BUDGET SUBMEET & CONFER
Tuesday, February 12, 2019
1:30-3:00 p.m.
CSU238

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), Scott Page, Claudia Pragman, Leah White, Bryan Schneider, Matt Clay, Anne Ludvik, Jane Kolars, Jane Lange, Jean Clarke, Robert Fleischman, Marilyn Wells, Lynn Akey, David Jones, Matthew Loayza, Jean Haar, David Cowan, Steve Smith, Sheri Sargent, Matt Cecil, Brian Martensen, Kris Retherford, Brenda Flannery and Vickie Hanson

1) **Changes/Additions to the Agenda. 1a) was added to the agenda-Meeting Time Change Proposal**
   a) **Meeting Time Change Proposal**
   Baures-Considering meeting ½ hr. earlier starting at 1 p.m. instead of 1:30 p.m. There is a member that has class at 2 p.m. and would like to come to part of the meeting. Straka-There are two more meetings, is there an issue with changing the meeting start time to 1:00 p.m.? The meeting would be from 1-2:30 p.m. Room availability will be checked on and an updated meeting invitation will be sent out.

2) **System FYE Updates (Straka)**
2012 was our peak year in enrollment in the last 15 years. The state universities peak year was actually a year before. St. Cloud went down about 1,100 FYE from FY11 in one year. Wanted to show what the trends are. Our numbers have been slow, some other institutions have been a little bit steeper of enrollments. From 2012 to 2019 state universities are down 8,251 FYE or about 14% in enrollment over the last 7 years. Bemidji at 416 is down 9%, Metro State they have been growing the most and consistent are down 151. Mankato is down 1,218, 8.4%. Moorhead is 1,400 down, 21.8%, St. Cloud was 3,566, 25.6%. From their high in 2011 to what they are projecting in 2 years is 9,470, 1/3 of their enrollment from 15,100 to under 9,500 in 10 years. Southwest Minnesota State has been a little more consistent at 120, I don't have a good breakdown there as to how much of that is concurrent vs. on-campus enrollment. Winona State is actually down from 2012, 1,344, 15.7%. What happens when we try to calculate and get a basic idea of what does that mean in terms of tuition. Since we are 2/3rds tuition. On an annual basis, not accumulative basis of tuition lost over that 7 years, but from where we were then to where we are today, multiple it by an average of $7,500 (an in-state tuition rate), the System has lost $61.8M in tuition revenue from enrollment loss over the last 7 years. We are at $9M at Mankato. As we've looked at our impacts and what we had to do back in 2012, we looked 3-4 years at doing a budget reduction and where we might be and what's happening now. $3M at Bemidji, Metro State $1M, Moorhead $11M, St. Cloud $26M, Southwest $1M, Winona $10M.

Flannery-Given that kind of loss at St. Cloud, are you seeing a lot of changes and reductions? Straka-Huge staffing changes. In the academic and administrative sides primarily through attrition. They were aggressive in their physical plant area a few years ago. They had a bigger staffing plan than we did and we have seen them go significantly below us, they've had continual staffing reductions. Flannery-Are they being subsidized by the System at all? Straka-The allocation model phases in, it's got some leveling things in it that probably helped them a little bit. But eventually what is going to happen even if they level off, the tail of that leveling means they are going to continue to go down in their appropriation for a period of time even after they level off. I would argue, they went from getting about $6M more than us, then as the enrollments went down, they are down to just over $2.5M, they have seen a $3.5M change in appropriation. I would expect that to further this year and next year and after the way the allocation model works. If they are like us and it's 2/3rd of their revenue is tuition, they loss that 2/3rd every year. It was only a small portion of the appropriation change that really gets to them. I don't know that I would call it subsidized.

Schneider-The campuses have to react to this, is the same thing true with the System Office? Are they not filling positions? Straka-The System Office doesn't get tuition and they are not allocated any of our tuition. When we get more appropriation, they have been limited at a set dollar value for the last 4-6 years. They can't take any increase in appropriation. What you have seen is some transferring of some costs that were once supported by the System Office, may now be charged back. There are some things that we are being charged for that maybe we weren't charged for before. HR TSM because they are out on campuses and they are regional, are not considered part of the Central Office budget. They are not subject to the legislative cap. When we get salary increases, we can cover that through tuition increases or appropriation, we might fall a little short where we have every biennium. The System Office gets zero dollars to subsidize their salary increases. There are areas I have seen them not have the support they once had at least in the Finance and Administration area. There are other areas where we have seen it grow and get charged back. Marketplace there is a couple of procurement positions and some of those are getting charged back. I wanted to show as we look at every year it is pretty stark, as Steve and I started reviewing and Lynn and I look at trying to determine what we are going to put in those columns for what we are projecting.

Haar-What I have been struggling with when I look at this is trying to understand what kind of value or how we look at concurrent enrollment. In my mind concurrent enrollment is just a few select courses, right. It's not the same as getting a fully vested student comes in here and finishes a degree. So that is what gets hard for me sometimes when we talk about these things. Straka-I'm trying to create a big trend. I agree with you, if I went another step would I try to pull out concurrent and say let's look at the changes that were other than concurrent. Other than 3-4 institutions it's a pretty trivial percentage. Other than Southwest and Anoka Ramsey had big amounts. St. Cloud has a bigger amount than we do. Akey-The last time we looked at it it's usually about 3 concurrent enrollment students is 1 FYE. Straka-Part of the reason I'm trying to do this is not to get to the actual detail and amount, it's to give you a broader picture of what has been happening over the last decade and this isn't unique to Minnesota. Take away Florida, Texas, Arizona, California and the schools who get students from them like Mississippi and Alabama. This is public higher education outside the southern tier of the states.

Straka-Some good news. We updated our current year from 13,150 to 13,125. Our spring semester was better than we were hoping. We expect the numbers might rise even more as we get our concurrent numbers in. That doesn't have a big impact on tuition, they pay for themselves a little bit and a little bit more money, they are break even. We haven't seen the modeling yet, the first year, where supposedly this year concurrent FYE is going to be treated different than regular FYEs in the allocation model. We have not seen that impact yet. I would expect that would come out in March. There is now in policy if you hit some triggers, like if you are more than 2% off when you change either your October estimate or February estimate you actually have to send in a financial plan of how you are changing the budget or what you are going to do to react to that being off. We ended up about 1.5% in the fall. We haven't often hit that trigger, but they do require institutions in some case to go in an if they are over a certain amount, they will say the Board approves your budget every May or June you need to give us new budget numbers on how you are going to react to the estimated loss in enrollment. They are trying to look at some of those demographics. We have two demographic issues that are happening. We are actually really stable and we have been on a decline but we are starting to bottom out in the stability of high school graduates. The problem we have is we are in the third or fourth year of something that hadn't happened in the previous thirty. The percentage of high school graduates going on to higher education is below the previous fifteen year average. It's the third or fourth year in a row that has happened and that hadn't happened in thirty years. Not only do we have fewer students, fewer of those students are choosing higher ed. It makes sense with the economy, especially with vocational/technical education. If you can get a job you don't need to pay money to get a job. Flannery-I was looking at some trends this weekend and thought I could see a decline in the number of male students that we had at the university. So as a university our number of female students continue to increase, but our male students decline, I think some of that is demographic and national trend, it something to think about. Straka-Which nationally may have some very interesting Title 9 implications for Intercollegiate Athletics. If you were looking at substantial proportionality before and it was at 50/50 and now your student population is 60/40. Provost Wells-That number is even exasperated for students of color. It's probably like 70/30, 30% of African males, 70% of females. We might have stable high school enrollments, but if the makeup of those graduates is more toward people who tend not to participate in higher ed, then the actual expected yield from those classes is going to be lower, so how do we change our strategies as higher education to more fully engage those areas of demographic students who have been historically less likely to participate. Flannery-Rather than thinking we have to engage them for four years, it truly might be 12 credit certificates or there may be other ways in which we engage them because that is what will at least attract some of those students. Haar-How much of that and how do we do that and how do we keep track of the value added and will we do too much of that at the expense? We have to have a balance. Flannery-It's interesting we've talked for years about Southwest, they are using a strategy that is alive, I think different strategies will be used by different institutions. Akey-One of the important pieces that you bring up and I think we've noticed when doing projects behind the scenes and switching the model a little bit in who we are serving and in what way and the fluidity of that and the variability that could be expected with that. So when we have concurrent and non-degree seeking and we are bringing students with a shorter term engagement we can expect our kind of generation to be potentially more volatile up and down. Where that becomes a challenge for us is that our infrastructure and the way we then provide is not. That is when we can get into a challenge of mismatched expenses and cost to do what we do doesn't match who we have to serve. That is where who we are serving is much more nimble and how much and when they are going to come and the duration gives us not a good foundation to do longer term projections to then say this is the type of structure that we need and staffing that we need and faculty that we need and how does all of that change in response? That is a pressing challenge for us for higher education as we see trying to serve that need in a different way.

Straka-It's a little sobering, but it's reality in higher education. Again, expect for those few states where the demographics are where they can continue to be stable or grow because that is where populations are going in the United States along the southern part of the country. We are saying we might be level, St. Cloud has some very scary numbers for the next two years. This current year we are looking to be pretty stable, Bemidji will be pretty stable, Metro fairly stable, a little bit of a continued slide at Moorhead, but St. Cloud is looking to be down about another 1,000 students from the current year. They reduced this from 10,600 this year to 10,300, so then you are looking at another 630 and another 250 after that. That is a little scary. Southwest is seeing a little bit more of a decline and Winona is hoping in FY20 and 21 that they will level off.

Kolars-What differentiates St. Cloud and Mankato. Why the huge decline? Straka-Conjecture. One of the reasons was in my opinion strictly geographical. They were fortunate enough when North Dakota had a lot of money to spend because the oil economy was really good and North Dakota State and North Dakota very aggressively expanded they were much more impacted than we were. That is the students who are in the heart of who St. Cloud served. Part of it is geography. Part of it the city dynamics, including racial issues compared to the dynamics of our city. Very different. I think we started from a place where we might do 100 to 150 contract students in a year, most of our students are regularly admits. St. Cloud at the beginning of the height of theirs was around 500-600 contract students. Nearly 20% to a quarter of their incoming class came in as not being regular admit students. David Jones-Two big differences between us and them, they have a lot more part-time students that has an FYE impact when that changes. Back in the start of their decline they did take 600 contract students where we would take 150. They had a partnership with St. Cloud Tech and they shifted those 600 over to St. Cloud Tech. In the eight years I've been here I've had five colleagues at St. Cloud. Smith-They also have had their third largest employer is shutting down (Fingerhut). Straka-There are a number of factors. I would argue a little bit if anyone has been on the St. Cloud campus lately, what is your first gut reaction aesthetically to that campus versus this campus? A perfect storm of tough things that we haven't been impacted by as much. Schneider-The thing to realize though is with any school a major incident on campus could drastically change the perception of safety on campus. Jones-What has been huge for us has been our growth in international. If you look our domestic hasn't changed, we've been able to fill the gap with international. At the start of that peak area, we were around 500, now we are pushing 1,300 that is a massive growth. Straka-Huge subsidy to our enrollment by international students. That a little bit masks the decline of our domestic students.

3) **Reallocation Strategic Budget Planning Process (Straka)**

Cabinet hopes to be setting a meeting soon to meet and talk about how we will use the Strategic Budget Planning Process results and to make some recommendations of where we believe we are going to have to make some reallocations from. My best guess of an overall target is just to get the budget in structure is going to be somewhere around $4M. We will have to have a plan of how long it takes us to get to that. Certain cuts we can put into place by July 1, certain things we won't be able to recognize savings right away, so we will have to have it in my estimate. Probably have an alternative target of where we need to get to structurally and then I will have to have another pool of how long will it take to get there and use one-time money to get us there. We will be meeting soon so hopefully for the March Meet & Confers we will be coming in with some preliminary recommendations/decisions about what strategies we might use, what kinds of things will be priorities as we look, I assume we will be meeting with other groups along the way to say how we are going to get there. This doesn't assume anything for the next biennium, because we are going into a session, what we do know is the last several biennium each one we haven't gotten enough either tuition increase or appropriation, the combination of the two to pay for the increased costs that we have.

We know we are stepping up a pension bill again, we know that we have been fortunate to have fairly limited insurance increases. The 2020 insurance increases they are projecting back over 10% for our insurance costs again. This will be just to get us to correct for this biennium. To put into base the enrollment loss last year and this year to get from where we were to the current enrollment and put into base. That is about $3-$4M. This is even if we plan to say we have some salary savings. I don't mean structurally what happened with how much did we get and how much collective bargaining increases cost, I call that the bargaining costs. Salary savings for me is we give people a budget and there is usually some in and out. There is a vacant position or a full professional line gets filled with a fixed term for a year, adjunct for a year, those kinds of things to me that kind of transition that we have is salary savings. They happen every year. We pull those back right now and we have over the years that has paid for master plans, for the Ford Hall roof, HVAC system, when the City charges us $250,000 in assessment for fixing Stadium Road, that has helped pay for those things.

Over the years, the other thing that we have that we have to look at is we've been managing so much on the composite financial index on accrual based accounting and in order to get that operating at a zero level, because it includes $15M in depreciation which is a non-cash expense, we have over the last six years actually been increasing our cash some. Then we have the dynamic that has happened the last two biennium where the cash flow and our settlement expense flow is entirely different. We have a fairly flush cash year in the first year of the biennium and the second year of the biennium is not flush, we use some money from the first year to balance the second year and we end up with a structural deficit going out the second year of the biennium. I don't know how much more we can go up in cash. Right now if you look at cash in the treasury at the end of the fiscal year, we, Bemidji and Southwest are near 30% and the other institutions we've got are around 20%, with St. Cloud being under 20% and Metro being under 20%. Winona was a tad under 20%. The average two year balance is the high 30s. We are the highest in percentage of our cash and our number looks big because we are the biggest institution in the System, we are less than the average percentage of cash in the Treasury of any of the two year schools. I think I'm safe where we are that we can start saying let's build in some estimated salary savings so that we are not continuing to build the cash. We really don't want to start spending it down, but we can realistically say I don't think we need to be planning to increase it either.

I will tell you, whoever comes into Laura King's replacement I will be arguing that we start looking at managing our cash basis with a little less emphasis on composite financial index. The HLC has seemingly put less emphasis on the composite financial index, especially for public universities because the last couple GASB adjustments are huge adjustments and in my opinion make our accrual based financial statements almost meaningless. That is one that takes pension plans and assigns a part of the statewide actuarial shortage underfunding of the pension plans and puts it on our financial statements. We've been healthy compared to where HLC says we want you to be at least a 1 and we've been well above. The System has a standard of 3 and I don't think that is realistic ongoing for public universities. The really strange part for me has been when we get to May and the Board of Trustees is looking at cash balances and saying how can you be planning to bring in more cash than you are spending, are you charging the students too much tuition, and then when we get to October and they are looking at our accrual based financial statements and they say, well how in the world did you not have an operating margin. I'm going to recommend to however my new dotted line boss is, that they allow us to concentrate more on our cash balance as we move forward. For example, when we get capital appropriation for bonding, it comes underneath the operating margin. It doesn't count as operating revenue. Say we get $30M for Clinical Sciences, over 30 years we get the revenue is down below the line so it doesn't count on our operating margin, but every year the depreciation for that building shows up as an operating expense. So you are guaranteed over 30 years to have a $30M operating loss. That in my opinion makes the measure polluted. It doesn't show the right value. We will be talking this very similar message at the Meet & Confers on Thursday, I don't think it's a real surprise as we have been talking about a year ago, we've got about $2M problem we have to solve. We came back this fall, look we have more of an enrollment issue we have to solve so what is it going to be. The concept that we were going to face the time that we were going to have to reallocate shouldn't be a lot of news to people.

Cowan-I hope we can avoid a freeze on that $1M of institutional equipment money. Straka-We will be talking about the strategies next week. I understand, once you go a year without investing in equipment across the campus, it's hard to make that up.

4) Cabinet Focus on Retention, Student Success

Straka-I believe our Cabinet focus and the President's focus with the Vice Presidents and other Cabinet members has been we need to focus on retention and student success. All of the things we've done in recent years to try to make those changes and focus, unfortunately the result is we have not seen any improvement in our first year retention numbers, our sophomore to junior retention numbers, nor our graduation numbers. We really haven't moved the dial on it. That is going to be a crucial piece of being what society is expecting of higher ed that we do a better job of graduating our people. The message in higher ed, if you see an article in the media now, it's usually about is it worth it and is questioning the value, questioning success rates. This isn't unique to us, this is the same discussion that the Chancellor and Board of Trustees are having with every President in the System. How can we move those dials? It seems imperative that we do everything we can do to help make students successful, but secondary part of that is it's going to help with financial sustainability. The longer we keep a student around, we know the pipe coming into us is not going to get substantially bigger, so where can we have a financial impact by maintaining as much that comes into the specket all the way through the final and have a bigger end on the funnel on the back end so we can keep people with us. It's not all in our control.

The President has asked Cabinet members to come forward with proposals looking at policies, investments or initiatives or other things we can do and said give me a number of things that you think that we can do to help with retention and student success and rate them as a Tier 1 (this can affect retention and enrollment next fall). Tier 2 (18 months to two years) and Tier 3 (what are things that we still need to do but may have a longer term before we see an impact on our numbers). Those will be things that we talk about as we look at investments and we look at strategic reallocation.

One of the things I can tell you, Lynn will be talking at Meet & Confers its formal policy review time. There are going to be some suggested changes to Satisfactory Academic Progress, both on the academic side and the suggestion that it follow through to the financial aid SAPs that we have some flexibility that the Department of Ed gives us between credit 1 at 59 of whether we might look a different GPA to help recognize if a student has a tough first semester and what the impact of a single class or two classes could be early on in their career. Is there something we can do? Other than Metro State, the rest of the schools in the System have a graduated GPA up to 60 credits. We are unusual that we don't. Go out and look at the policies that is a policy that is being considered to have an impact to help give a second chance to some students. That is one example of a number of things. Akey-Another policy I would highlight where there is some significant language is around

Academic Forgiveness. That would be another policy that I would encourage people to take a look at as well. We have already adopted and implementation right now the Declaration of Program of Study policy that was adopted last year. As you mentioned in formal review, we have several out there with some significant changes that we believe would have impacts on students initially as far as their ability to maintain enrollment at the institution and receive financial aid for enrollment. The bigger impact is then how we wrap around those students who are experiencing academic difficulty early on such that they can be successful in the long term. Straka-The goal behind this as the Cabinet is talking through this is not to milk the students for another semester or two of money and send them out of here one year further, we got a year more money that they leave with a year more in debt and still no degree. The real emphasis on these things is how we can catch those students who could be successful but had a tough start, can we give them a little bit better chance to succeed. As we said it's got to be a more holistic approach than just saying we are reducing our standards so that they can remain eligible. It would be good to have significant debate that is why we have the policy review format that we have, informal review and formal review. I do believe that the policy writers take comments and input very seriously. That is the formal process that we have for reviewing these policies.

Akey-Formal review for that set of polices we have 18 that are in the standard formal review process and 1 policy that is in expedited review. The ones we just mentioned will be open for comments until March 29.

5) **Legislative Update**
   a) **February Forecast** - Discussed below.
   b) **Governor's Budget Proposal-February 19**
   Straka-The Governor should be coming out with his budget proposal next week. That will give us an idea of where we are going. A couple weeks after that we should see the February forecast. The February forecast is what sets the checkbook for the Legislature to start. Constitutionally they have to have a balanced budget for the next biennium and that forecast is how they set their budget. It tells them what they anticipated revenues and expenses are to start. If they have a surplus they can do really three things. They can reduce revenue, which is cut taxes. They can increase spending or they can allocate a portion of that surplus to the rainy day fund. If they have a deficit they can have three things they can do, but it is the opposite, they can tap the rainy day fund, they can increase taxes or they can reduce spending. That is really what starts the discussion at the Legislature of where we will be. We were at a little over $1.5B surplus in November. The first two months after that forecast the revenues are trailing behind the November forecast.

   We did get some initial feedback on the Armstrong project that we would hope will be prioritized in June. The System will put forward their capital bonding list that they will forward to the Department of Administration. That project scored in the upper half of the projects during the capital review project in January. The first part of that request is for planning money and to complete construction in the lower level of the Clinical Sciences Building is what we are hoping to do in the first phase of that project. The second phase of that project would actually be to build Armstrong's replacement and the third biennium would be to renovate spaces that will be accommodating other activities and my guess is the library is going to be a big part of that and then to demolish Armstrong. That is a three phase project estimating $90M over the three bienniums.

6) **Budget Driven/Related Dates**
Straka-We really need to come to the March Meet & Confer and have some preliminary discussion about strategies in some areas. Details we would have to come in April so that people would have a chance to react to some of those as they come back for May. It would not be our goal to spring in that last few Meet & Confer anticipated changes. I will tell you with tuition policy and tuition differential will be Monday, April 22 is when we have to put in differential tuition rate requests, what our fees increases if we are going to ask for fee increases in excess of 3%, aggregate student's fees in excess of 3%. Our revenue fund is due by April 22 and student consultation letters will be due by April 22. By May 29 is when we do the fee rate, tuition

rate, budget narrative, budget enrollment worksheet, reallocation investment reduction history, health services. It's really a hard part when we changed to our new calendar, the real work of what we put in for the next year's biennial budget all happens after we leave and after spring commencement. So much happens after faculty leave campus because the legislative date for constitutional date for when they need to balance the budget is late May, we know they are about 50% on getting done then versus an extra session. It's May or June before we set tuition rates and it hasn't been unusual to go into July before the Board of Trustees can set budgets and tuition rates. On a best case scenario they don't set our tuition rates and approve our operating budget until the June Board Meeting.

7) Institutional Equipment Volunteers

Smith-You may recall at our prior meeting I had put out a call for volunteers to serve on reviewing the fiscal year 2020 institutional equipment requests. So far I have received six volunteers, Mike Peters, David Cowan, Brian Martensen, Bobby Fleischman, Bryan Schneider, Steve Smith and Lisa Baures. That is similar to the make-up of our committee we had in prior years. We will be putting together the list of all the requests in prioritized order by the division heads and then we will schedule meetings for our group to get together and make recommendations.

8) Rumors /Other (Straka)

Seasonal dome update-The Board meeting where that was supposed to be approved in January was canceled. The Board has decided to not have a February meeting and they chose not to do an interim meeting. They are going to address it in March. It could affect our schedule. We were able to move forward with just the preconstruction contractor schedule to keep it moving forward. We were able to work with the facilities area and get a contract done with Kraus Anderson to move us forward in some of the design to keep us moving forward with ISG. It shouldn't impact the overall schedule, but all of that contract is contingent upon Board approval, so we will be going March 6 they have added an executive session the Day before the Board Meetings where scheduled to take up the action items from January that the Board wasn't able to act on because of the weather.

Common Bell Scheduling and Strategic Budget Planning Assessments groups are meeting and are doing work and are looking forward to come forward by the end of this year with some recommendations of who we might move forward with Common Bell recommendations and also how we might improve the Strategic Budget Planning Process as we move forward in the future.

Kolars-Is there a place to offer input on the retention of student and success for employees or students to offer input on what may help? Jones-In your inbox today came an invitation for that so send it me, David Jones. We introduced a D2L course that is a volunteer opportunity to learn a little bit more about university history as well as how to make referrals to students as well as a question of any ideas you may have that would have an impact. Straka-I will check on the budget website to make sure the link is active to add comments https://www.mnsu.edu/finadm/comments/.

The meeting was adjourned.