BUDGET SUB MEET & CONFER
Tuesday, February 16, 2016
1:30 p.m. – CSU238

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

Attendees: Rick Straka, Co-Chair, Roland Nord, Co-Chair, Steve Smith, Lynette Engeswick, Avra Johnson, Danae Quirk Dorr, Kirsten Rosacker, Barry Wilkins, Bryan Schneider, Jerry Jeffries, Mike McLaughlin, Joseph Lehman, Deb Norman, Sharon Sandland, Deb Schultz, Kim Rademaker, Mike Peters, Lynn Akey, David Cowan, Robert Fleischman, David Jones, Joan Roca, Stephen Stoynoff, Cristian Perez and Connor Martin

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

2) **Third Party Partnership for Extended Ed (Mike Gustafson) Time certain 2:00 p.m.**
Straka-At the Meet & Confers there was a presentation on Academic Partnerships if there is a possibility for us to reach out to a new market. It was asked at the main Meet & Confers if we would take the topic to the Submeets for further discussion.

Gustafson-Here is the website where you can get information that was presented at the open sessions. http://www.mnsu.edu/ap/. We put together a path on to a recommendation. Decisions are not made. In the February 4 document it lays out the questions, next steps and things that we need to do. There are specific steps that need to take place before we can make a recommendation. No recommendations have been made to this point, let the process play out so that we can get to what we think we can do or should do for MSU, Mankato and the students that we are trying to address. We need to understand more about the admissions and enrollment and retention processes that we do here that Academic Partnerships performs on their site. For us to make a recommendation, we need to know the costs, benefits and outcomes. We have more questions than answers and if we grow what is the impact on our enrollment team. How do we build a proforma or future financials? What types of margins should we expect from this sort of investment? That's in place right now. The RFP process ensures objectivity, even if you have a vendor that is willing to help you understand what they do, doesn't mean that you sign on with them. We are trying to understand our role and the economics of this in the future. The document on the website talks about getting these questions answered and addressed by May 2. We want to get to some type of recommendation. Academic Partnerships is looking at other universities also. We are recommending a robust execution, process of discovery and due diligence to get to a recommendation.

Academic Partnerships perform things like marketing, students, retention and have 3,000 existing partners. They do things we could probably do, but we don't have scale. There is something about scale or size that creates efficiency, so that's how we are looking at it. This is what they do for a living and we would take advantage of that.

Akey-I want to be clear on misunderstanding or misinformation when you talk about things they really well. That's not the program or curriculum. People have this misperception that we are going to give them our program or curriculum or instructing our program and that absolutely is not the arrangement with this type of a partner. That is not on the table as a discussion item for us in this arrangement. We would own and manage the curriculum, our faculty would design and instruct the curriculum. We are doing something very similar to the instructional model that Academic Partnerships has suggested to us as one that is highly successful for reaching the type of students, the working professional at a distance that we are trying to reach through this type of program. I want to be clear when we talk about they have expertise in some aspects and we would want them to assist us, there are areas in which we have expertise that we would be bringing to the table such as curriculum, instruction and the program that is ours. Gustafson-That is absolutely correct. If you went to the first open session, we laid it out as follows, we have the product and we own the product. Nobody has access to it unless we give it to them. Academic Partnerships is a logistics partner, a channel partner where they have the channel and they can distribute it. That is the value of partnerships. One program (Nursing) pilot test, RN to BSN. Straka-The budget side of this, there are a lot of decisions to be made in consultation with our bargaining units. We have a lot of work to do between now and May to determine the results of those decisions the numbers regarding workload, ownership of certain duties that will affect our financial proformas and whether due diligence says we should move forward with a decision or not. Gustafson-The reason we are spending time on this is because it makes sense for the non-traditional student.

Nord-It is great there is this audience of nurses who need the BSN completion program. We have two ways of serving them, more classes the way they are now on our online classes now in the nursing program it 20 students. There is some question whether those classes are even paying for themselves now. We can offer more sections, or we can offer larger sections with cheaper help in order to make it financial. Is the nursing program thinking about ways they might under existing circumstances increase the number of students that they serve by simply increasing enrollments on their courses? At some point are we willing to say this is a wonderful opportunity, but this is the way this program that they want, we are going to keep it that way or we are going to encourage them to develop it in some way. What are the nursing faculty thinking about that? With these large enrollment courses, what kinds of numbers are we offering in order for it to pay the bills? What I've heard is sharing half of tuition with the third party provider. Straka-There will be discussions about what is the load and is there a way to do some kind of incentive pay. We have seen across the System if you teach as a set dollar value there is one set of class sizes, but if there is a financial incentive there seemingly across the System has been a separate level of acceptable class size. We've seen behavior in the System of an entirely difference acceptance of what class levels can be depending on whether there is variable or fixed compensation. That is a big piece of the heavy lifting we have to do. Would we look at the way other partners have partnered with them and compensated for faculty and had TAs underneath to help out and how you distribute the load. Engeswick-To understand this I need to see a realty forecast in the next 20 years if we don't do this, what does the graph look like? I would like to see populations, demographics, our target market and where we are headed as a land based. Until I see if we don't do this I can't open my mind to maybe changing. Gustafson-That is a perfect question. The root of your question is how who is our audience? Our audience is our students and how are these students going to make decisions today, tomorrow and in the future? If we ask that question and answer the question that way, the product will be what we talked about depending on how we go to market. I would suggest to this group that the millennium students are looking for education their way, how they want it, when they want it, not comprising quality, so we have to think about the way they want to learn. Engeswick-If we don't think about our own barriers that we artificially make to education and identify our competition, we will lose students.

3) **Budget Deficit Plans 2016 or 2017 (Rick Straka)**
We have identified about $3.8M base towards the $5M in reductions that was reported to MnSCU as part of the plan. We will try to get confirmations from the divisions on what these were and will get that out as quick as we can. That is a big piece of trying to calculate what we have left to do this year with one-time kind of budget measures as well as looking at FY17. It's a combination of positions, equipment and other things. This year we eliminated in athletics the general fund subsidiary athletic insurance by charging all athletes their pro-rata share of what that insurance policy is. It comes to $600 with a $5,000 deductible. The secondary coverage at $600 a year is still affordable.

4) **Staffing Trends (Rick Straka)**
2003-2015 we have what our staffing per bargaining unit was and showed what our student enrollment was with all funding sources in the general fund. When we made significant reductions heading into FY10 and FY11 from FY09, we have subsequently returned to the staffing levels of 2009. We are very similar in enrollment to 2009. We are not down 100 positions from where we have been. We hope to be able to share the breakdown by division and within Academic Affairs by college to see where the trends have been there too. These are paid FTE positions on these lists. Right now we don't have approved university staffing plan because we have in general allocated dollars to divisions which allows them flexibility as divisions on how you will spend those dollars. In 2006-07 we moved away from a roster of approved staffing plan, approved FTE and have given people the flexibility to manage within those dollars. In future

discussions we may want to go back to what is an approved staffing plan and what are the approved positions. We went through some very difficult decision making and times in 2009 and 2010. In the beginning of 2012 (FY11) we had the state semi-shutdown, because we had a $5.1B budget deficit. We had made a number of our cuts in 2009 with the anticipation. We ended up with more money that fall than we thought we would, creating a really good operating margin. That was a year that we added back to our base about $2.5M worth of positions in Academic Affairs as we went into FY12-13. You will see most of those hitting FY14.

Smith-For FY16 we are about 30 FTE down, a lot of that reflects some of the tentative plans that have been put in place towards that $3.8M that we have identified. Straka-In February we should have all of our spring adjuncts and other appointments in. One of our internal audit findings was that we had a number of adjuncts and fixed term who didn't get paid for the first few pay periods this year because paperwork was late coming in from departments and Deans. We will need to talk about and work on.

Nord-Projecting further ahead to FY17 would we see the people that took BESIs who are not being replaced? Straka-Correct. The dollar value including fringe benefit should be $1M. The hard part is there is a number of the BESI savings that actually don't create any FTE savings. Because when we are replacing them we are just taking the savings in the rate that they are paying.

Straka-An enrollment update, it looks like we are going to have a very strong freshman class and if we do an analysis of a five year pool of new entering freshman, if we assume a class of 2,500 next year which seems reasonable, we are up a little bit. If you do a four year pool we are actually up 200. I'm pretty comfortable thinking we might see stable to slight enrollment growth. If we stay stable at 2,400 to 2,500 we should see some growth back up, as we have two of our last four classes are on the smaller side. Depends on the trend line, if you look at a 20 year those are still big freshmen classes. If you look at 5 year trend line, they are the smallest of the last five. Akey-When you look at the macro picture of 20 years those are large classes for us. When you look at the reality of shoes on the ground and how we are serving those students it is a smaller population in total. That's important from a budgetary prospective as you can see how it lays out as we expand about everything that we have. Because of our budgeting modeling we have to be very responsive to the number of students that are coming in. Thinking about the trend line from the real on the ground right now and the reality of the number of students we are serving from an FYE perspective has a big impact on us. Straka-As well as the little waves that flow through, big freshmen class where we had 2,500, you need a lot of English comps, math and intro liberal arts and chemistry and bio support courses as you start out. Then we had a dip down of smaller classes where you didn't need as many there. As that big class of 2,500 goes through you have to make sure they are getting their 300 and 400 level classes. You can see in the data book the impact it has on certain departments, especially those large general service kinds of areas. It's hard to react to add staff one year and cut staff the next. Trying to make sure we are staying on top of those trends the best we can so we are looking at how we would allocate or reallocate resources more on a longer trend line and if there are shifts within the university of where our enrollments seem to be, have we reallocated resource to those areas that are seeing a lot of enrollment demand and pressure? It is something overall that we need to look at as we move forward. I would like to figure out where in the university we have those discussions, whether it's an open forum, Joint Budget Submeet & Confer, a special type of group and what kind of metrics. Discussion should include values, infusion of resources and metrics. Long-term for the health of the organization overall and to be more strategic we have to figure out where we have those discussions. I'm wide open for input on the best place for that to happen. Akey-The Assessment and Evaluation SubMeet and Planning SubMeet would welcome this as a large topic during a joint meeting. Straka-I might suggest we start with some of the data we have as a starting point, we can bring forward the budget principles and policies we have.

5) **HLC Update (Joan Roca)**

Roca-HLC will be on campus March 28 and 29. We have a team of 5-6 people that will be coming and we will not know until a few weeks before the meeting if they want to meet with any specific groups. You can anticipate some open meetings that they will want to have. If they have questions we have to answer. They may also be interested in things that we can suggest, areas where we continue to work. Lynn, Andi and Joan are looking at the final documents of all evidence to make sure they are all answering the questions. It's different than we had in the past where we had a self-study. The visit will be more to assure themselves that they have a good understanding of how the university functions, that we are compliant with all the federal laws, especially, that is where financial aid comes in. It's very important for them to assure the federal government that we are compliant.

Akey-We will be able to announce when we get closer to the visit the people that will be on campus and the institutions where they're at. They are all higher education professionals, deans, professors, administrators and staff. They understand our work and what we are trying to accomplish. Folks have asked if they will be attending classes and watching. That is not anticipated as part of their visit. They will be here to follow-up on the assurance argument to make sure we are meeting the criteria that is set by the Higher Learning Commission. There will be some open sessions to visit with anyone who might want to. They will causally interact with folks while here on campus, primarily in the Student Union. They are professionals, here to learn about us and I expect a very positive visit.

Roca-They also sent a survey to the students which we will get feedback on. There is also an open question/comments from the community outside of MSU that can send comments that go independently to HLC. Akey-You will see additional campus wide announcements about the visit, there will also be some open informational sessions to learn more about the process and what is expected.

6) TAC Update (Rick Straka)

Last month we had talked about performance measures and all that had been out there was second fall completion and persistence. Last week at the TAC meeting we have now moved forward three recommendations for additional areas. They are looking at a certain amount of attainment levels, a number of credit levels saying you will look at how many students reach 15, 30 or 60, 90. Also a concept looking at graduation rates, number of awards they decided not to do. Trying to find an intersection of the 22 measures that we already have as part of our institutional reviews by MnSCU where was there an intersection of those measures and national data for those states that have already instituted performance funding like Tennessee and others. There is some progress. We got them finally to understand that a comprehensive university is much more than just getting our freshmen to their fall of their sophomore year. There's a lot of heavy lifting to do with that group yet. We are a long way to saying what will happen with the allocation formulas as we move forward. The biggest issue for the group is for FY14-15, we had $52.5M that was given in tuition relief for us as we froze our tuition. That was given out primarily based on what was your enrollments. A recommendation was made by an Advisory Group last spring I'm going to argue with very incomplete information. It's a $900,000 impact to MSU, if we go 50/50 that would be $.5M impact saying let's just take it on how it was based on enrollment and given as tuition and roll it into the allocation model. We had some vigorous CFO discussion last week where we revisited that, primarily some passionate discussions. Probably may have pushed the patience of Vice Chancellor of Finance and the Chancellor between the President and myself, but we did get some more discussion and argued that the $17M that is in for this year and next year that went entirely to the two-year institutions in 2018, should then be reallocated back through the model at which point in time we would actually be cumulatively, positively impacted. The impact of that was a net outflow from the universities to the two-year colleges of $2.5M and then the next year about $2.7M from the colleges to the universities. There is a lot of discussion out there how this is treated in the model (appropriation or tuition). In planning for the $3M target for next year, I have gone conservative and assume that we will lose about another $.5M in percent share through the model. I appreciate that Laura King and her staff said that they would revisit after listening and we got to have our day in the sun to discuss it as well as other institutions.

7) Input on Budget / Forums (Rick Straka)

a) Times / Structure

Discussion was held on when to hold the open forum sessions we will look at the week of February 29. The input we heard for the budget open forums at the main Meet & Confers was less presentation (20 minutes) and more discussion (30 minutes). On the budget web page there is a section to add comments anonymously https://www.mnsu.edu/finadm/comments/. We have taken a number of suggestions from input in the past.

8) Institutional Equipment Volunteers (Steve Smith)

Institutional equipment has been a little scattered the last couple of years because of our budget challenge. We used the $1M allocation usually set aside as a short-term measure to help with our overall structural budget challenge, with the idea that once we have identified the $5M in base reductions that we would go back out with institutional equipment allocations. Now that we are most of the way there we think we should have our process of doing a review of institutional equipment requests so we can move forward with any purchases for FY17. The group looks at items worth more than $5,000, have a useful life of at least three years with a special emphasis on technology instructional equipment in the classroom furniture. We usually look for volunteers from different areas of the university and different bargaining units to assist with reviewing all of the requests that come in making a prioritization of the requests. Looking for volunteers to serve on that committee. Email Steve Smith if you are interested. Meetings will probably begin in March. Time commitment, once we have all the requests collected Steve will put on a spreadsheet and email out to committee for review, then we usually have 1-2 meetings of an hour or two to make the proposal. That proposal would come back to Budget SubMeet for additional feedback before going to Cabinet for decisions.

9) Reallocation Report

Discussion combined with Budget Deficit Plans 2016 or 2017.

10) Financial Recovery Plan

There is enough of a general synopsis on our overall budget situation that this will be helpful. Our balance sheet is strong, we have a pretty good cash position. We are struggling with our operating results a little bit and have made significant investments to the campus over the past 10-15 years. With that comes a great deal of depreciation. We have some struggles how we cover the operating margin and yet stay in a good cash situation. We are fairly leveraged, our viability ratio is one of the places we rank in the System lower. That’s because we have a significant amount of debt that we have taken on. Next December we will have completed the major part of a 12-year residential life master facility plan. We will have invested over $100M into residential life projects. In Appendix 1, if you look at the trend in our cash and investments, it’s positive. If you look at the trend in our unrestricted net assets, it’s positive. Restricted Net Assets go up and down a little bit, primarily having to do with the Union and Res Life use some of their operating funds to help fund some of those capital projects. As you look at this in the overall financial statement what I am arguing is we are in pretty good shape. Our cash flow is in good shape. Appendix 2 and 3 show that we are sticking really close to the financial recovery plan we sent in a year ago. The update we gave in June is very similar to the update we gave to the Board in September which is very similar to the financial recovery plan here. 19 of the 31 universities are on financial recovery plans. We are not an institution who at this time has been required to have a follow-up visit to explain how we are doing. Our narrative plan has been good enough. This gives you a macro view of what is going on with our budget, what are the macro approaches as a university to try to deal with this as we go forward.

Lynn Akey asked, what is the trigger that got us on to having to do a financial recovery plan and what is the trigger that gets us off? Straka-We had a 2-year composite financial index Pre-GASB 68 of 1.26 which is below the financial target of 1.5. Additionally we had a negative operating loss. I do believe we will get above the 1.5 in projections here. The net operating loss is the one that is going to be trying to get to a positive operating margin. I’m estimating for FY16-17 we will not be able to yet get there and we are going to have a difficult time. It’s hard to explain the difference between cash basis and accrual basis. In order to fully cover our depreciation and do some things it would require us to be adding $2-$3M of cash to our reserve each year in order to cover the non-cash expenses and get a positive net operating margin. Akey-Do you think the Board will look at what that threshold is that requires a recovery plan? Straka-Yes, going through policy right now is the first reading of new arrangements and it is more balance sheet oriented based on a lot of input. I'm comfortable where we are at and with the argument that we made, I do think we are going to have to consider as an institution how much more building we do in a short period of time. In res life and the revenue funds, we are pretty leveraged, it's going to take us a while to completely pay off some bonds of Sears before we are able to look at a major capital investment in the revenue fund again. We will continue to look at what the impact will be on the general fund. Clearly the capital budget guidelines that came out of the Board of Trustees this time said if we thought the hurtle for new square foot was high before, they have set a much higher hurtle and while it will not be impossible to get new square feet in a bonding request in the future, it will be much more difficult to justify new square footage in the System. There really is a real emphasis on renewal and renovation and keeping what the square footage that we have in the buildings that we have, keeping them in good shape and up to date and reducing the deferred maintenance with a much smaller emphasis on square footage. Part of that goes back to what is the mix as we go forward to our online pedagogy and our face-to-face in the classroom pedagogy and if we are going to continue to shift to online and our enrollments are somewhat stable, what is the argument for additional square footage and utilization.

11) Rumors (Rick Straka)

If you hear things, please bring them forward. If in between meetings, you want to send me an email. Nord-Something I continue to hear is that it is an $8M deficit that we are facing for FY16-17. Straka-Over three years it is a total of $8M. (FY15, and what we did last year at $5M and looking now for another $4M). Last time we showed that layout of how we estimated it, but basically I'm not aware of a single institution in the System that is not looking at a significant reduction for next year. Nord-You will have an opportunity to show where that $8M came from at the open forums.

Straka-There are three factors:

1) We have lost 700 FYE over the last four years. There is enrollment loss and that comes with tuition loss.
2) We have good or bad through collective bargaining, we have settled compensation costs, including insurance, at 7.4% and 6.6% increases, we've settled for significantly more money than we had in new revenue.
3) We've taken some hits in our percent share of the allocation model.

\Those three items are 100% of the deficit. With enrollment loss we increased our revenues over the two year biennium this year by 4%, we increased our compensation cost by 8%. That gave us a deficit of around $2M of the $3M we are calculating for FY17.

The meeting was adjourned.