earned, we have part of our reserve set aside if those things would happen. Truly on reserve, I think the 5-7% is actually pretty low. We also have a bunch of cash that is sitting out in areas that isn't actually central reserve, but we have some departmental and divisional pots of money that are somewhat large. They are sitting out there as well that we have to look at and keep track of and making sure people are not just keeping money for the sake of keeping money, but if they have earned money for their division and we've given it to them, hopefully they are using it to better their division and programs.

Smith-There is also an earmark for $7M for ISRS Next Gen replacement, if the funding doesn't come through. We are ready for that. Article 19 money is considered restricted but we have $2M of our cash is that. That's almost 1¼% of our general operating revenues from the year before, in professional travel carryforward (Article 19).

We are in a good spot and we've made really good investments in this campus. But because we have done so well in bonding within the last 20 years, we have debt service payments and we have depreciation on those things. Buildings are depreciated at $16M a year. It's an expense that we have to put on our financial statements, but we are not paying cash out. Normally, in the revenue fund where we have that, we may depreciate over 30 years, but our bonds might be 20 years, while we are paying off those bonds, you pay down the bond and the fact that is not an expense of paying down the bond, you are reducing the liability and then you have depreciation expense that somewhat matches it, there is not as big of deal. But in the general fund where we only have to pay 1/3 of the debt expense, we have the full amount of depreciation and we are only paying down 1/3 of the debt, it creates this difference where we have a big non-cash expense in our accrual based accounting financial statements. The difficulty that we have had as CFOs is when it comes to April and May and they are looking at our operating balance, they are looking at our cash balances and saying, how can you possibly budget to bring in more revenue than expenses. Then we get to October when they see our financial statements and they say how dare you not cover your operating expenses, you need to have an accrual based operating margin. They are not always the same thing. That has created a little bit of an issue for us. When there was so much focus on the composite financial index which is really derived primarily from four accrual based accounting ratios, two balance sheet related and two operating margin related, we really had to put a little more difference to the CFI and the accrual based statements. You are seeing HLC move away from that a little bit and they are not as worried about that. I think we have raised as much cash as we needed to do support the CFI, I think we are at a point where I'm not as worried about showing a little bit of an operating margin deficit on our financial statements and in the CFI given where we are with the percent of our cash that we have on the balance sheet. Even with HLC, NACUBO and SCUP, I don't think anybody has found the really overall balance between those yet. Especially for the public higher ed. What we throw in that is really interesting, we've been operating really for a lot of years primarily as cash budgetary based institutions and its more about what is your appropriation and revenue this year and your cash balance and a little bit about financial statements. Only recently have we had to take on our share of pension plans that are under water. Now we are taking on with GASB 68 a huge impact on our accrual based financial statements. The private institutions started taking those on in the 80s or early 90s. They transitioned quite a long time ago, away from defined pension/benefit plans to defined contribution plans. They don't have very many unfunded pensions anymore. We still in the public environment with public unions, still have a lot of defined benefit plans. Most of them across the country are under water. Most of them are not as under water as Illinois at 40% funded. We've started to in the past 15-20 years our system is transitioned away for excluded managers the pension plan to defined contribution plans, but still has most of our classified employees are still operating under pension plans. Those are all things that we have to look at too. We had a $14M accounting adjustment just for the pension liability last year.

If you have other questions about our reserve, we can bring more about how much cash we have and how we have restricted it internally and what we have in the various carryforwards. How we might use reserves going forward and as we are going to face a $4M structural budget deficit I'm sure there will be additional discussion across the university about tapping reserves, not make reductions, but tap reserves. We should be ready to have those discussions about when does it make sense or in what cases might it make sense to do that and what cases might it not make great sense for us to do it.

8) **Institutional Equipment Volunteers (Steve Smith)**
Smith-In the university's general fund budget we set aside $1M for institutional equipment, that is to meet certain criteria which involves contributing to the mission of the university or division, high emphasis on instructional or classroom equipment. It contributes to the technological efficiencies, may involve partnerships among divisions, colleges and partnerships. It has a broad impact, may involve health or safety concerns and also generally considered a capital asset. An item worth $5,000 or more and have a useable life of three years or more. We take all of these requests that will come in from each of the divisions which will probably be $2M-$3M and we will need a committee that will need to make a recommendation on reviewing those requests and recommend $1M for approval. That process will likely happen sometime in mid to late

February or early March. That committee will make a recommendation, bring it back to the Budget SM&C committee for additional chance for input before it goes to the Cabinet for final review and approval. If you are interested in volunteering email Steve W. Smith.

Straka-We will have a $500,000 allocation for leveraged equipment. That leveraged equipment needs to go to a high demand program. We have to go out and look at the DEED list of high demand programs. But it's an opportunity there. MinnState did loosen the requirements a year ago. We have to come up with an overall match but the match doesn't have to be in the program in which you are going to use the equipment. We have a little strategy to look at $.5M of instructional high demand programs. Where we can get some institutional match and that really moves our institutional equipment up to $1.5M. There are some other restrictions on that money. It can't be for anything construction related, so renovating a lab would not be eligible. It is for instructional equipment and not for general computers. Something specific, like there are some high end things in engineering areas and computer engineering that clearly they need a different level of computers. Marilyn we will have to coordinate when we are asking for the basic equipment requests also maybe highlight which programs would be eligible to submit for the leveraged equipment so we can use the two in concert with each other and make decisions.

Smith-Deadline for volunteers would be by the end of the month.

9) Student Pay Rates (Steve Smith)

Smith-You may recall back in 2014 the State of Minnesota enacted some changes to the minimum wage statute. One of those changes involved the automatic increase to the minimum wage based on an inflation index that the state uses. That increase can go up from a max of 2.5%, but it is still tied to an inflationary index. The increase is to always take effect that first pay period that involves the January date. On December 26 for the pay period starting December 26-January 8, we were required to increase our minimum wage from $9.65 per hour for student employees up to $9.86. The other standardized student pay rates classification that we have that are above that minimum wage level, those also increased approximately the same percent, around 2% which is about .25/hr. increase for students. If you are interested in knowing a little bit more on the specifics about the individuals pay classifications, the student payroll website within Business Services there is a link on student employee pay classifications. Just wanted to make people aware of that change and it is something that will happen every year.

Constantine-What would it take to make it happen on the academic year versus the calendar year? Smith-It's written in statute to be that way, so every August by the end of August there is a committee at the state that reviews that inflationary index and makes a recommendation to what the new minimum wage will be. They say it needs to be enacted as of the first of January. We may not know that until another month or more that they make that declaration.

Straka-A reminder, it affects our students, but this is the State of Minnesota minimum wage. The vast majority of businesses are January 1 to December 31. It would take law. Smith-The work factor for us is planning in student payroll, but it is something to be mindful of when doing your budget planning for the next year. This is always hanging out there. You could have up to 2.5% increase. The trend we have seen is around 2% increase every year.

Straka-It does give that interesting part of how do you do that. We have the same thing because all of our health care increases our insurance increases are all effective January 1. They have been fairly low for a while we have a big one coming again a year from now. Smith-We've had two years in a row with 2.86% in health insurance premiums. Straka-I think there is another double digit increase that they are projecting in health care insurance.

10) Tuition Task Force Related to New Board Policy (Rick Straka)

Straka-Last July the Board of Trustees made a revision to the tuition policy. Some of the more prominent changes had to do with introducing a new category for international students. We had resident and non-resident tuition before. That non-resident doesn't exactly portray a super positive image right now. International students may well do something for us there are impacts of what we might do if we change. Right now we do have some international students who are government represented and they pay the full non-resident rates, the majority of other students can take advantage of the cultural contributions scholarship and they are paying approximately 10% more than instate rates. There is some unique things we will have to consider there. It did talk about market rate for certain types. For graduate education, fully online education that we could look at market rates. But I liken this right now we are in that era where even with last year's tax changes, some of the tax preparers still do not understand how to implement that or what the rulings will be on what the language actually means. We still have some work and adding to that difficulty is the person who really had been center point at the System movement in that process was Deb Bednarz who retired in August. We have a brand new person in the Associate Vice Chancellor and Budget role who has not spent any time in education, but came over from the Department of Agriculture. Steve Ernest had been a Chief of Staff and CFO there, solid government experience but not a lot of higher ed experience. We've got to try to figure out what all of those things mean. In addition, in June and July we are going to have a Vice Chancellor of Finance transition at the System level as well as when Laura King retires. There is a lot of unknowns coming up to this process. Start the discussion of where there may be opportunities for us in that language change and if we move before all the rules are made maybe we can have some influence on how they are interpreted.

Smith-We still are waiting for guidance on how the System Office plans to do their review and implementation on new flexibility that we now have with the tuition policy and procedure. Straka-David anything you want to add? I know you worked on the System-wide Committee and Steve Smith did as well. Both worked on parts of that committee to recommend changes to the policy. Jones-I think the opportunity to help frame this is a great opportunity. Straka-As we move forward with that we will come back to this group and seek some input as we move further down with some recommendations of what we might do and implement that.

11) Rumors /Other (Straka)

The meeting was adjourned.