

**BUDGET SUB MEET & CONFER**  
**TUESDAY, OCTOBER 10, 2006**  
**2:30 PM – CSU 204**

**Please note: Budget Sub Meet & Confer agendas and supporting documents are located on Web site <http://www.mnsu.edu/finadm/submeetconfer/>.**

Attendees: Rick Straka, Chair, Jean Haar, Co-Chair, Michael Bentley, Mary Bliesmer, Victoria Peters, Gary McKinley, Jerry Anderson, Judie Ziemke, Dan Elliott, Mike Hodapp, Sandi Jessen, Lynn Akey, Kevin Buisman, David Cowan, Avra Johnson, Scott Johnson, Rosemary Kinne, Steve Smith, Pat Swatfager-Haney, John Winkworth, and Margo Zelenz. Guest: Sean McGoldrick

1. **Discussion Items:** Since this was the first meeting of the academic year, everyone was asked to introduce him/herself. There were no changes or additions to the agenda, and no items were brought up for discussion.
  
2. **Vehicle Rate Changes (Sean McGoldrick):** Asst. VP for Facilities Management Sean McGoldrick attended the meeting to explain the new fleet vehicle rates and why they had to be changed. He distributed a report on passenger fleet rates for 2006-07. At a BSM&C meeting during the last academic year, Dave Cowan talked about the impact of MnSCU's insurance increase of \$40,000 on our fleet vehicles which was partly due to the tragic accident in March 2005. The accident brought to light issues with the insurance coverage of State of Minnesota fleet vehicles. We recently found out that we have to pay an additional \$4,635.90 on top of the \$40,000 in FY07. Previous to this extremely large increase, we paid \$14,000 per year for fleet insurance. For FY07 our approximate cost will be \$54,635.90. We have to pay significantly more insurance for trips taken outside of Minnesota. There are new policies and procedures that will be coming from Risk Management and through the Office of the Chancellor regarding the rental of fleet vehicles. If Enterprise vehicles are rented, a daily rate and mileage are paid. When a vehicle is used for out-of-state trips, the State requires the purchase of the extra coverage that the company offers. It is preferable not to rent cars from outside companies. Minnesota has tort cap limits for which people can sue us, but not all states may honor them when incidents occur in their states.

A new form of vehicle rental chargebacks was proposed and put into place in July 2006. The 43 vehicle fleet has to bring in \$410,000 in order to break even. The program is cash-flow neutral which means it has to support itself. In the past the program has lost money partly because rates had not been adjusted for six years. The rates were increased last year, but we still lost money. A new business model was put in place that moved from a daily rate plus mileage to a daily rate. State legislators have asked how state agencies were managing their fleets. There may be a move to get rid of fleets. A \$100 surcharge was added this year for out-of-state trips because of the \$44,000+ increase in insurance premiums. Since we are charged this large amount only because we take cars out of state, it should be paid by those who actually take cars out of state. There were 270 trips out of state last year, and about 8,000 other trips were in state. Every time a car is rented from us \$1.62 goes to pay the out-of-state insurance. The cost model we have in place now is cheaper for cars that go on trips between Mankato and the Twin Cities.

To move away from a daily rate and go back to the old model, there is an optional rate for fixed costs plus mileage. The mileage rate included gas or mileage and vehicle maintenance. We wanted to get this out of the charge. The rate this year is just for gas. Table C in the handout shows the formulas for determining the mileage rate for each type of vehicle for the optional daily

rate plus mileage option. The yearly amount needed for gas is \$104,613. Table D shows the formula used for determining the fixed costs recovery on the optional daily rate plus mileage option. The amount of \$278,000 is needed for the yearly fixed costs. Both Tables C and D show comparisons with Enterprise and the current model. Table E shows the breakeven point of each vehicle model. If a sedan is used to travel more than 65 miles, the current daily rate model of \$33 a day is cheaper. It is less than the use of the daily rate plus mileage option. Most people who rent sedans travel more than 65 miles. Mini-vans are charged \$55 per day. The large vans are very expensive but are not used very often. Table F gives a comparison of trips and the costs involved. If a sedan is used for a trip under 55 miles, it is cheaper to use the daily rate plus mileage option.

Some of the large vans are used for educational purposes. In Biology last year's cost was \$616, and this year it has been almost \$1,000. It took them by surprise, and they had to readjust the teaching budget. Departments need some way to transport students. The increase was a surprise, and that was the problem. Asst. VP McGoldrick stated that in retrospect he should not have given the change in rates to the deans for distribution but should have gone directly to committees. In the future he will come to BSM&C every March because that is when rates are re-computed for the coming year. Since revenue fund budgets are determined earlier, it was asked if this could be done in January or February. The rates may go up or down depending on the price of gas, insurance and how many cars we have to buy during the year. We do not know how to address the problem with the large vans. The vehicle pool has to be a self-sustaining account so it has to pay for itself. If we drive down the cost of the large vans, we drive up the cost for the other vehicles. It was suggested that a group be formed to address this problem. It was asked if a change could be made to supplement a budget so we are not taking away from another area. It was suggested that two mini vans could be used instead of a large van, but that would require having two drivers. It was asked if we could buy more mini vans. We got rid of the 15 passenger vans because of the insurance. There is talk at Risk Management that they may change the policy so that only full-time employees and student employees are allowed to drive a fleet vehicle. If someone can get a better deal at Enterprise, it is all right to use them although we usually rent cars a lot cheaper.

This is only year one of this added insurance. We need to look at what point we want to get out of the business of renting vehicles for going out of state. We are waiting on the first-year analysis to see if the \$100 surcharge will force people to go to Enterprise. With the new requirement that the higher insurance rates have to be purchased for out-of-state Enterprise rentals, there may not be much, if any, savings. Some institutions are moving away from out-of-state rental fleets. VP Straka would like to address the issues that seriously impact areas this year. As we plan budgets we can try to build those increases into them. However, this is a situation of "robbing Peter to pay Paul".

Enterprise is looking at not leasing to anyone under 25. Some RSOs use their personal cars on University business. If you use your personal car to travel and get into an accident, it is your own insurance company that has to be used. Some athletic departments won't let coaches drive because of the emotions involved in games. Some have training courses for drivers, and some do not let any students drive. We need to look into all of these points. It was stated that when there are major financial implications to departments, they need to be informed before they are impacted.

3. **Economic Update:** FY07 is the year for determining the FY08-09 biennial budget. The Department of Finance is estimating an inflation rate of 3% to 3.5%. Tuition plans by the two gubernatorial candidates have distinct differences. Gov. Pawlenty is proposing that the top 25%

of high school graduating classes be given free tuition for one or two years. Attorney General Mike Hatch is proposing a freeze on tuition or a reduction of tuition levels. Since the Legislature appropriates how much we are going to get, if they also meddle in the tuition side, we are going to lose our ability to drive any part of our revenue stream.

K-12 education and Human Services receive nearly 70% of General Fund spending. Higher education receives 9%. About 11 years ago higher education received 13%-14% of the budget. They are looking at \$31.6 billion for the biennial budget. The state's budget outlook is the best since 2000 with an estimated \$700 million balance. However, the spending amount does not include an inflation increase. The budget is driven by health and human services. Statutory requirements in the past have given the assumption that whenever we had a student, we received an appropriation, but the Legislature has dismantled any tie between enrollment and appropriation. When we increase enrollment, we get 15¢ out of every \$1.00, and when we decline we lose the whole \$1.00.

The outlook for FY2008-09 budget planning assumptions includes the following:

(1) job growth will continue at moderate levels through FY08; (2) the economy and state revenues are predicted to grow at a fairly strong rate through FY2007-09; (3) population and caseload trends will have the greatest effect on the budget for health care and K-12 education; and (4) cost pressures will contribute to a gap between available resources and perceived needs. We are in a tough situation because we will not know what our appropriation will be until May or June since the Legislature won't get started on financial items until about March. We may not be able to have our tuition set until July, and school starts in August. Bargaining units are beginning preparations for contract negotiations but oftentimes do not settle until 1-1/2 years into the biennium. The effect of the RCFN policy implementation will be found out in November. We are about 170 FYE down in enrollment. We did not gain as much enrollment in the 10<sup>th</sup> to 20<sup>th</sup> day as we have historically. Demographically in the next five years we will see a decline of 25% in our service area. We have seen the end of being able to set tuition. There will be limits. We have a large contingent of Board members who think we need a tuition freeze; others are saying a 3% to 4% increase is enough. We have significant challenges ahead of us for the next four to five years. The MnSCU Board is more conservative and will look at cost containment. Estimates for the FY2008-09 biennium include general inflation on spending at \$954 million; Transportation/MVST on the 2006 ballot is at \$172 million; a 2% increase in state salaries and benefits comes to \$100 million; a 2% increase in higher education compensation is \$100 million; a 2% increase in the general education formula is \$290 million; and a 2% increase for long-term care providers is \$80 million. The Department of Finance estimates inflation at 3% to 3.5%, so already the budget balance is used up according to all the spending estimates.

MSU currently has a balanced base budget. The estimated reserve is just below 5%—about \$20,000. MnSCU requires a reserve that is 5% to 7% of the institution's operating budget. The Enrollment Management Committee is looking at enrollment. If we can grow in enrollment, we could see a larger revenue stream. This is probably the only area where revenue can increase.

4. **FY07 Budget:** Column C on the FY06-07 M&E Budget Projections report shows the projected FY07 budget as of July 1, 2006. We need to reduce the tuition revenue by \$600,000 after losing enrollment. The base appropriation is based on the appropriation we received for FY07. The projected expenditure budget includes an anticipated salary savings of \$1.5 million which was used to balance the budget in previous years. We should look at this budget assumption and discuss it. We came in significantly higher in FY06 than what we budgeted. This includes fringe savings. At the end of each fiscal year the Office of the Chancellor distributes expenses to campuses. A lot is for computer support and legal services. They gave us almost the same

amount of revenue to cover those expenses. "Contingency" is money that is set aside for growth and is not allocated. "New Positions/Unallocated" is quickly becoming "un-unallocated". The cost of bringing Trafton on line is being looked at. MSU will have to pay 1/9 of the cost of the project. The budget has to be adjusted by \$180,000. Another change to the expenditure budget is an increase in utilities over what we had originally planned for FY07. However, utilities costs are now looking better. Asst. VP for Facilities Management McGoldrick had tied 80% of our natural gas into a two-year price and 50% of it for next year. We are also looking at the savings we will need. As we review the 2010 budget, we have some significant costs to work out because of Trafton.

There was \$1.8 million in the equipment budget. The amount of \$438,000 has not yet been allocated out. In the past three years we allocated out more institutional equipment in the winter. The KMSU radio tower is a concern, since it is not in good shape. Of the \$1 million for institutional equipment, we have already committed \$859,000; \$141,000 not yet committed. New projects have to go before Cabinet to be approved. The new position in the President's office has not been filled.

## 5. **Strategic Initiative Funding**

### 1. **Strategic Initiative Listing and Objectives**

A draft FY08 strategic priority funding request form was included with today's agenda along with process refinement questions and a list of strategic priorities and objectives. At the beginning of the year a review was done regarding what happened last year. At the end of the year the process for strategic priority funding was used, but there was a request to simplify it. The applicant requesting funding has to show where the request fits on the strategic priorities list. The Cabinet was asked to respond to the process refinement questions. The funding request form is a draft and will be shared with the Faculty Budget & Planning Committee and Planning Sub Meet & Confer. Everyone was asked to send concerns and suggestions to Rosemary Kinne. Planning Sub Meet & Confer will look at the forms on Thursday. Combining planning and budget is good, and the next step is to add assessment to the process.

6. **FY08 M&E Budget Scenarios:** The "FY08 M&E Budget Assumptions" is a draft document and was distributed to give everyone a concept of the assumptions—not the numbers that are on it at this time. VP Straka tried to bring into the process items that are institutional priorities. The \$400,000 for FY08 Strategic Funding is not tied to anything; it is just an example. "Operational Budget Base Increases" shows "Debt Service Increase". Do we have other areas where we have increases? Regarding "Increase Base for One-Time Initiatives", how much do we want to refund strategic initiatives if some of the money goes to base funding? The Cabinet will discuss the further assessment of items that were approved and determine what will be base and what will not. If items are approved as base, those amounts will go out of the strategic initiatives budget. If we don't receive more revenue, the money for strategic priorities will not be restored or it will have to come from other areas. Two things affect tuition revenue: enrollment and rate. If we get 50 new FYE, we get \$250,000 in revenue. For every 1% increase in tuition rate the tuition impact is \$675,000. The expense projections show 4% for "Compensation". The compensation increase could be 3% to 3.5%. "Division Non-Salary/Equipment Allocation" has inflation built into the budget. "Utilities, Insurance" shows an increase of 5%. "Library Materials" have been going up faster than the expense CPI, so it has a different inflation rate than other parts of the University. "Reserve": If our budget gets larger, we need to have a larger reserve. In setting the operational budget, we have to figure out how to reallocate \$891,180 to do all that we want to do. This is a Cabinet discussion item. The dollar impacts of increases of 1%, 2%, 3% and 4% for

revenue and expense projections were included in the draft. "Where we want to go in the next few years" will be a topic that will be taken to meet and confers and BSM&C.

7. **Meeting Times:** Tuesdays at 2:30 will not continue to work for BSM&C meetings since the Enrollment Management Committee now meets every Tuesday until 3:30. We will come up with suggestions for a different time and date. Please let Rosemary Kinne know if you have any agenda items for the next meeting.