BUDGET SUBMEET & CONFER
September 8, 2020
1:00-2:30 p.m.
Via Zoom

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, Sue Burum, Sarah Kruse, Charles Lewis, Lynette Engeswick, Claudia Pragman, Bryan Schneider, Matt Clay, Matt Potocnik, Joseph Lehman, Anne Ludvik, Deb Norman, Jane Kolars, Kim Rademaker, Mark Constantine, Jean Clarke, Lynn Akey, Kevin Buisman, Chris Brown, Aaron Budge, Matt Cecil, David Cowan, Brian Martensen, Kristine Retherford, Skye Dauer, Steve Smith, Brenda Flannery, Sheri Sargent, Matthew Loayza, David Jones, Laura Yin, Terry Wallace, Jennifer Veltsos, Andrew Trenne, Arnavee Maltare and Vickie Hanson

1) Introductions

2) Changes/Additions to the Agenda
Proposed BESIs and ISRS Next Gen were added to the agenda.

3) Enrollment Update (Straka)
In non-concurrent enrollment, we are showing for fall a 2.2% increase in our enrollment from last fall. That is incredibly good news for us, 135 FYE. We are in good shape compared to our peers. Our concurrent enrollment is down, but it is early. Some of the school districts haven't started. Enrollment in the System, Bemidji is down 7.4%; Moorhead is down 4.9%; St. Cloud is down 11.5%; Winona is down 9%; Southwest is down 1% and Metro State is down 2.7%.

Hopeful if we can keep our COVID numbers down we can keep people on campus and engaged and we can continue this success on into spring. Very hopeful and we are clearly in the best situation of any of our peers as we enter this academic year. A lot of thanks go out to a lot of people for getting us to this position in the semester and a lot of thanks goes to our students for having faith that we can serve them well and for coming back here.

We are up 2.2% in undergraduate enrollment and up 2.3% in graduate enrollment.

4) Recap of FY20/FY21 Biennial Funding (Straka)
We go on a two-year biennial operating budget. State of Minnesota meets every other year. The odd number years they set the operating budget for the next two years and in the even years they usually do a bonding budget. That didn't happen this year.

Historically what we would see is something like what we are seeing in our expenditure line. One-third of the inflation in the first year and an additional amount in the second year. You would see a significant change in the budget, and you would see it more evenly throughout the biennium. What's happening in the appropriation side more recently, as a System instead of getting our money 1/3 and 2/3 over the biennium, we got it 1/2 and 1/2, we got an amount of money in the first year of the biennium and we got exactly that same amount of money in the second half of the biennium. We did see a $2.4M increase in appropriation in the first year of the biennium. Through the allocation model this year we are $142,000 less in state appropriation. We did increase our tuition at 3% and 3.9% over the first and second year of the biennium. We have $5.3M in new revenue in the first year, but this year we only have $2.7M projected of new revenue. Our expenses are going up 4.8% and 4.8%. We originally said we would have through appropriation and tuition change and what we felt our inflation would be about $.5M there. We actually had an enrollment loss in the first year of the biennium and an estimated tuition loss of $1M, so our projected base budget for the year we just ended was just under $.5M. That is very close to what we saw in the state treasury. We did see a drawdown of $2.5M to support the seasonal dome that we built last year and that was expected but wasn't listed in our base number because that is a one-time capital event. I do think we will see an increase in some of our restricted reserve monies, like professional development as people were not able to spend their professional development monies. We did see a $400,000 increase in our professional development funds. Given what happened in spring I'm very comfortable were we are at. This year we are looking at staying even on the revenue side, but we do have a $2M adjustment and inflation is going to help pace our new revenues by $2M. Over the two years we think about $2.5M to $3M because we did add some money that we will make base, we did increase some of our supplemental instruction costs and other costs to help support students. So, I think we are looking at just for this current biennium $3M in deficit that we are going to have to figure out a way how to fix that structural budget. I'm not so concerned that we hit the whole $3M in the current fiscal year, we do have some reserves so I think we can get there. We did hold our institutional equipment allocation of $1M and that will help lower that amount this year.

We allowed bridge funding for Academic Affairs to get us in balance for FY19, which was the biennium previous. At the end of that biennium, we did have significant cuts that we need to make, but we allowed two fiscal years for Academic Affairs to bridge those reductions in. That is why it may seem like we are cutting right on the back of the last cuts we did, but it's really a problem that existed in FY19 and now has repeated itself two years later in FY21. It has to do with that biennial operating budget cycle.

We talked about this last September and showed a similar picture. It was about $.5M difference in that. We were hoping we would get about $240,000 more dollars in appropriation and we ended up with $140,000 less, there is a $400,000 change from the same thing we showed last year. We've been talking about this for a year.

Schneider-Did we receive any COVID funding reimbursement? Straka-I will get to that a little later in #9 on the agenda. We did get some CARES Act money for reimbursement, but the other State of Minnesota COVID funding did not go to higher ed. MinnState put in a request to get some of the federal CARES Act money that came to the state through the State of Minnesota we only received $9M that we received directly. There is no additional money coming for reimbursement that I'm aware of. We might look at whether we can get some level of FEMA reimbursement for some of the expenses that we've gotten this summer of COVID related items. I'm not expecting that would be very material if we did.

5) **State FY22-23 Revenue Forecast - $4.7B Projected Deficit (Straka)**

Last February the forecast for the System for the remainder of this biennium was that there was going to be a $1.6B surplus for the State of Minnesota. The state had $2.4B in rainy day funds and reserves, but after COVID hit and the economy shut down they asked for an unusual off-cycle projection in June and that projection now says that the current biennium will have a $2.6B deficit but we have about $2.6B of rainy day funds and reserve. The legislature can do a couple of things if there is a deficit. They can raise revenue which usually means raise taxes or they can cut expenses. That often is a difference in party affiliation as to which direction that will go, or they can do a combination of the two. There is a third option it hasn't been used in a while, but historically occasionally there will be some accounting shifts that they can do some bookkeeping kinds of shifts that help make the biennium look better. The main thing that they have done there in the past is shift the last month of K-12 aid and make that payment in July instead of June and they can create an accounting shift that makes the state budget look a little better. That is something that might come back into play given the size of the budget. I'm not so worried what will happen right before next June 30 in the current year, but the concerning part of that forecast is the budget deficit for next biennium is $4.7B on the state budget. We haven't seen this since 2010-12, the great recession. This is the biggest budget challenge that the State of Minnesota will be seeing.

The good news we have is we have a competent person who will be leading the state through that, Jim Schowalter is returning. He was the Commissioner of MMB when we went through the great recession and helped the state through that. Myron Frans is leaving, he's been a fabulous Commissioner, he is going to become the CFO at the University of Minnesota.

I don't have optimism that we will have level state appropriation for next biennium. With the budget at the state level of $4.7B in the past, higher education has always been in that mix of helping to solve that kind of a budget deficit and I would expect that higher ed will be part of that again. What's very different from previous times in my career, is already there is great angst in understanding our levels of tuition. Going back into the early 2000s, where we say back to back 13%-15% increases in tuition, that is definitely not going to happen and even back in the early 2010 when we saw 5% to 7% increases in tuition, I'm not sure that is politically feasible either. These are different economic times and affordability of tuition in this country, the sensitivity to inflation and tuition is as high as it ever has been. I think we are going to see pressure on the state appropriation side just to get equal or to limit the amount of cuts I think we are going to have great pressure that we are going to have limitations to how much we can increase inflation in tuition to offset that. Because it's a biennial year, it will be a collective bargaining year and our current contracts and bargaining agreements all finish at June 30, so we must make some assumptions there. I believe it is reasonable to expect that we may have another $2M-$4M deficit that we will have to take care of for next biennium. In addition to the $3M I've been talking about that is related to the current biennium, I think it is safe to say we have to look at another $2M or $4M in the next biennium for a total amount of $5M to $7M for the university. That is tough news, but we as institutions in our System and across the country, these are tough economic times for higher ed. At St. Cloud State that $7M is the amount of tuition they are losing in this year alone. With the amount of enrollment loss, they are having, I would estimate St. Cloud will have a $7M to $8M reduction in their tuition revenue just related to one year's enrollment loss.

In this biennium, $2M of our problem had to deal with we are not balancing how many new revenues we have with how much our new expenses were and that is creating a structural gap. Then when I look at the pressure next year, I don't see us getting new state appropriation and I see pressure on tuition. I think we are going to have an additional deficit kind of situation moving forward.

Baures-I was wondering about unallotment, is that something that we are going to have to think about? Straka-If things don't get too much worse, I'm hopeful that we won't see unallotment this year. In my own opinion, maybe a delay in school district payments would happen before they would take an unallotment from everybody. At the level they are talking right now, I don't know that it would be super material if it were this year. Somewhere between is it going to happen this year, are we going to see a decrease in our appropriation next year as we go into the biennium? It's possible we could see unallotment, but before they can go to unallotment they would have to burn through all the reserves first and the rainy-day fund would all have to be burned constitutionally before they can declare unallotment. Rick will double check on that and will follow-up with the System staff on.

6) Fall UG Tuition Freeze Funded by MinnState Reallocation of FY21 Leveraged Equipment Allocation (Straka)

I showed a 3.0 and 3.9 increase and showed the revenue for that this year, even though undergraduate students didn't see a tuition increase this fall. That is because the System paid for that tuition buydown by eliminating their System-wide leveraged equipment allocation on what is called the "green sheet" because that is the color of copies of the main system-wide budget that they used to distribute at board meetings and it was always on green paper it has the term "green sheet". If you go to the MinnState Finance site and look at the area that talks about budget, you will still see it referred to as the "green sheet".

They took the money that was set aside for leveraged equipment across the System and they are going to divvy that out to the institutions based on enrollment. The two-year colleges weren't thrilled because they were a bigger percentage of the leveraged equipment and the universities are a bigger part of enrollment. It is something that we will break about even. It does mean that we don't have that $500,000 appropriation this year of leveraged equipment and that has really allowed us to buy some special expensive pieces of equipment.

The students will see the 3% tuition increase in their spring bills. There wasn't enough money for the System to buy down tuition for the entire year from their institutional accounts.

7) No FY21 Institutional Equipment Allocation-Core Block Funding Still Allocated (Straka)

Cabinet had made the decision not to do the $1M institutional equipment process. We still distributed core equipment.

Smith-The core block equipment is like the non-salary base budget and how that is allocated. The leveraged equipment fund was not allocated by the System Office this year, but I think they were also considering using other System Office allocations, whether it was for collaboration funds or other special types of allocations they may have been recapturing to cover the lost revenue from the tuition increase. Straka-They had considered that and one of the reasons they didn't look at those other sources for this year. They are examining them as we go further into the future.

Cowan-Did we have a lot of year end savings when we closed the books this past year? Straka-No, we still have a commitment to all student payroll. People know how to spend remotely as well as here. There were additional costs this year getting ready for COVID and other things. We paid all scheduled hours in Student Payroll even though students were not here. In some cases that cost us more than what we would have paid if they had been here because students don't always show up for 100% of their hours. We continue to have the vast majority of our expenses. There wasn't a ton of savings. We maybe had some paper savings or ink savings, but our payroll was all still here, our student payroll was still here. We still heated and cooled our buildings. No there was not any major significant savings from spring semester. We paid back significant refunds and shortfalls in revenues we would normally have. Some of the revenues would go into the general fund as rentals, we didn't have any rental income after March. Theatre and Athletics had ticket sales that didn't happen and had to be rebated. We rebated some parking to students and course fees and all the room and board fees. There were places where we gave refunds where we did not have anywhere near that level of savings in expenses and those net refunds cost us.

8) COVID-19 Financial Planning Update (Straka)

From the financial planning team, we have a list of various requests that came through from the COVID funding requests. These are out on the team site. We had flooring in the Otto Rec Center, we added 10 GMW positions to do the extra sanitization to clean the buildings and classrooms every night, added plexiglass, extra sanitizer, cleaning equipment, masks, face shields, FMLA costs, student worker pay costs, case worker hire in res life, student health services tests, flex sync technology and others. $2.7M is what we expect to spend for these kinds of one-time costs related to COVID to get ready for this fall.

Baures-Does the $2.7M come from reserves or just part of it? How much reserve will be left after we allow for paying the $2.7M. Straka-That is one of the things that Steve's task in September is to complete our reserve analysis. I am not concerned that this is going to have a material effect on our reserve. It is also the same reason while I've been o.k. bridging some of our funding in the past, we've had reserve levels that have been comfortable. I will try to get a more specific reserve level for you as we move forward. Some of this has been paid for Flex Sync there has been some money in student tech fees, it makes sense we are putting technology into classrooms forever and I think there will be some version of flex sync that can go on for some of the curriculum for quite some time. Some could come out of the CARES Act funding.

9) **CARES Act Funding Update - $4.5M Emergency Student Aid, $4.5M Institutional Aid (Straka)**
If we got about $9M in CARES Act funding, $4.5M of that was for emergency student aid and we have fully paid out that much student aid. We went between $150,000 and $200,000 above that with our emergency grant program that was related to CARES, so we committed more like $4.7M in emergency aid, $2.2 to res life for partially offsetting their room and board refunds. Our goal was that we could get res life to have a level cash balance that they not have to deplete their cash balance not knowing as we came forward into this year whether we would have to give significant refunds we are already anticipating additional refunds for that time period between Thanksgiving and the end of fall semester this year anticipating those students that choose not to come back after Thanksgiving will get a prorate refund. We've got about $2.2M left in institutional funding that I still must make the final recommendation to the Cabinet and Cabinet will still have to choose what to do. I'm holding a little bit to see what we do, the impact if we had to pivot and move people out of the res halls that has an incredible impact on the budget of residential life and that is something I would have to look at what that impact would be, where we would put it or can we look at reimbursing some of this $2.7M from that CARES funding. We do have a time period where we will have to make a decision coming up, probably a good chuck of it by the end of the fiscal year comes September 30, but we did have a year from when we got those funds to fully deplete them. We will make some recommendations as we get further into the semester how we should allocate the rest of the CARES Act money.

Cowan-We are running about $5,000 a month to store over 4,000 pieces of classroom furniture. Straka-That is in that COVID worksheet. It's part of the $2.7M requests.

10) **Strategic Budget Planning Update (Straka)**
As we look at the challenge ahead of us and balancing our structural deficit, the discussions we are going to have over the coming months of how will we do that, I think we will look back at the work we did in strategic budget planning and the data. This is an important piece of information that is metric based and data based, it says whether we are going to look at whether you are a candidate for investment, a candidate for maintenance or a candidate for reduction. We will revisit that information. We will also have to take a look at this new COVID environment and say are there areas or programs in the economy that are great opportunities because this is something new we can react to and should we make investments for programs in those areas because we think this is the time where we can have great return. There may be other areas where is this area now looking like its not as positive future as it used to be and look at those kinds of impacts and we will have to see what major shifts might have happened in programs and areas in enrollments over the last couple of years since the last time we ran the data.

Akey-We are going into year 3-4 of that information and according to the cycle we would be updating the information that is a part of that structure and that process would happen next year. We are working with the information that was developed as part of that process when we went through it 3 years ago. The other aspect we are continuing to work with the and its on the agenda for the Planning SubMeet is several of those areas' folks have asked for professional development sessions. How do we better understand program type data, whether its from a financial impact, course enrollment impact and whether it's a program success impact. That is something that Planning SubMeet is looking at for this year as well as what sessions it might offer throughout the year as we get prepared to renew information and go through that cycle again next year.

Straka-Assessment really worked at restructuring the old academic data book and I'm not sure if you are still using that term on your website? We did rework those and some of the data and that data is available for us to review and to look at as we take into consideration how we would move forward. That is data we have each year as part of our institutional assessment process. We will be trying to look forward also. In this time period it's important that we not concentrate on lagging data. We need to look at some leading indicators and try to look out in the future 7 to 10 years and say where do we want to be as a university 5, 7 to 10 years from now and what can we do now to help get us there? We want to make sure that we are investing in places that have opportunities and that this not be just an exercise in reduction. We want it to be an exercise in reallocation to make sure that we can feed those programs that have the capacity to grown and be successful.

11) Proposed BESI's (Straka)

We are trying to finalize the BESI draft and are looking to propose a BESI program for this fall. BESIs are allowable under MinnState Board Policy 4.11. Because of funding limitations, the incentive cannot be made to all eligible employees. Decisions regarding the granting of BESIs will be based on the future staffing needs in a program, department, division, or area.

BESI was created as a management tool to help balance the budget. It is not necessarily an employee benefit; it's not meant as a reward for years of service or for good service to the institution. It is a way to incent people who were looking at programs we may want to reduce if we can incent people to retire and we can get future staffing savings that way, instead of telling people who want to work here that they don't get to work here anymore. We would rather use that incentive. Our goal in this is that the BESI would be recouped within one year and would have a proven long-term salary savings.

Some of the eligibility requirements come right out of board policy. Age 55 and 5 years of continuous MinnState service. Not eligible employees who have already given or received written notice of separation, temporary employees and employees who have not fulfilled service obligations following sabbaticals.

Criteria-Positions that would not be replaced would be 5% per year of service, up to 50% of salary with a cap of $50,000. The BESI would be in addition to other early separation incentives. It's calculated on an employee's base salary. For classified people it would not include overtime. Retirement dates must be communicated no later than Thursday, October 15, 2020 with a retirement date no later than May 31, 2021. Positions in this category will not be replaced, they will be a base budget cut within the respective department, program and division. Savings will be used to meet FY22 deficit and beyond. If we are going to take that money and pay for a different position with a different name, that doesn't technically mean that the position has been eliminated. This means that the university should see that savings moving on. Question-This could apply for December 2020 retirements? Straka-Yes, it could. It doesn't say you have to wait until the end of spring semester, just says your retirement date needs to be by May 31, 2021.

Positions with a replacement cost at a lower cost would be 50% of differential salary. Where differential exists between the current salary, the retiree and probable salary of his/her replacement, we can base it on a 3-year average of prior salaries in that department. Many academic departments will qualify for this option. If you are having a full professor retire and are going to replace with an assistant professor, in most disciplines you will likely see a significant savings. Some examples in the past, in accounting, engineering, finance and nursing there wasn't a difference between what we paid in salaries for people retiring and what we were paying as new replacements. Those programs where there is a market need to pay what the existing professors who are retiring or leaving then we wouldn't be able to calculate any cost savings. Just because of the way the bargaining contracts work and how the steps work, most likely ASF and classified positions will not be eligible for this. Depending on what the experience is of the replacement that is hired, it is very likely that they can cost as much or more than the person they are replacing. It's difficult to guarantee that there is going to be any savings in those positions.

If there is an reorganization and a Vice President wants to bring to Cabinet, Director of HR, the Provost and myself an internal reorganization of a track or program internal to the department or college and they want to come in say here is a reorg, we believe will save "permanent" dollars then we would consider that and other proposals showing a document and salary savings.

This timeline was updated from the Budget SubMeet & Confer meeting to reflect an email sent out to all staff by Steve Barrett on September 10, 2020:

September 10, 2020	BESI announcement sent to all employees
September 24, 2020	Deadline for eligible employees to submit a letter of interest to Human Resources
September 25-30, 2020	Review of eligibility conducted by Human Resources and the respective supervisor, Dean and Vice President
October 5, 2020	Employees notified of whether a BESI will be awarded
October 26, 2020	Awarded recipients must respond to Human Resources with written acceptance/decline

Question-Any specific incentives to the faculty to consider the BESI? Straka-Just what the BESI is, the 50% of savings or up to 50% of salary. That is the incentive for faculty. The BESI information will be sent to all faculty and staff and right now we have not identified every single department or program where someone might qualify. If they think they qualify, then they can have a discussion with their department chair, their deans and HR to see if they think they qualify.

The question and discussion were based on the BESI "draft proposal" discussed during the meeting: Norman-Asked the question about the October 15 deadline in the proposed BESI and the plus two for IFO. Straka-My goal would be that we do not punish someone because they don't know what their options are. The way we wrote this was to try to ensure that people could look at the two as a package when deciding. Our intent would not be to say, force your retirement and then not give you a BESI. That is not administration's intent here. If someone puts in by October 15, are they are to rescind if they put in the intent by October 15? Does anyone know the language on this or is this something we can discuss offline with Steve Barrett? Martensen-They can request a recension, but I think it would still be up to the President on whether to accept it. Straka-Do they put in an intent to retire or letter of retirement? Martensen-They put in an actual letter of retirement. Straka-The other option is we can move the deadline up to October 1 so they can get an answer whether they are eligible at October 15? Cecil-That is a good idea Rick, I think we should look at that.

12) ISRS Next Gen (Straka)

We don't have all the final details as the contract is anticipated to go the Board in October. Some of the general concepts that we are hearing is that what makes our System unique from other higher educational systems or institutions is we still have to tie our results, whatever system we buy, we still have to integrate that system and have it feed the State of Minnesota accounting system. We still need to get all of our money into the State Treasury, and we need our accounting formats to flow into and feed SWIFT (the State of Minnesota's accounting program). We are hearing the implementation will probably be later than we expected because we don't have a contract in place right now and will be longer than we expected to implement the entire Next Gen System. It will probably be more expensive then the $151M, we don't have exact numbers yet. I have also heard that they may look at the "green sheet" as a possible funding source in the future to help pay for the Next Gen implementation.

13) **Rumors/Other**

Straka-We had mass COVID testing on campus last week and between 1,800 and 1,900 were tested. Cecil-It sounds like we are going to see a very low number of positive results from that. Much lower than we see in the general testing in the state which is generally in the 5% range. Keep in mind that generally we test symptomatic people and at this event we tested asymptomatic people in addition to some symptomatic people. Smith-2% to 3% positive.

The meeting was adjourned.