Three open forums were held on April 13th and 15th to brief our campus community on how we are handling the hole in our base budget created by reductions in state general fund allocation, and on what we are doing to prepare for the next biennium when further reductions are anticipated.

Although we submit annual budget materials to the Office of the Chancellor, we are now approaching budget planning across three biennia, starting from the spring of 2009 (the last semester of the previous biennium) and continuing through this biennium into the first year of the next biennium (2012). We can do this now because we have better estimates of what lies ahead of us than we have had in the past. To understand our approach, it may help to consider each budget year as a single frame taken out of a motion picture.

We will continue to employ several strategies to manage our deficit as we work our way through this biennium and into the next—(a) additional revenue generation through modest tuition increases, higher student retention and modest enrollment increases in both the academic year and during summer session; (b) selective cost reductions as we continue to work out ways to reduce the cost of delivering our academic programs and our support services and (c) increased efficiencies created by applying educational lean to the redesign of campus operations, the delivery of support services and the redesign and delivery of selected components of our curriculum.

The key messages delivered at our budget forums were:

- We expect to be able to balance our FY11 budget by June 20, 2010. We have found a solution for approximately $3 million of the original $4 million budget shortfall that we identified in this biennium. Given the further slide in the Minnesota economy predicted by the most recent budget forecast, we expect to see a further $500,000 base reduction in the second year of the biennium (2011).
- We must identify at least $1.5 million worth of corrections for the FY12-13 biennial budget by July 1, 2010.
- We must identify an additional $1 million worth of corrections for the FY12-13 biennial budget by December 2010.
Our budget is an investment portfolio.

It is a strategic document that reflects our values and what we want to accomplish. Our values are captured in the budget principles developed by the All-University Finance and Facilities Committee in 2008. We continue to keep those principles in mind. We have investment goals and we have a sense of how much risk and uncertainty we can live with. Our investment goals are clear: (1) to support academic innovation, distinctiveness and excellence; (2) to enrich the student experience; and (3) to expand our climate commitment efforts and become a working model of effective stewardship.

To make our goals workable, we have defined them in investment terms. Every decision is being looked at through a common lens.

1. Will this help us remain attractive to potential students?
2. Will this contribute to the achievement of our current students?
3. Will this protect and enhance the quality and integrity of our academic core?
4. Will this permit us to generate additional revenue for investing in our future?
5. If we should do this, have we found the best way to do so or should we look for other ways to accomplish this goal?

In practical terms, we are doing our best with the help of our faculty and staff to protect our capacity and the quality of our academic programs and support services by (1) providing classes that allow students to complete their educational programs in a timely manner and (2) maintaining our commitment to our faculty and staff.

What progress have we made to date?

Our current budget challenges began in the last biennium when our state appropriation was cut on a one-time basis by gubernatorial action during FY2009. We managed that initial unallotment by a combination of reductions to our base and one-time adjustments. We eliminated seven positions from our base (four unfilled staff positions, one faculty position and two senior administrative positions.) We handled the rest of the unallotment with a one-time reduction in our Repair and Betterment Budget (the fund we use for small scale repairs and upgrades to our campus facilities). We chose to manage part of this initial problem with a base cut because we knew that our general fund allocation would be cut in the next biennium.

To explain what has happened since, we have to pause to do some biennial math. Our share of the appropriation to MnSCU is usually given in biennial terms. For example, the depth of the cut as we entered the current biennium was $7.2 million. After we ran our budget calculator and
factored in additional costs, and additional revenue from enrollments and tuition, the actual size of the shortfall across the two years of the biennium was $8 million. However, to calculate the real size of the problem we have to solve, you must divide by two. Last summer, we set out to identify $4 million in FY10. As long as we can sustain that solution into FY11 and do not start growing back in expenditures, we will have taken care of the budget problem we have now. However, because the Minnesota economy has continued to slide, we now expect that the size of our budget gap will grow in FY11 by an additional $500,000. That cut will also be permanent.

Throughout FY10 we identified approximately $3 million worth of “corrections” to our FY10 budget through a combination of revenue generation, selective cost reductions and increased efficiencies in how we operate some of our support services and how we deliver our curriculum. In working our FY11 budget we must address the $1 million biennium deficit we haven’t taken care of yet and add the additional $500,000 caused by the predicted worsening FY11 state budget deficit. In summary, we anticipate needing to find an additional $1.5 million worth of corrections to balance the FY11 budget.

To solve a portion of the FY11 shortfall, we’ve requested a modest tuition increase of 5%. However, we will not ask our students to shoulder the entire shortfall. Our strategy to balance the remainder of the FY11 budget relies primarily on the use of federal stimulus funds to pay for the retirement packages created in the first two Memoranda of Agreements (MOAs) with the Faculty Association and the Board Early Separation Incentive (BESI). In total, these three options generated 44 early retirements which represent $3.3 million in salaries and fringe benefits. We expect to cover our remaining FY11 shortfall by using salary savings from these retirement incentives but we will have to invest some of those savings to replace some critical faculty and staff positions. While it is a relief to know that we are going to “solve” our FY10-11 problem, additional reductions lie ahead for us.

**What do we have to do next?**

Even as we put the finishing touches on FY10, we have to gear up for the next biennium and we only have a year to do it in. We have an estimated additional $5 million base reduction in the next biennium, which translates into another $2.5 million hole in our budget in FY12.

In total, we estimate our state support will have decreased by at least $7 million across the FY10-11 and FY12-13 biennia!

**Where did the new $2.5 million budget problem come from?** Although it is much too soon to know what may happen in the next biennium, planning targets issued by the Office of the Chancellor indicate that the state appropriation to MnSCU may be reduced by $100 million. Our share of that reduction would be approximately $5 million for the biennium. Here, biennial math comes into play again. If we enter FY12 having taken care of an additional $2.5 million
reduction in our general fund base, and if we can sustain that solution into FY13, we will have taken care of the additional deficit. It is, of course, possible that the cuts to MnSCU could be much greater than $100 million but we assume that if that happens, no individual institution could manage a budget deficit of that magnitude. We would have to look to a system solution.

**Why the urgency?** Our goal is to manage the entire $7 million cut across two biennia without resorting to retrenchment. We can’t wait until the end of this biennium to put the FY12-13 solution together because of the notice requirements built into contractual agreements. We must know by the end of this calendar year whether we can confidently identify a solution for an additional estimated $2.5 million cut in our state appropriation for FY12. If we can’t forecast a solution with reasonable confidence, we must move to retrenchment and that means issuing lay-off notices and developing plans for program closures. The earliest notice dates for retrenchment are defined in the Master Agreement between the IFO and MnSCU. Thus, we must be confident of a solution by the end of the fall semester 2010.

**What lies ahead?** If we can identify ways to manage at least $1.5 million of our $2.5 million estimated FY12 problem by July 1, 2010, and if we have reasonable confidence that we can develop plans to manage the remaining deficit by the end of the calendar year, we won’t have to move to our last resort of retrenchment and lay-offs, assuming that the next set of forecasts does not plunge us into a deeper hole.

We will continue to employ several strategies to manage our deficit—(a) additional revenue generation through modest tuition increases, higher student retention and modest enrollment increases in both the academic year and during summer session; (b) selective cost reductions as we continue to work out ways to reduce the cost of delivery of our academic programs and our support services and (c) increased efficiencies created by applying educational lean to the redesign of campus operations, the delivery of support services and the redesign and delivery of selected components of our curriculum, including university studies, as well as some of our degree programs.

In addition, at the suggestion of our Faculty Association, we have offered one more round of retirement incentives (MOA #3) for instructional faculty who elect to request phased retirement or annuitant retirement. We will not have the resources to offer another round of the BESI. We were only able to offer the first round of BESI because we could fund the retirement packages with one-time federal stimulus funds allocated to our institution for this biennium only.

**What does this mean for your department or program?** We have calculated a pro-rated share of the $2.5 million problem for each major area of the university including the President’s Office, Athletics, Academic Affairs, Student Life and Development, Advancement, and Finance
and Administrative Services. In Academic Affairs, we have broken down the prorated share to the level of each college. These budget targets, which are based on the distribution of the general fund across the university at the start of FY10, are planning targets only.

We do not intend to cut across the board. There are many reasons why we shall end up making adjustments in the final contributions that each unit will make to our solution. Hiring and spending freezes, across-the-board cuts and layoffs are short-sighted, damaging to our institution and harmful to morale. In Academic Affairs, for example, each college and each department has (a) a distinctive staffing pattern (different instructional staffing and reliance on probationary and tenured faculty, fixed term faculty, adjuncts and use of overtime); (b) different costs for delivering the curriculum; (c) different patterns of contribution to our overall curriculum as well as to student success (e.g., university studies courses, service courses, major and minor courses, proportion of undergraduate and graduate enrollment); (d) different levels of demand for their programs and courses; and (e) different statistics on student success, including retention and graduation rates. The Academic Deans have data on the departments and programs in their respective colleges and are working to meet their budget targets for FY12. Each college will approach this task in a way that fits its particular circumstances.

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President