Town Meeting  
October 8, 2010

Topics

- Current Budget Situation
- Budget and Planning Scenarios for 2012
- Fiscal Sustainability Principles for 2012 and Beyond
- Recent Organizational Changes

Current Budget Situation

*Note that some of this presentation is adapted from the July 15 Town meeting.*

Briefly, we must balance our budget coming into the 2012 fiscal year, which starts next July. As we have previously discussed, Minnesota has a budget deficit of over $5B. It is more when adjusted for inflation. How that deficit translates into a cut of our state appropriation depends in part on the economy and on the legislature. Following is a summary of what is expected at this time.

- For the current year, FY 11, our total general fund budget is $64.7M with $25.7M coming from the state allocation and the remaining from tuition. The percentage covered by the state is 40%, down from 48% in FY 2009.
- It is virtually certain that we will have a significant cut in our state appropriation coming into the 2012 biennium. We are projecting from $3.5M to $7M depending on how much of the deficit is addressed by budget cuts and how much is addressed by additional revenue.
- We can handle the lower end of the range without layoffs. However, if the cut goes to the upper end of the range, we will need to eliminate our temporary positions. Given the budget uncertainty, we have used temporary positions to serve as a buffer protecting our long-term employees from layoffs.
- Please be very cautious about spending. We are far from out of the woods yet for 2012.
- It appears that the Minnesota economy will be slower in recovery than was first expected. We expect a continued decrease of state appropriations for at least the coming 10 years. The decrease coming into 2012 will be severe and further decreases are likely to be more gradual.
- Tuition increases cannot fully substitute for loss of appropriation without compromising access and affordability. Further, it is expected that the Trustees will continue to regulate the rate of increase.
- Following are some figures to keep in mind as we brainstorm fiscal sustainability.
  - Personnel costs (salary and fringe) are 80% of our general fund budget.
  - A 1% increase in tuition = $379,000.
  - A 1% contractual increase (salary and fringe) = $510,000

Budget and Planning Scenarios for 2012

In this section, we will review our original plan for solving the 2012 budget gap. As you will see, we are still well on track with that plan. We will then discuss the difference in our approach and that of some other campuses. We will also summarize personnel changes by bargaining unit. Finally, we will discuss our plans to handle larger budget cuts if necessary.

Overall Budget Plan for 2012

As you may recall from earlier town meetings, our plans to address the 2012 budget year involved decreased base budget expenses and increased revenue. We have made good progress.

- Through fiscal controls, hiring restrictions, and early separation incentives, we have reduced our
Base personnel expenses by $1M.

- Base budget costs were further decreased by almost $.4M through energy initiatives.
- Revenue has been increased through summer session, which netted $1.39M in 2010.
- We have brought in our largest freshman class since 2004. Including students who started in the summer, we had an increase of 16.8% in new entering domestic freshmen over last year. Recall, that the fiscal impact of each freshman class is with us for at least 4 years. Thus, this good news will help with next year’s enrollment increase.
- Although we have had some declines in transfers, we are on track for our enrollment goals for 2012. Two transfer recruiters have been added to better assure the 2012 enrollment goals.

Comparison with Other Campuses

A report to the Board of Trustees in September revealed that MSUM made the most use of the board early separation incentive (BESI) in 2009 of any of the system institutions. We reported 25 BESIs in comparison to 14 at Bemidji, 12 at Mankato, and 17 at Winona. As you recall, we used our one-time federal stimulus funds for this purpose as well as for energy refits.

With our current progress, we can handle approximately $4M in reduction of state appropriation. This amount is consistent with the assumption that 50-60% of the deficit will be addressed by budget cuts, and the remainder by revenue (e.g., taxes). The Chancellor’s Office has used the same level in their budget planning, and they continue to believe it is tenable. Some other institutions, including Mankato, St. Cloud, are assuming that more of the deficit will be addressed by budget cuts and are therefore preparing for a larger cut and planning layoffs.

Our situation was different from many institutions due to the structural budget deficit that we addressed in planning for FY 10. At this time, we do not have underperforming programs that we can eliminate. The vast majority of academic programs have cost recovery ratios above 100% or at otherwise acceptable rates for the discipline. Some graduate programs are still in the process of improving their cost recovery ratios in order to continue. As we have discussed, graduate programs cannot be subsidized by undergraduate tuition.

Overall Personnel Changes at MSUM

To address our structural budget deficit and prepare for the 2012 budget cut, we significantly reduced hiring and offered early separation incentives. The following tables provide information on the net reductions in long-term employees by bargaining unit.
Worst Case Scenario
Just in case, we have plans to handle cuts above the $4M we have already set aside.

- Some additional reduction can be handled on a one time basis through reserves.
- If additional reductions are needed, we will begin to cut temporary positions. Should that happen, we first go to those employees who do not bring in revenue. In other words, faculty and admissions staff would be relatively safe, at least initially.

Right now, we doubt that we will need this contingency plan. As usual, we will keep you posted as we learn more.

Nonetheless, we must prepare for additional cuts beyond 2012. To address these future cuts without compromising the essence of the institution, we must plan for fiscal sustainability.

Fiscal Sustainability
Part of this section is adapted from the July town meeting.

At its simplest, fiscal sustainability is creating the set of policies and practices that will assure that our revenue (tuition, state allocation, other) is used to produce sufficient new revenue to enable continued achievement of our mission in the future decade and beyond.

As we plan for fiscal sustainability, it helps to think of our university as a business.
Our primary product is student learning. Faculty members are in direct production of the product. Admissions and marketing are the sales force. Student affairs and academic affairs provide direct support of production. Physical plant and administrative offices provide the infrastructure for production. The president and cabinet provide the direction and oversight. Customer service (retention) is everyone’s responsibility.

Currently, we are using the following principles to guide planning for fiscal sustainability.

- Where possible, we are investing in increasing revenue. Examples include investments in admissions and marketing.
- We have worked to decrease expenses through continued reorganization for efficiency through the Non-Instructional Budget Advisory Committee (NIBAC), LEAN, and other efforts, including early separation incentives.
- Through the Academic Affairs Budget Advisory Committee (AABAC), we continue to focus on the cost recovery of our academic programs.

The above efforts have served us well. However, we have a continued probability of decreased state funding and caps on tuition increases. Thus, we need to focus on two fronts: return on investment of current revenue and the creation of new sources of revenue.

Return on Investment of Current Revenue

- What is a reasonable goal for the total institutional academic cost recovery ratio?
- What additional processes should be examined through Educational Lean to improve efficiency, quality, and customer service?
- What current policies or practices detract from fiscal sustainability?

Creation of New Sources of Revenue

In thinking of new sources of revenue, we need to think about at least a few questions. The following is a start. We welcome ideas. Please feel free to email me or to drop by during office hours.

- What can replace lost state funding without diluting our brand (faculty-student engaged learning) and straying from our mission? (See Collins, "How the Great Fall").
- Once we fill gaping holes, what percentage of each new tuition dollar should go to production (i.e., faculty), and what percentages should go to other parts of the business?
- For new ventures, how can we create business models that support themselves, provide additional revenue to replace state infrastructure funding, and are win-win solutions for the administration and unions?

Recent Organizational Changes

As you know, we have made some recent personnel changes. It is important to note that these changes revolve around the changing needs of the university and do not reflect the commitment of the individuals in those positions.

First, we are combining the positions of Registrar and Director of Institutional Research into one position. The new position, which will have different requirements, will oversee both the Records Office and the newly formed Office of Institutional Effectiveness. Many of our current processes developed before the advent and improvement of information technology. The new structure, which will include some current
IT and admissions employees and will report to AVP Ginny Bair, will bring together the creators and users of institutional data. It will enable the development of improved synergies.

Second, the Athletics Department has some unusual challenges. It receives funds through multiple sources, including ticket and advertising sales, and has strong data requirements through NCAA and the Department of Education. To that end, we are in the process of a reorganization to improve business and data processes. In the short term, we are using some contract employees to set up the policies and processes. We will then reconfigure two key positions and proceed to search, depending, of course, on the budget picture.

There may be more changes over the coming year as we address the budget as well as the changing needs of the institution. I know that change is difficult, and I ask your understanding as we proceed through this challenging budget and transition period.