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11-30-2009

Campus Resources and Planning minutes 11/30/2009

Campus Resources and Planning Committee

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November 30, 2009

Present: Pete Wyckoff, Mark Privratsky, Naomi Wente, Sydney Sweep, Sara Haugen, Maddy Maxeiner, Pam Gades, Bart Finzel, LeAnn Dean, Lowell Rasmussen, Bryan Herrmann, Brook Miller, Jacquie Johnson

Guests: Pareena Lawrence, Gwen Rudney, Janet Ericksen

Sydney moved to table minutes until next week. So moved.

Pete reported that a group of five committee members met on November 24 to work on budget modeling. They had a productive conversation and emerged from that meeting with additional questions. Pete sent committee members the list of questions (see attached Appendix I). If the assumptions Linc Kallsen gave us about budget model parameters are good, we will need to find approximately $5M in additional savings between FY2011 and FY2015. Pete distributed a list of "budget stabilization wedges" with possible scenarios (see attached Appendix II).

Sara asked if residence hall revenue is part of our general budget. Lowell responded that it is part of auxiliary services. Sara then asked if the small group discussed or played with a budget model that allows for increasing or making new investments. Pete said just for merit scholarships.

Pete mentioned that Bryan plans to present an enrollment management plan and Cheryl will present an academic staffing plan at the meeting next week. If we have acute problems, he believes that the last resort for meeting that crisis should be staffing cuts. Jacquie said she doesn't want to lose sight of Sara's point that we need to be strategic while at the same time not spending as much. Cutting isn't the way into our future. Perhaps we need to make investments to bring in more students. We could let natural attrition happen but it depends on where those employees are. Bart pointed out that some modest employee reductions could be done relatively easy given the size of our employee work force. He also asked about any large, potentially equipment and maintenance items and the extent to which such items can be postponed until we are more solidly in the black. Jacquie added we have more turnover in terms of retirements but we do not have a lot of turnover in many areas. Realizing there aren't many options, LeAnn noted that many department SE&E budgets have not increased with inflation and this is interfering with the ability to do our jobs. She would like us to be very careful about making more cuts.

Lowell reminded committee members that every budget needs to be positive—we have to load a balanced budget each year, not just over the five year aggregate period. He believes we have to plan on establishing reserves. Jacquie does not think we will be able to negotiate a budget based on a 1590 student projection. The system officers will not let us do this and we need to think carefully about the baseline we use. Pete said if we say 1590 is too optimistic then we have a big hole that we need to fill. Lowell echoed that central administration will not let us load a budget of 1590 and believes we need to take a conservative stance, perhaps 1510. Pete said the problem with 1510 is that you immediately have an $800,000 hole to fill (and, Bryan has shown us no projections suggesting anything nearly as low as 1510 students for 2010-11). Lowell said he believes we need to be careful while at the same time putting a conservative FY12 loaded budget together. Pete wondered how conservative and asked if Linc's assumptions about revenue may be over optimistic. Gwen asked how decisions are made about extra money that may come in if we have more students. Pete said without further negotiations, the default for any revenue goes to our deficit.

Pete reminded committee members that we will hear from Bryan and Cheryl next week.

Appendix I

To: CRPC
Report on budget model work session, Nov. 24, 1-3 pm

Five committee members participated in a productive conversation. As one would expect, we emerged with more questions than answers. Some highlights…

1. Bryan was one of the participants, so the question of spending on merit scholarships was one area where we made some progress. Although we are still talking rough numbers, we estimate that our current-year merit scholarship expenses are probably in the ballpark of $300,000 more than in the FY10 budget. We are already committed to something on the order of $500,000 in additional expense next year. Why you ask?   Because our current merit scholarship program is less than 4 years old, this year and next year give us additional classes of enrolled students receiving the new merit scholarships. After the 4th year of the program, each new class of merit scholars will be replacing a graduating class, so we won't have the big annual increases in expense we have been seeing. In the meantime, our additional expenses for merit scholarships are front-loaded in terms of a 5-year budget plan. Over the course of the next 5 years, we can expect a cumulative extra expense of roughly $ 2.5 million, even without an adjustment in the dollar value of each individual merit scholarship. So, compared to "Pete's Baseline" in the Monday presentation, we start out not with a $3 million dollar hole to fill, but a $5.5 million hole to fill.

2. After incorporating Bryan's information, we decided to run a thought experiment, looking for a "least draconian" method for balancing the budget. We began by assuming that, given the large turnover in the employee pool at UMM, we could (without too much pain) find a way to reduce the UMM workforce by 1 person a year for 5 years, so that at the end of 5 years UMM would have five FTE fewer employees. This saves approximately $1 million cumulative over the 5 year budget forecasting period. We also decided to assume that we are able to hold steady at 1590 full time degree seeking student enrollment, plus a gradual addition of 60 SUFE students. This nets an additional $3 million in revenue over the next 5 years, leaving us still $1.0 million short (but with some revenue streams still not factored in—see 5c below).

3. We then discussed what we might suggest as an appropriate baseline in terms of student enrollment. 1590 may be a reasonable "maximum" likelihood starting point as we plan for next year (we will not be graduating a large class; we may have worse than average retention rates, but it is too early to know)— but we probably wouldn't bet the farm on 1590. It is not clear what number to plan to, but if we are to be conservative, 1590 may be too optimistic (though 1510 seems arbitrary and unjustifiably pessimistic based on enrollment patterns over the last few years—1510 was the 10 day headcount for F08, but we have not been anywhere close to that low in recent history).

4. We then discussed the two biggest black boxes in Linc's model: 1) "Supplies, Equipment and Expenses" and 2) "Utilities, Repair and Maintenance." Together they account for close to $11 million on the expense side in the loaded FY10 budget. We agreed that we should seek answers to a series of questions:

a. Are there large expenses in the FY10 budget for either category that are one time only? If so, we should use an adjusted figure as the basis for projecting forward for the next 5 years.
b. Conversely, are there known expenses over the next five years that would not be accounted for by merely projecting FY10 forward (with a growth rate) for the next 5 years?
c. If there are big expenses on the horizon, to what extent can they be put off? Perhaps the height of a financial crisis is not the time to add any expenses in these categories that can be reasonably argued to be "optional."

On Monday, Pete used "Repair and Maintenance" as an illustration of how a small initial change in our assumptions can have multi-million dollar ramifications over the next 5 years. If we have a budget hole to fill, and we can't find a way to increase enrollment, savings in these areas can offset the need for wrenching reductions in the size of our employee pool.

5. Other outstanding questions:

a. Are we being fairly and accurately assessed our cost pool charges?

b. Are we getting the maximum value back out of the cost pool? Are there things we are paying for as a campus that we could charge to the system?

c. Linc's model assumes that we take a $400,000 annual hit to our share of state aid starting this year, largely to pay into a pool that will be re-divvyed via the compact process. Nowhere is it assumed that we get any of that compact money. What would be a fair assumption about our ability to draw back some of the $400,000?

c. Presumably, we are realizing more net revenue than anticipated from our dorms this year (they are more full than anticipated, and the addition of an extra student to a dorm that we already paid to open up and staff should bring only small marginal additional expenses). How much more revenue?

d. Does our plan for utilizing stimulus dollars commit us to any new expenses when the stimulus runs out? How long is the bridge funding for the new IT position, and what expenses are we committed to after the IT bridge funds run out?

e. When we discuss whether to build from 1590 (or 1560 or 1510 or…), we are only talking about full time degree seeking students. There are other students affiliated with UMM, but the budget model says nothing about how revenues might grow in our non-full time degree seeking pools. Such extra revenues (and expenses) should be added to the forecasts.

Bottom line: As noted, we raised more questions than we answered. It seems crucial that we get the baselines in the model as real and justified as we can make them. Once our "best guess" baselines are determined, we can back down a fraction to give us room for error. The tone of a discussion around an academic staffing plan will be very different depending on whether we project that we need to fill a gaping budget hole or if we project that perhaps things will not be so tight and we can actually think about growing new programs rather than just saving what we have.

Moving Forward:
A. Input is needed from Sandy, Lowell and others to harden the estimated need for supplies and repair and maintenance funds over the next five years.
B. Bryan et al. need to deliver a more finalized enrollment estimate (along with net revenue).
C. Perhaps Linc should be consulted at that point to make sure he is OK with all of our baseline assumptions?
D. After completing A-C, we will know what (if any) remaining revenue gap we estimate will need to be filled through our staffing plans. A group still needs to be appointed to make a plan for non-academic staffing.

-Pete

Appendix II

BUDGET STABILIZATION WEDGES

What do we need to find? If the assumptions Linc has given us about budget model parameters are good (i.e. fringe costs, state aid, etc develop in the ways he told us to predict), we will need to find approximately $5 million in additional savings between FY2011 and FY2015. With apologies to Pacala and Socolow, here are some "budget stabilization wedges"—each gets us $1 million over five years, so choose your favorite five. Note: Most could be doubled or tripled if desired.

Option	Effort Required to Reduce Costs $1 million cumulative by 2015	Comments, issues
1. Add students	Need to add 5 students per year (+25 by year 5)	Builds from a 1590 baseline
2. Subtract employees	Need to subtract 1 from the total number of UMM employees per year (-5 by year 5)	Decrease from FY2010 baseline
3. Decrease value of individual merit scholarships	Decrease 5% per year in FY2012-2013, hold steady thereafter	This is probably the opposite of what we should be doing

4. Decrease baseline for “Supplies and Equipment”	Reduce initial base $190,000 from $7.1 million to $6,910,000	
5. Decrease baseline for “Repair and Maintenance”	Reduce initial base $170,000 from $2 million to $1,830,000	Requires less of a baseline decrease than “Supplies and Maintenance” because Linc has assumed a faster growth rate for “Repair and Maintenance”
6. Decrease growth rate for “Repair and Maintenance”	Baseline stays at $2 million, but annual growth rate is reduced to 2% (from 5%)	
7. Lengthen period of debt repayment	Decrease annual payment from $700,000 to $500,000	Would require permission. A five year payback becomes a seven year payback.
8. Increase tuition faster	Tuition growth during FY2012-2013 set at 5.9% (rather than 5%)	Would require permission.
9. Give lower pay raises	Raise salaries 2.5% (rather than 3%) during FY2012-2013.	
10. Increase net residence hall revenue	An additional $190,000 in net annual revenue over FY10 baseline	Already up 57 students over predicted baseline? Has net revenue increased?