



# Board of Regents Work Session

September 2015

September 10, 2015

3:15 p.m. - 5:15 p.m.

West Committee Room, McNamara Alumni Center

## BOR - SEP 2015 - Work Session

### 1. FY 2017 Budget Assumptions

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# BOARD OF REGENTS DOCKET ITEM SUMMARY

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**Board of Regents Work Session**

**September 10, 2015**

**AGENDA ITEM:** FY 2017 Budget Assumptions

**Review**

**Review + Action**

**Action**

**Discussion**

*This is a report required by Board policy.*

**PRESENTERS:** President Eric Kaler  
Richard Pfitzenreuter, Vice President and Chief Financial Officer  
Julie Tonneson, Associate Vice President

## **PURPOSE & KEY POINTS**

The purpose of this work session is to engage in a policy discussion regarding the preliminary budget planning assumptions for the fiscal year beginning July 1, 2016. The administration will:

- Provide an overview of the annual budget development process.
- Discuss development of the annual budget framework.
- Outline resource components of the budget framework.
- Outline framework costs and investments.
- Engage the Board in a discussion of budget priorities for FY 2017.

Key questions related to the development of preliminary budget planning assumptions for the fiscal year beginning July 1, 2016 include:

- What is the appropriate level of new academic investment in support of the strategic plan?
- Should the University assume new state funds in FY2017?
- What is an acceptable level of increase for the resident undergraduate tuition rate?
- What should the non-resident/non-reciprocity (NRNR) rate plan be?
  - Should enrollment changes be factored in?
  - Should the Institutional Financial Aid budget change?
- Should the University stay the course on administrative costs reductions: year 4 of 6?
- What is the strategy for competitive compensation for faculty and staff?
- What is the strategy for ensuring facilities meet business needs and are competitive for students and faculty?
- Is now the time to address a key technology replacement cost?

Development of the preliminary budget assumptions for the fiscal year beginning July 1, 2016 plays an important role in planning for the President's recommended annual operating budget. The framework provides parameters for unit level budget development activities that occur during the

current fiscal year. This informs academic and support unit compact and budget meetings, which take place in the fall, prior to the start of the new fiscal year.

## **BACKGROUND INFORMATION**

The President's recommended annual operating budget is brought to the Board for review and approval each year in late spring or early summer, depending on the adjournment date of the Minnesota legislature. It is anticipated that the President will provide recommendations on the FY 2017 annual operating budget for review in May 2016 and approval in June 2016.

The President's recommended annual operating budget for FY 2017 will include recommendations regarding:

- Tuition and fees.
- Internal reallocations to support compensation plans.
- Strategic investments, including new academic investments in support of the strategic plan.
- Facilities and capital expenses.
- Ongoing operations.

# University of Minnesota Board of Regents Work Session

FY2017 Budget Assumptions  
September 10, 2015



UNIVERSITY OF MINNESOTA

**Driven to Discover<sup>SM</sup>**

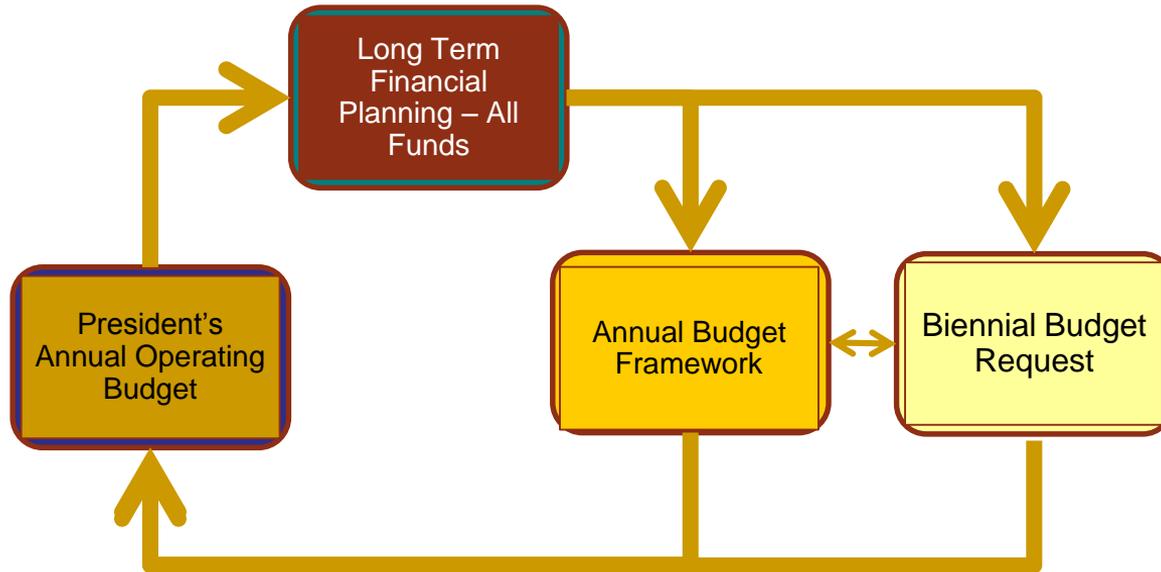
# Agenda

- Questions: budget priorities for FY2017
- Overview of annual budget development process
- Defining annual budget framework
- Outline of framework resources
- Outline of framework costs & investments

# What Are The Budget Priorities For FY2017?

- What is the appropriate level of new academic investment in support of the strategic plan?
- Should we assume no additional new state funds in FY2017?
- What is an acceptable level of increase for the resident undergraduate tuition rate? What should the NRNR rate plan be? Enrollment changes? Changes in Institutional Financial Aid?
- Should we stay the course on administrative costs reductions: Year 4 of 6?
- What is the strategy for competitive compensation for faculty and staff?
- What is the strategy for ensuring our facilities meet our business needs and are competitive for students and faculty?
- Is now the time to address a key technology replacement cost?

# Budget Development Components



# Budget Dev. Timeline

## (Annual Budget Process - Central Perspective)

### Support Unit Process In the Fall

<b>Early September</b>	Instructions to Support Units
<b>Oct.-Early November</b>	Meetings w/Support Units ( <i>materials submitted 1 week prior</i> )
<b>Late November</b>	Summarize info & prepare preliminary budget recommendations
<b>Late Nov.-Early Dec.</b>	Present materials to President for Review, Modification and Approval
<b>Late December</b>	Incorporate cost allocation rates into academic unit instructions

### Academic Unit Process in the Winter/Spring

<b>January</b>	Instructions to Academic Units
<b>Mid Feb.-Late March</b>	Meetings with Academic Units ( <i>budget materials submitted 1 week prior</i> )
<b>April</b>	Build budget recommendations for academic units & balance overall institutional budget Submit materials to President for Review, Modification and Approval
<b>Early May</b>	Present President's recommended budget to the Board for Review
<b>Early June</b>	Present President's recommended budget to the Board for Approval

(Last two items are often early and late June due to legislative timing)

# Base Revenue Assumptions – June 2015

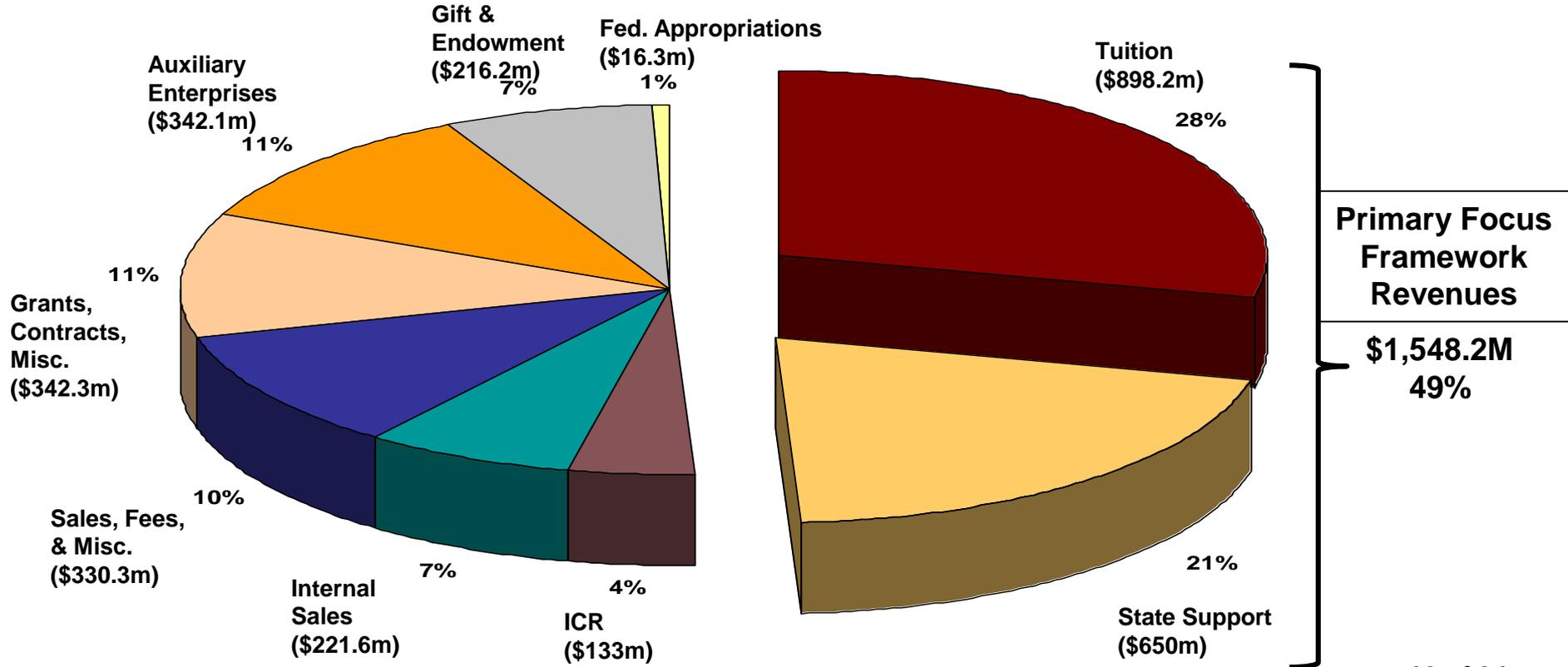
Revenues	FY2016	FY2017	FY2018-21 Annual Change	FY2018-21 Projection Basis
Undergraduate rate increase	1.5% Resident (+ \$180) 7% Non-Res (+\$1350)	3% Resident 7% Non-Res	3% Resident 7% Non-Res	Continuation of current framework
Undergraduate enrollment change	Minimal increase	Stable	Stable	
Graduate and Professional rate changes	2.5% Resident 3.5% Non-Res	3.5% Resident 3.5% Non-Res	3.5% Resident 3.5% Non-Res	Continuation of current framework
Graduate and Professional enrollment changes	Minimally lower	Stable	Stable	
Federal Grants and Contracts	0%	0%	0%	OVPR Projections
Sales and Services	1.9%	1.9%	1.9%	10 year average CPI
Gifts	4%	4%	4%	Assumes continuation of recent growth
Auxiliary Enterprises	1.9%	1.9%	1.9%	10 year average CPI
State Appropriations	\$625M (+\$26.6M)	\$625M (+\$0)	Scenarios	

## Investment and Expense Assumptions – June 2015

Expenses	FY2016	FY2017	FY2018-21 Annual Change	FY2018-21 Projection Basis
Salaries	2.0%	2.0%	2.6%	10 year HEPI weighted average of all employees
Fringe benefit cost	3.2%	3.2%	3.8%	10 year HEPI average
Number of faculty/academic staff	Net minimal increase	Modest increase	Stable	Could be impacted by strategic planning
Number of staff	Mixed impact - modest decline overall	Mixed impact– modest decline overall	Stable	Could be impacted by internal reallocations below
Remainder of Education & General expenses	1.9%	1.9%	2.6%	10 year HEPI average
Auxiliary enterprises	1.9%	1.9%	1.9%	10 year average CPI
Academic initiatives	\$49.2M	\$15M - \$30M	\$15M - \$30M Annually	TBD strategic planning
Mission support and operations	\$6.2M	\$8M-\$12M	\$8M-\$12M Annually	New building expenses, software licenses, new tech expenses, etc.
Institutional Financial Aid	2%	3%	3%	Tied to modeled tuition increases
Internal reallocations (reductions)	(\$34.5M)	(\$15M)	(\$15M) annually	President's \$90M commitment
Capital expenses	Current capital plans, including current 6 year capital plan and annual capital budget			

# University of Minnesota Non-sponsored Revenue Sources

## All Funds FY16: \$3.1 Billion



# Budget Development Process

## Defining the Budget Framework & Balancing the Budget

### Part 1: Available Resources

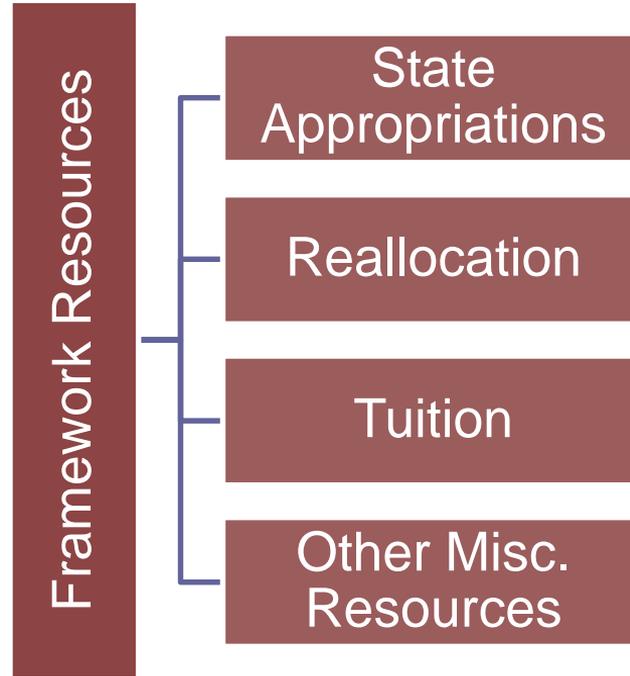
*State Appropriation*  
*Internal Reallocation*  
*Tuition*  
*Other Resources*

### Part 2: Costs & Investments

*Compensation*  
*Strategic Choices*  
*Facilities & Capital Expenses*  
*Operations*

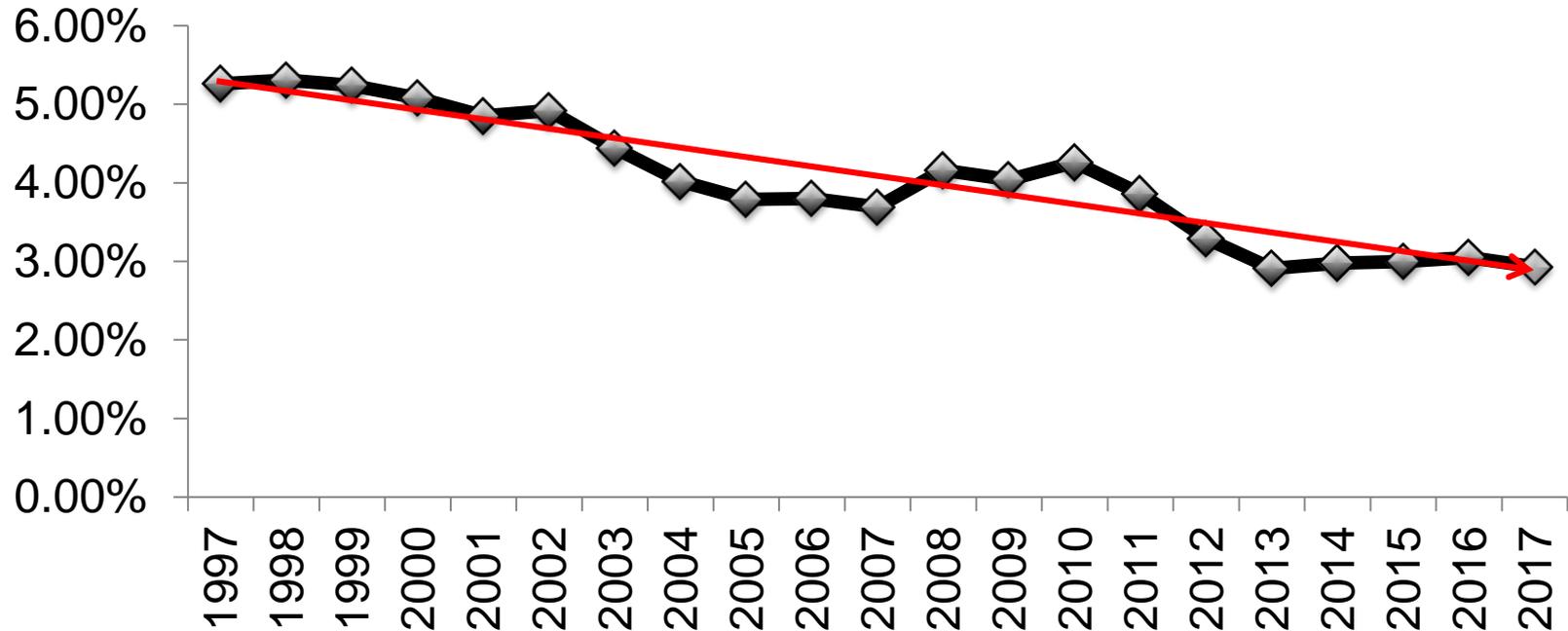
### Part 3: Balancing the Budget

# Resource Drivers



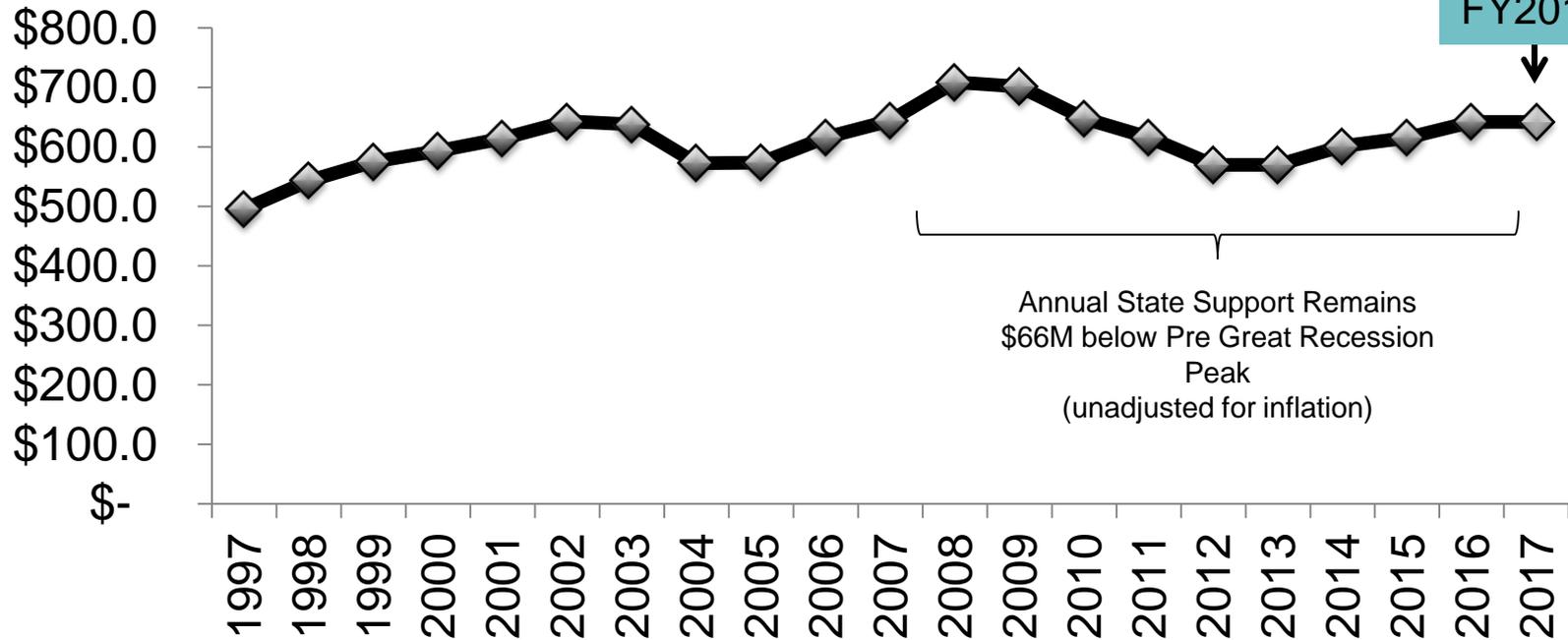
# University of Minnesota FY1997 – FY2017

## Trends in State Funding - % of State General Fund Over Time



If 2016 was same % of state budget as 1997 U of M appropriation would be \$496M higher then current \$625M. Total of \$1,122,000,000.

# University of Minnesota FY1997 – FY2017 Trends in State Funding



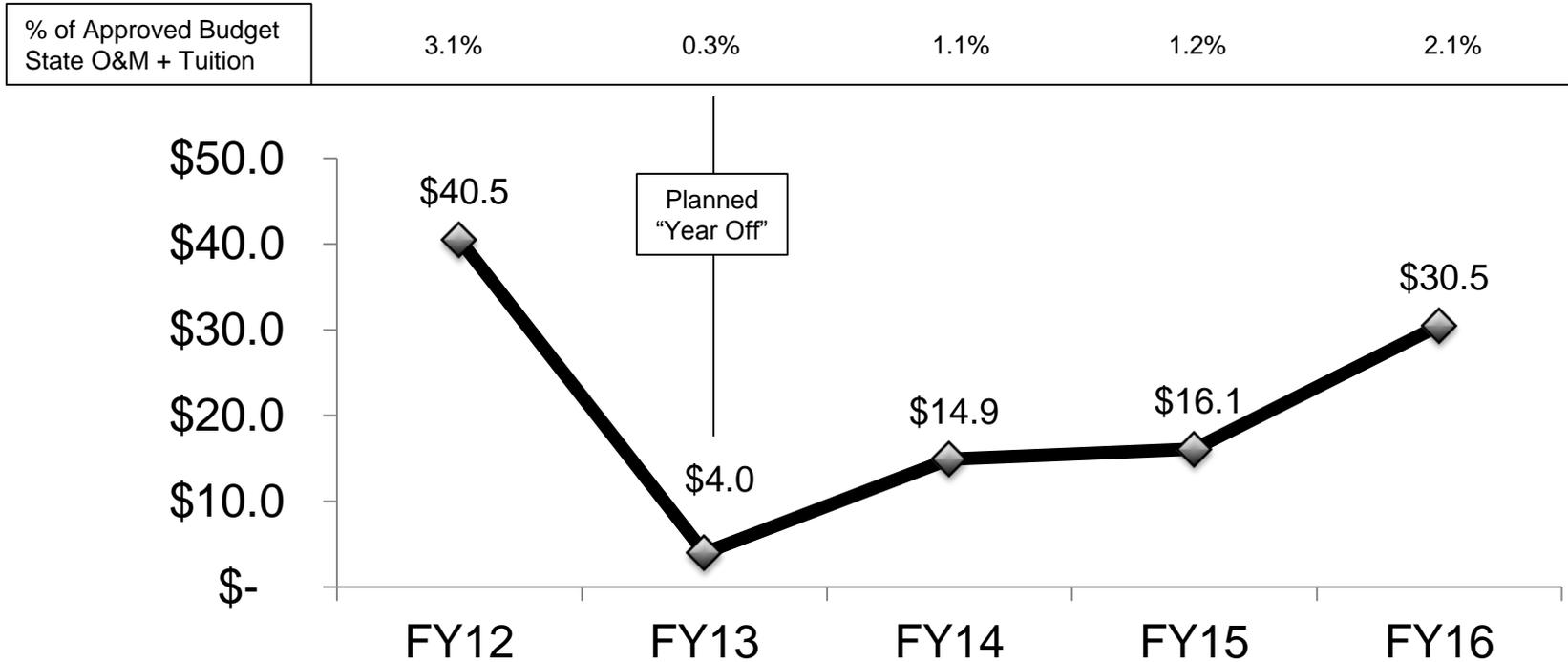
No New State \$ FY2017

Annual State Support Remains \$66M below Pre Great Recession Peak (unadjusted for inflation)

1% increase in FY2017 Base Appropriation = \$6.3M

# Planned Reallocations Over Time

**Framework** Reallocations Included in President's Recommended Operating Budget  
(\$ in million)



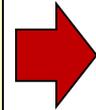
\* Note – excludes reallocations required in other “non-framework” funds.

# President's Goal – \$90m Reduction in Admin Costs Over 6 Years FY14 - FY16 and “balance” (Framework +)

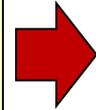
Four components to date:

Progress to Date:

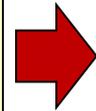
1. Appropriation law from the 2013 session (S.F. 1236) made 5% of the University's FY15 appropriation (or \$26.5m) contingent on meeting three of five performance goals, one of which was to decrease administrative costs by \$15,000,000 in **FY14** (*Final list compiled & communicated 2015 session*)
2. The **FY15** approved budget included unit level reallocations to support the costs and investments in the O&M/Tuition/State Specials portion of the budget and cost increases in the other non-sponsored funds – (*Final list to be reported after close of the fiscal year*)
3. The **FY16** proposed budget includes unit level reallocations to support the costs and investments in the O&M/Tuition/State Specials portion of the budget a portion of the \$30.5m on previous slide
4. The **FY16** proposed budget also includes unit level reallocations in the other non-sponsored funds to reduce administrative costs – pay for cost increases and reduce the pressure on increased revenues in those funds (sales, fees, etc.)



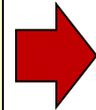
\$18.8m



\$21.6m



\$13.4m



\$4.0m

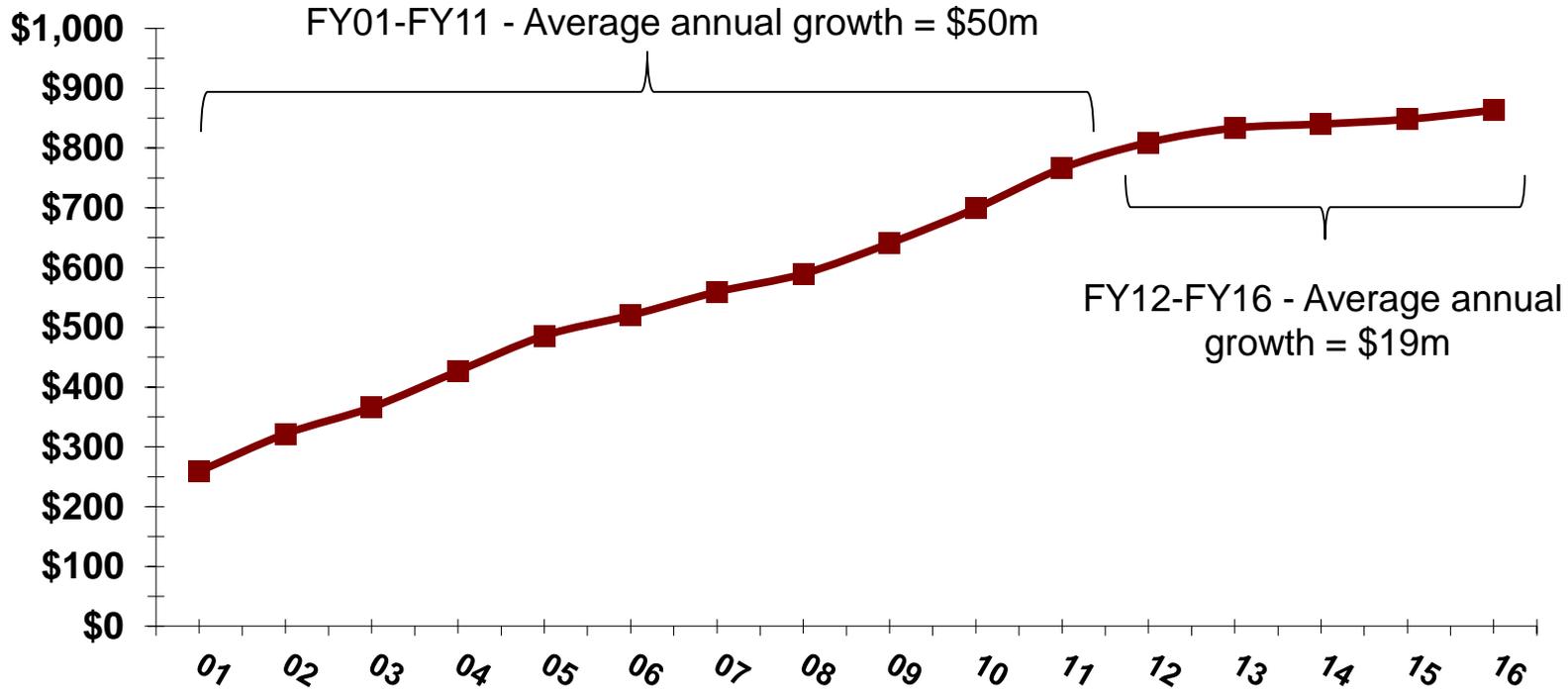
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Total to Date: \$57.8m

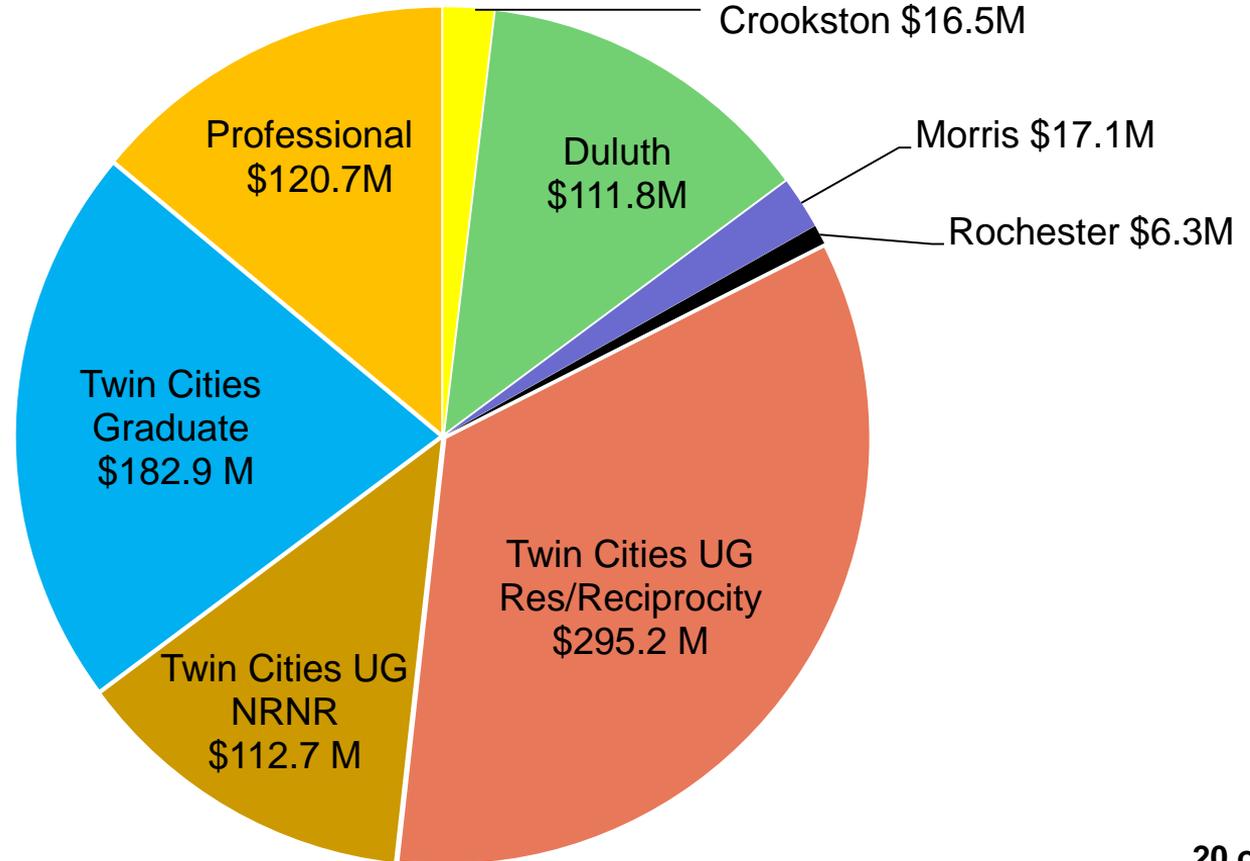
Total Remaining: \$32.2m

# Trend in Total Tuition Revenue 2001 to 2016

(growth generated by changes in enrollment & rates)



# Budgeted FY 16 tuition revenue - \$863.2M



# Resident undergraduate tuition

2015-16 Big 10 Tuition & Fees and Cost of Attendance (Resident)

<u>2015-16</u>	% Tuition Increase Over Prior Year	Tuition & Fees	Total COA
Northwestern University	6.3%	\$49,047	\$68,095
Pennsylvania State University	2.7%	\$17,514	\$34,740
University of Illinois	0%	\$15,626	\$30,336
University of Michigan	2.7%	\$14,729	\$28,685
Michigan State University	2.7%	\$14,386	\$26,874
Rutgers University	1.5%	\$14,032	\$26,109
<b>University of Minnesota</b>	<b>1.5%</b>	<b>\$13,840</b>	<b>\$25,784</b>
University of Wisconsin	0%	\$10,416	\$24,736
Indiana University	0%	\$10,388	\$24,538
Ohio State University	0%	\$10,010	\$25,552
Purdue University	0%	\$10,002	\$23,032
University of Maryland	6.0%	\$9,996	\$24,588
University of Iowa	0%	\$8,104	\$21,010
University of Nebraska	2.5%	\$8,378	\$18,688

# Non-resident undergraduate tuition

2015-16 Big 10 Tuition & Fees and International Surcharge

<u>2015-16</u>	Tuition & Fees	International Surcharge
Northwestern University	\$49,047	
University of Michigan	\$45,002	
Michigan State University	\$36,986	+\$1,500
Indiana University	\$33,740	+\$1,500
Pennsylvania State University	\$31,346	
University of Maryland	\$31,114	
University of Illinois	\$30,786	+\$830
University of Wisconsin	\$29,665	+\$1,000
Rutgers University	\$28,810	
Purdue University	\$28,804	+\$2,000
University of Iowa	\$27,890	
Ohio State University	\$27,336	+\$1,000
University of Nebraska	\$22,546	
<b>University of Minnesota</b>	<b>\$22,260</b>	<b>+\$500</b>

# Expense and Investment Drivers

## Framework Costs

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graph TD; A[Framework Costs] --> B[Compensation]; A --> C[Operations]; A --> D[Facilities & Capital Expenses]; A --> E[Strategic Choices];
```

### Compensation

- Competitive salaries
- Fringe benefit costs

### Operations

- Technology Licensing
- Library Inflation/Licensing
- Infrastructure

### Facilities & Capital Expenses

- Utilities
- New Building Operations
- Repair and maintenance
- Debt service

### Strategic Choices

- New academic initiatives
- Investment in mission support
- Institutional financial aid policies

# Compensation



## UNIVERSITY OF MINNESOTA BOARD OF REGENTS POLICY

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Human Resources

### EMPLOYEE COMPENSATION AND RECOGNITION

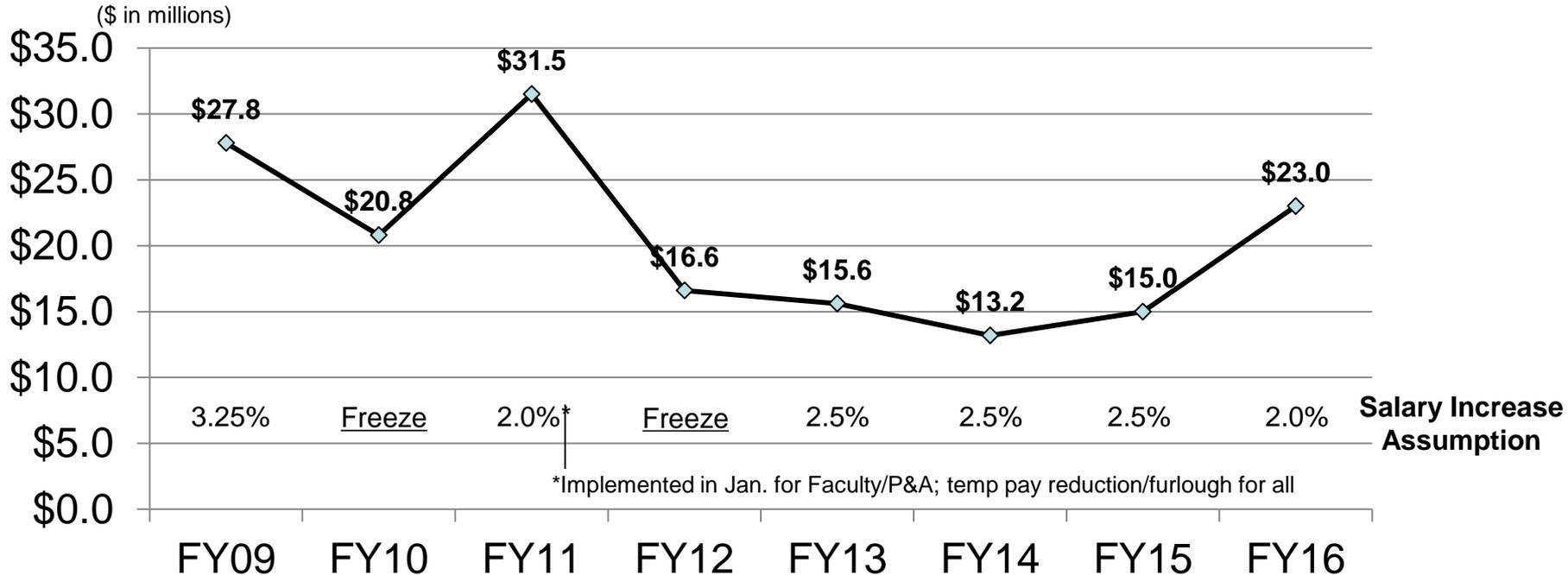
Adopted: March 9, 2007

Amended: July 11, 2012

### SECTION III. GUIDING PRINCIPLES (Abridged)

- (a) The University strives to achieve and maintain a compensation structure that, when combined with benefits and other rewards, is competitive...
- (b) The University seeks to reward meritorious performance...
- (c) ...the University considers the work responsibilities, market, internal equity, experience and expertise, performance, and other criteria as appropriate.
- (d) The University adheres to compensation and recognition practices that are fair and equitable in design, application, and delivery.

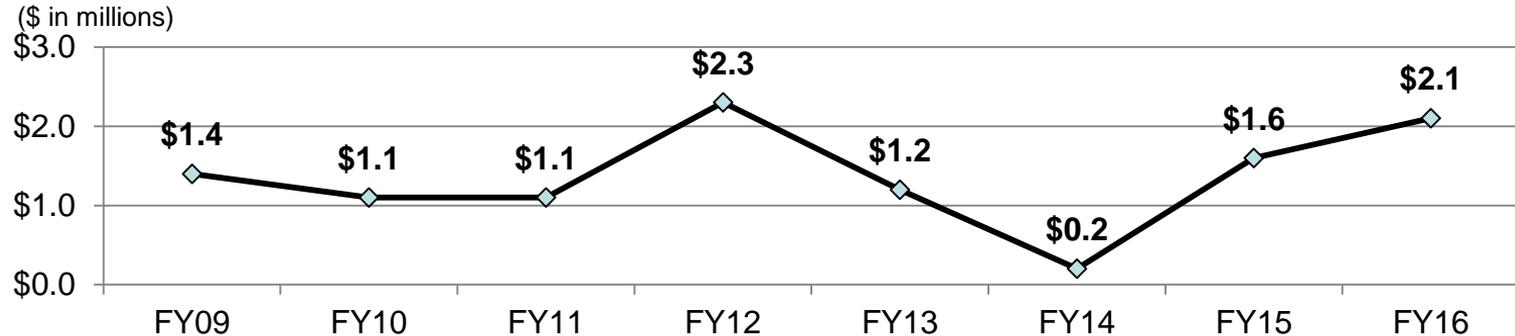
# Incremental Salary and Fringe Costs Planned in the Annual Framework (St. Appropriations & Tuition only)



- FY17 Estimated Increase:
- Framework Funds - \$13.5 million assuming 2.5% salary increase and preliminary fringe rates
  - All Funds (including sponsored) - \$26.8 million assuming 2.5% salary increase and preliminary fringe rates

# Operations

## **Technology** – Incremental Licensing and Maintenance Contracts in Framework



*Includes Library journal subscriptions, licensing & maintenance costs for the enterprise PeopleSoft systems (HR, Finance, Student), site licensing of Microsoft products & maintenance on servers, video conferencing, the Ex Libris product for the Library, voice and voicemail systems support, customer relations management (CRM) etc.*

## **General Operating Expenses**

The budget framework does not generally include an allowance for inflation on general operating expenses. Units are expected to cover cost changes for supplies, equipment, travel, etc. through reallocation or other revenue increases

# Network Upgrade

- UMN Core Network was implemented in 2004. Within the next two years it will reach the end of it's useful life.
- Two risks are driving this replacement:
  - The equipment has reached end of life and will no longer be supported by the vendor.
  - The equipment is out of capacity to meet growing needs of mobile devices

Current Estimate -	\$58.0M
Funds Reserved -	<u>\$15.0M</u>
Net Impact -	\$43.0M

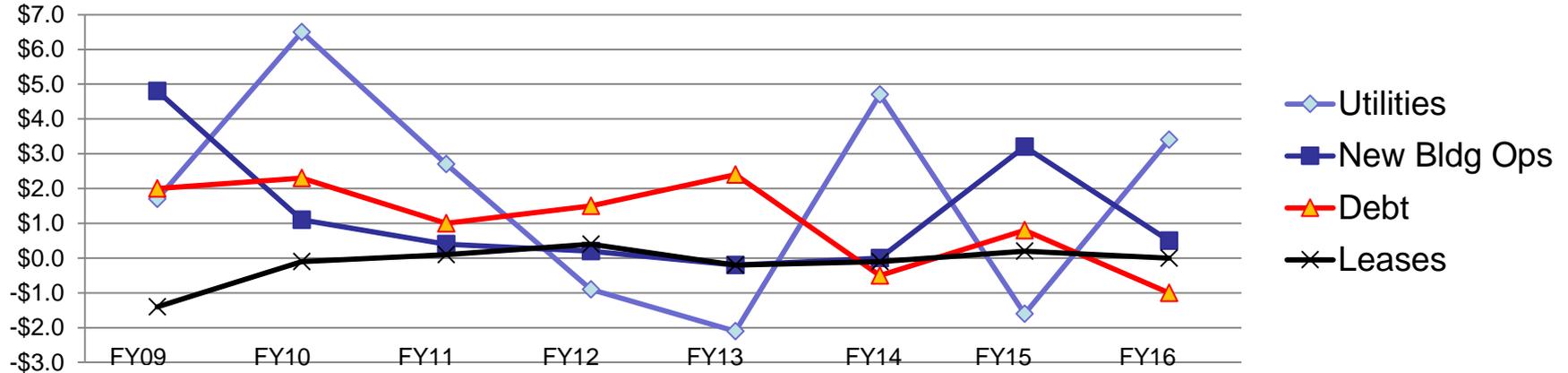
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Net Impact on FY2017 - TBD

# Facilities and Capital Expenses

## Utilities, New Building Operations, Debt/Leases – Incremental costs in framework

(\$ in millions)



FY17 utilities/new bldgs projection: (\$2,325,000)

# Debt Impact: FY2017

• Combined Heat & Power Plant(CHP)	\$ 50.1M
• Land Purchases	\$ 39.1M
– Block 31(\$26.9M)	
– Land Purchases Underway(\$4.3M)	
– 650 25 <sup>th</sup> & 501 29 <sup>th</sup> Ave Land(\$7.9M)	
• 2015 State Capital Budget(1/3 <sup>rd</sup> )	\$ 21.5M
• Cost of Issuance	<u>\$ 1.1M</u>
	Total Issuance
	\$111.8M*

\*Planned Issuance Winter 2015-2016

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**FY2017 Framework Impact = \$6.625M @ 3.89% for 25 years**  
(additional impact of \$475k on non-framework/auxiliary funds)

# Strategic choices

- Campus & Collegiate Academic Support
- Strategic Plan Initiatives
- Mission Support Services
- Institutional Financial Aid

# Institutional Financial Aid

- Undergraduate need based awards – Promise Scholarship (\$30M annually)
  - Provides automatic aid to low and middle income Minnesota resident students. Available on all campuses.
  - 2015-16 awards from \$750 - \$4000 annually, scaled to family income.
  - Provides awards for families up to \$100,000 in family income.
  - Guaranteed for 8 semesters for incoming freshmen, 4 semesters for transfer students. Must maintain satisfactory academic progress.
- Undergraduate merit & recruitment awards (\$17M annually)
  - Important for recruitment flexibility
  - Supplemented with gifts and endowments
  - Collegiate and department foundation funds often used for juniors and seniors
- Graduate student gift aid
  - \$10M in the Graduate School
  - Variety of distributed sources throughout graduate and professional schools
  - Primary method of aid for graduate students is through assistantships, not gift aid

# Budget Development Process

## Defining the Budget Framework & Balancing the Budget



FY16 Budget Framework – Incremental Change – Primarily State Appropriation & Tuition Funds

<b>Resources:</b>	
Increased State Appropriation	\$26,600,000
Reallocations	30,500,000
Tuition Revenue Increase	15,100,000
Other Misc. Resources	<u>6,300,000</u>
<b>Total Incremental Resources</b>	<b>\$78,500,000</b>
<b>Expenditures:</b>	
Compensation	\$23,000,000
Operations	2,100,000
Facilities & Capital Expenses	3,000,000
Strategic Choices	<u>50,300,000</u>
<b>Total Incremental Expenditures</b>	<b>\$78,400,000</b>

# Budget levers

## Revenues

- State Appropriation
  - 1% on base ~ \$6.3M
- Tuition rate increases
  - 1% overall ~ \$8.6 million
  - 1% resident undergraduate ~ \$4.4 million
  - 1% NRNR undergraduate ~ \$1 million (assuming no reduction in enrollment)
  - 1% grad and professional~ \$3.2 million
- Enrollment increases
  - 1% undergraduate = 434 students ~ \$5.4M
  - 1% graduate/prof = 175 students ~ \$3.2M
- Reallocation
  - 1% on Framework base ~ \$18.0 million

## Expenditures

- Salaries
  - 1% general salary increase ~ \$16M all-funds
  - Faculty salaries make up 30% of salary base
- Strategic Choices: \$10M-\$20M
- Institutional financial aid
  - Approximately \$57M annually in “discretionary” financial aid
- Facilities & Capital Expenses: tbd
- Operations: \$2.5M - \$4.5M
- Debt: \$7.0M

# What Are The Budget Priorities For FY2017?

- What is the appropriate level of new academic investment in support of the strategic plan?
- Should we assume no additional new state funds in FY2017?
- What is an acceptable level of increase for the resident undergraduate tuition rate? What should the NRNR rate plan be? Enrollment changes? Changes in Institutional Financial Aid?
- Should we stay the course on administrative costs reductions: Year 4 of 6?
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