BUDGET SUBMEET & CONFER
Tuesday, March 12, 2019
1:30-3:00 p.m.
CSU255

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, Jane Kolars, Deb Norman, Mark Constantine, Kevin Buisman, Marilyn Wells, David Jones, Matthew Loayza, Jean Haar, David Cowan, Steve Smith, Matt Cecil, Brian Martensen, Kris Retherford, and Vickie Hanson

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

2) **Cabinet Planning Retreat (2/27)**
Straka-Cabinet had a retreat on February 27 to talk about budget. We are more at the general strategy level right now as opposed to having anything concrete and we are not ready to make any recommendations yet. We did talk about the $4M problem that we need to deal with. The Conference Committee Funding Recommendation worksheet was shared.

The $4M is structural balance that we have in FY18 and 19. We knew that we were going to have an issue because, in the first year of the biennium we got $50M, the second year we got $10M fewer dollars than we did in the first year of the biennium. The colleges increased their tuition by 1%, the universities were hoping to increase their tuition 3.9% and in the second year of the biennium we had frozen tuition. The biennial impact you see that we had about $2.9M new dollars in appropriation over the biennium, but appropriation went down $1.2M from FY18 to FY19. We had $390,000 in new grad tuition for FY19. From FY18 to FY19 we had almost $1M less in revenue. Then as we look at the other things that happened, we were at a decline in enrollment in FY18 from what our base was coming in and that was $1.2M shortfall and we had a projected FY19 additional shortfall of another $1.7M. The good news is that spring semester was better than fall semester looked. We weren't down as many FYEs compared spring to spring as we were fall to fall. We did see a fairly significant change in our tuition forecast. Our enrollment spring to spring is down under 2% that means we are the smallest decline in the enrollment of state universities.

Other things that happened. Last year we did agree to move the graduate assistant stipends from $9,000 to $10,000 that was an impact to our budget of $325,000. We did add the Advising Director of $112,000. These were some things we took out of one-time money for the current year, but we are going to have to deal with this as we move forward. HR TSM that is the System chargeback for the new Human Resources TSM model at $200,000. In Athletics they required that we stream some more sports, so we had to increase our internal contract for $21,000. MinnState Marketplace purchasing system chargeback $50,000. Transfer Evaluation chargeback $12,000. Job Description chargeback $9,000. Office 365 chargeback $75,000. There are a number of things that were paid by the System Office that are being allocated out to the institutions now. Utilities we have an increase to costs $270,000 and Enrollment Mgmt. adjustment is $170,000, we had been adding about that amount into recruiting, ads and we decided to make that permanent.

We do have some salary savings every year, so I built in for the first time an estimated amount of what those salary savings are going to be. I'm comfortable based on the five year review, that we are not using all of our estimated salary savings.

Our inflation was estimated about $9.4M. Our inflation last year was a little bit more than we had estimated. Some of the things that happened, we had the change in the pension bill that increased the employer's share of commitments to our pension and retirement costs.

All of these things add up to about $4M deficit. Two primary impacts going in, we knew that the way that the legislature gave out the money, System wide we knew we were going to have about a $20M problem, which for us was about $2M. We've actually been talking about that $2M for two years.

Cowan-I don't see any take away from reserves? Straka-This just explains the problem. This is not the solution to the problem, this is just telling you how we got to $4.9M in deficit. This is a structural budget, so this is our budget every year. Tapping the reserve is like your savings account, not your checking account where you get your salary in each month and you pay your bills each month. Unlike the reserve there are times where it makes sense if you are going to bridge into the reserve and use it. Reserve should be a plan how to get you from here to here, or about making investments. That you expect to pay off it will come. It is not what you do to kick the bucket down the road for a couple of years. As we are looking for the solution to the $4M, obviously where we are at in the fiscal year right now, it will be hard to find $4M by July 1 so, we will probably have to look at some bridge money, but that is not part of the structural solution, that is part of a bridge.

Kolars-I keep coming back to the System Office, because they get their own allocation, but when maybe is it time to start talking with them about all the chargebacks? Straka-They are well aware of what they are doing. On the other hand here is what they have. They've had a flat dollar value in the System Office budget for 4-6 years and each year the Legislature puts a cap on the exact dollar value that can be spent in the budget. If they have raises they don't have tuition that they can turn to get an increase in revenue to pay for at least part of their raises, so they have increasing costs. Part of it is also like we have locally, software that used to cost so much when we go to renew it costs more for the next time, so there is that inflation. We can talk about the chargebacks, I'm just going to tell you right now that isn't going to change and all the talking we do here isn't going to get them to change their mind to not charge us back that money. I'm not complaining about it, I just put it out there because that is reality. Haar-Don't you think the reality is it might be coming the norm? Straka-Absolutely. When we go onto the next issues here I can definitely tell you that what we are requesting for ISRS Next Gen versus what the Governor is recommending to allocate to that leaves a gap and I'm worried about how the system is going to be able to achieve that gap. They asked for $37M, $18.5M each year. The Governor is recommending $8M each year. That is a significant gap over the biennium and over the six years of Next Gen.

3) Governor's Budget

Straka-We were asking for $246M and of that we wanted to pay for a 3% expenditure increase for the System and we would be able to hold tuition steady. The Governor's recommendation is a 2% increase in appropriation. For us at 1/3, 2/3rds, what that means is the Governor's recommendation is for us to get about a .67% increase in spending. The key to this session for us and our financial health as a System is hopefully we get the Legislature to leave tuition alone and to let us do at least some level of inflationary increase for inflation. That is going to be a difficult one. The Governor's budget is silent on tuition, so that is a good thing. Because if we can get 3% tuition increase and then we have 2% appropriation increase for around 2.5% to 2.7% increase in spending, that's probably a pretty good scenario for us right now. I can tell you just skipping ahead to #6 there are a couple of concerning bills that went from the Senate Higher Ed Finance Committee last week, Senate filed 1473 by Senator Draheim who should be a good friend of ours. One of the things he has put in a bill that advocates that no online course should or can cost any more than its corresponding face to face course on any campus. That bill if it goes all the way through will eliminate our online tuition differential. That is $2.5M for us. That is something we should watch. Also understand this time in the Legislative session from March 1 until April 15, I refer to shots across the bow and there is a lot of bills that are stating political positions and are putting in campaign promises with people having zero expectation they will make it all the way into law. We get a real breadth of single issue bills that people are making a statement. The more concerning one is 1583 which recommends a tuition freeze both years at Minnesota state universities. Tuition freeze at the University of Minnesota, now they can only recommend that because the state does not constitutionally control tuition for the U of M. What they can do if they don't like what the U of M does with their tuition the next year, they can reduce their appropriation in response, but they can't directly control their tuition. That bill also asks that the two year colleges in our System reduce their tuition by 1% in the first year of the biennium and then freeze it the second.

4) **February Forecast** https://mn.gov/mmb/forecast/forecast/
Straka-The February forecast projected balance decreased from about $1.5B down to $4.9M for FY2020-21. The revenue projections are looking lower through FY20203 and they are seeing a slower economic outlook than in November. The current biennium for FY18-19 looking at a surplus of $720M, now they are looking at a $563M surplus. That is one-time money and most of it has already been realized. They lowered their projected balances for FY2020-21 from $1.5B to $1B. The near-term US outlook weakened since November. State unemployment rate remains below US average. With low unemployment, you have a high demand for workers, what that may mean is we could see some inflation pressures for labor in Minnesota. The revenue forecast was lowered a little bit for both years. Forecast changes for 2021 lowering about $386M. Looking at the change in total revenues annualized percent of growth is going from 3.2% growth in the current biennium to 3% in FY20-21 and 2.3% in FY22-23. Forecast risks include taxpayer response to federal tax law changes, slowing labor force growth, trade policy uncertainty, geo-political events and 28 months remain until the end of FY2020-21. Lower spending partially offsets reduced revenue. Planning estimates, back in the Tim Pawlenty era they changed the forecasts and how they calculated it. Now any increased revenues that we expect are included in the revenues, but they don't include any salary inflation or estimated inflationary in the spending forecast. Officially they are saying for FY20-21, there is a $538M surplus, but if you add in an estimate of what they expect the inflation to be on the state spending, they expect that to be $1.1M. Just to pay for inflation that doesn't cover it all. If you look out at the next biennium, it's a balanced budget before you talk about expenditure inflation, there are estimating almost $2.7B in inflation for the following biennium. This underscores that we are not going to get state appropriation to solve all of our needs. I think it underscores the importance of anyone that can talk with your Legislature the importance of allowing at least reasonable inflationary increases in tuition. We've held our tuition flat 4 of the last 6 years. Annualized tuition inflation for us over the last three biennium has been about 1%. That has put a ton of pressure on our budgets. Two-thirds of our budget is tuition revenue. The state finances do remain sound, they are looking at solid reserves. Could we see some kind of a drain on the reserves, like we saw under Pawlenty? We are in the longest run over a century without a recession in the national economy, almost a 12 year run.

Haar-Have we ever looked at other higher ed institutions that are in the system that have come up with other revenue? I know there are some states in higher ed that aren't even getting 70% from their state allocation. Can we even do any kind of comparison or learning anything from other places about ways to look at how we are operating? Straka-The really difficult part about this is the discussion I'm having right here in probably 40 states or more my colleagues are having this same discussion. This is not a Mankato or Minnesota issue, this is not an uncommon situation. Where it really gets troublesome is when states both don't keep up with inflation with their appropriation support of education and then tie the hands of the institutions by also freezing or doing something with tuition. Our Board of Trustees sets tuition, yet our Legislature has taken that power away from the Board of Trustees. That is really when it gets difficult when we don't control either side of our revenue stream. The only thing we control is enrollment. That is the only variable we have any impact on. We don't have impact on our state appropriation and when they freeze the tuition rate, we don't have any impact on that, so the only thing that is left is how many students do you have paying the rate of tuition when they have frozen. It puts you in a box. Then they say when it comes to inflation, it's not our problem. We don't control that. That is neither good nor bad. I believe in collective bargaining but it is a fiscal reality when you associate the two completely and put all kinds of controls on one side and then don't on the other, you can have a result that makes it difficult. That is the whole fiscal sustainability report that the state did a few years ago. Martensen-There are some states that basically made a deal that said, we will take less state support if you give us more autonomy. Straka-Realistically one of the levers anyone has in higher ed there is some level that development can do and support but for regionally comprehensive universities you have a tuition leaver and appropriation. Those are the two things you have on the revenue side. The other one is enrollment.

Baures-When do you think we will get any kind of feedback as to if we can raise tuition? Straka-If its anything like the last three bienniums, we will know after commencement. I'm not sure we will have a great idea before we leave for summer break where that will be. This Governor and one of the Houses said they want to be much more transparent about budget deals and not have it all happen behind closed doors in the last 48 hours of the session and roll everything into one big omnibus bill that passes. In that respect, hopefully we will know something earlier and maybe in late April we might start to see some spending targets and have a better idea of what comes in. Some of those kind of decisions in recent years have come down to the last 48 hours of the session. The last biennium two years ago, we were forbidden to talk to our students about any possible tuition increase over 3%. Then the session ended right at the end and there was an opening to raise tuition the first year of the biennium and the Board said o.k. universities you can go up by 3.9% and we had 6 or 7 business days to do our consultation with students when we had been forbidden to talk about anything over 3%. The Board of Trustees request was for $261M and for a 3% spending increase if they were able to get the 3% spending increase, no appropriation increase, then they would consider keeping tuition level. Otherwise the Board reserves its right to set fiduciary sound budgets.

We are coming off the best economic run in history and public higher education has not been a beneficiary of that economic run as far as state support.

5) MinnState Operating Budget Deadlines

Straka-Here are the schedule and dates for our FY2020 budget materials. This just came out this week. All increases in tuition rates (differential or other) are contingent upon final results of the legislative session, and any tuition implications resulting thereof.

On Monday, April 22, we need to put in any requests for differential rate requests that are greater than 3%. Existing undergraduate courses and programs when the proposed increases is in excess of 3%. Graduate courses and programs in excess of 3% and undergraduate or graduate courses not previously offered at the college or university for which a differential is being requested. The College of Science Engineering and Technology, we are working with a program to expand the Iron Range Engineering Program (Bell Program). There is a pilot program looking to have in the summer a year from now which would still be in this fiscal year, looking at differential tuition that is fairly substantial in that program that will probably be going to the Board in April to jointly present to talk about with the Bell Program. It's a coop based program for 2 year engineering students around the country that would go to the Iron Range and have intense summer opportunity to set the basis and go back out and do coops with businesses, be hired for an internship and then they would have individual project based learning at their work sites to finish their 2-year degree. It's a really unique program, but part of that there is a possibility that will go to the Board.

Fee increases in excess of 3%. Again we will take the athletic fee and student activity fee out of this because right now by statute any increase greater than 2% has to be approved at a student referendum. All of our other fees, looking at tech fees, health service fees, the student union fees we right now have to say that the expectation of the Board is keep the aggregate increase of all of those fees when averaged to 3% or less.

We will also be putting in revenue fund worksheets for student union and res life budgets. Student consultation letters.

Due May 29, 2019, will be the fee rate worksheet, tuition rate worksheet, budget narrative, budget and enrollment worksheet, reallocation, investments and reductions and health services sources and uses.

A big chunk of what we are presenting is the operating budget, we don't present until after the school year is over.

Smith-I would also point out the Board of Trustees will be having their first reading of the FY2020 budget on May 21-22 and the second reading will be June 18-19. That is when they will formally approve the budget for FY2020. Straka-That is contingent upon on legislature fulfilling their work. Smith-When we get calls from parents in May or June asking what the tuition is for next year, we think it might be this. The Board doesn't approve it until late in June. Straka-That is one of the reasons why we generally end up with tuition increases being in affect in the fall and not summer session because we are usually through summer session by the time we get our tuition and fee rates.

We did have the tuition and fee policy that came out. We might be presenting at the May Meet & Confers a little bit of an update and some of our work on that. Though the policy seems to give us some leeway and flexibility in a couple of areas, it seems like the interpretation of staff doesn't seem to give that leeway. Last summer the Board bumped the caps on a whole bunch of our fees and said here is the maximum athletic fee and maximum student activity fee. But they don't give us correspondingly the right to go out to that maximum. They put in place something in the middle that says, even though we raised the maximum we still have this expectation that your aggregate fees are going to stay at 3%. We seem to be getting a little bit of a read from staff that may apply to some of where we think it might say market rate driven, then we have the flexibility to do some things. Like graduate tuition under the new policy, said you can go the market rate tuition but that doesn't mean that institutions are going to have a wide open solve our budget situation by raising graduate tuition by X%.

6) **Bill to Eliminate Online Differential Tuition-**Discussed previously**.**

7) **Student Fees**
Straka-Tomorrow night is the budget meeting for Student Senate when they will debate and talk about and make a suggestion to Vice President Jones and the President about what they are recommending for student fee rates. Constantine-Half are meeting tomorrow night and half the next week.

8) **Strategic Budget Planning Assessment Update**
Straka-All three groups, the process group, the academic group and the non-academic group did meet last month. The assessment recommendations for approval, hopefully in April we hope to be bringing to the Meet & Confers the initial proposed recommendation on how we want to make changes to the process and then the academic and non-academic processes. Then in May we will come forward with a final change in that process.

Common Bell also those groups have been working and meeting to talk about how much progress we've made. We've broken into three subgroups and those subgroups each will come back with what they thought their priorities were. We hope to have a draft proposal ready for review in April. Lynn Akey is planning some open forum sessions to present the draft materials for both Strategic Budget Planning and Common Bell.

We had only about 40 people show up for the main open forum for the comprehensive facilities work plan. Those people that showed up concentrated in a few areas. If you could talk to your constituencies and groups there was an email that went out. There is an opportunity to go out and fill out a survey yet to talk about what the needs are for comprehensive facilities plan. We hope to share the results when we finalize the 65% plan.

Another open forum is to share more widely some of this budget information, some timelines and maybe seek input on strategies and how to move forward. We would be considering some open forums and will be discussing that at Meet & Confer on Thursday if other groups think that discussion is appropriate.

9) Rumors /Other

Jones-Enrollment update. While we are down overall in applications, we have continued to stay on the positive side for first time undergraduate traditional incoming first year class. We are 3.9% above where we were last year and we are pretty much even in transfers. Graduates are still a little early on all the acceptances as they are still being processed and international looks positive.

Straka-We are very hopeful that our spring to spring looked much more positive than our fall to fall. Hopefully if we can continue to carry some of that forward and see more of our freshmen to junior classes back here next fall, then supplement on that with another strong first year class, that could help our situation with the tuition budget.

We are $160M in our general fund. If you put in prospective its 2-3% of our budget. We are still going to do 97% of the stuff we do. I think that gives it a little bit different of frame, so I don't want us all to just concentrate on the 3% we have to realize this isn't something that means we are closing the university by any means. For those programs who will have resources reallocated, we also want to recognize if that happens that we respect that and that it's difficult for that program and difficult for any individual who may be impacted. I don't ever want to diminish that because they are difficult decisions that we have to make as we move forward, but overall as an institution we are still going to be doing all the amazing things we do or a good portion, 97% or more of the great things that we do, we are looking at even newer and better things as well. Though this is pretty programmatic and not robust kinds of fiscal environment I still think that we are going to be changing people's lives through education and are lucky enough to be in a field where we do that. I don't want to leave this in an entirely negative note. There are some fiscal realities that we have to face as we move forward but hopefully we can use this next period of time to refocus and say how do we set ourselves up for the next 6 or 7 years and how do we do as well as we possibly can do moving forward and how do we face this as well or better than our colleagues across the system? We've been up to that challenge in the past and I think we will be put to that challenge as we move forward. Again, not without fiscal realities but understanding that is what is happening in the country. Let's make the best of what we have.

The meeting was adjourned.