

The University in a New Era

Myron Frans, Senior Vice President

UMRA

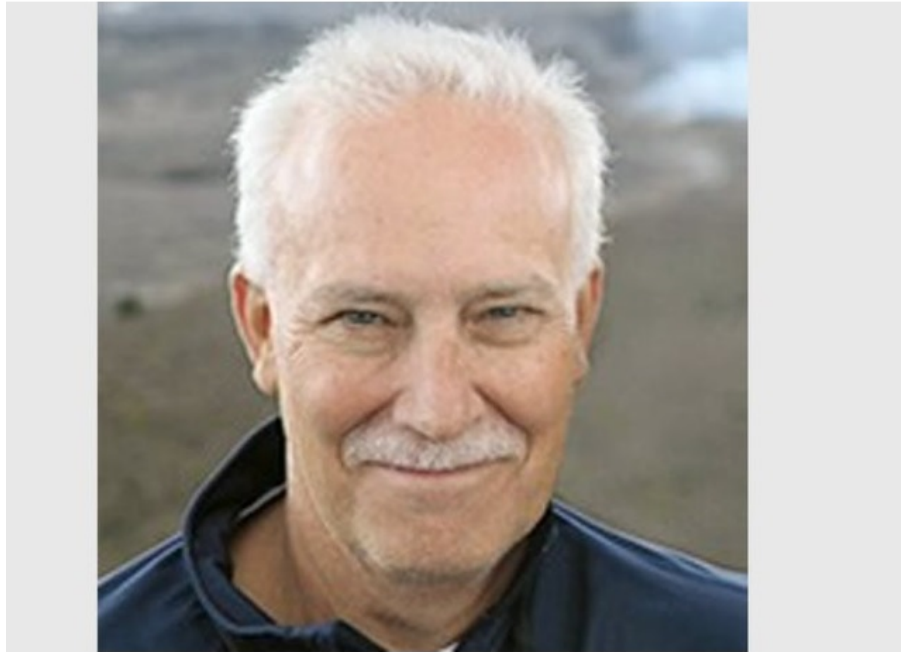
February 23, 2021

SENIOR VICE PRESIDENT FOR FINANCE AND OPERATIONS

World Class Services for a World Class University



Richard Henry 'Fitz' Pfitzenreuter, III



When we last spoke in May 2020...

Deficit Projected for Current Biennium

Budgetary Balance-February: \$1.513 Billion

- Projected Revenue: ↓ \$3.611 Billion
- Estimated Spending: ↑ \$391 Million
- Projected Reserve: ↓ \$63 Million*

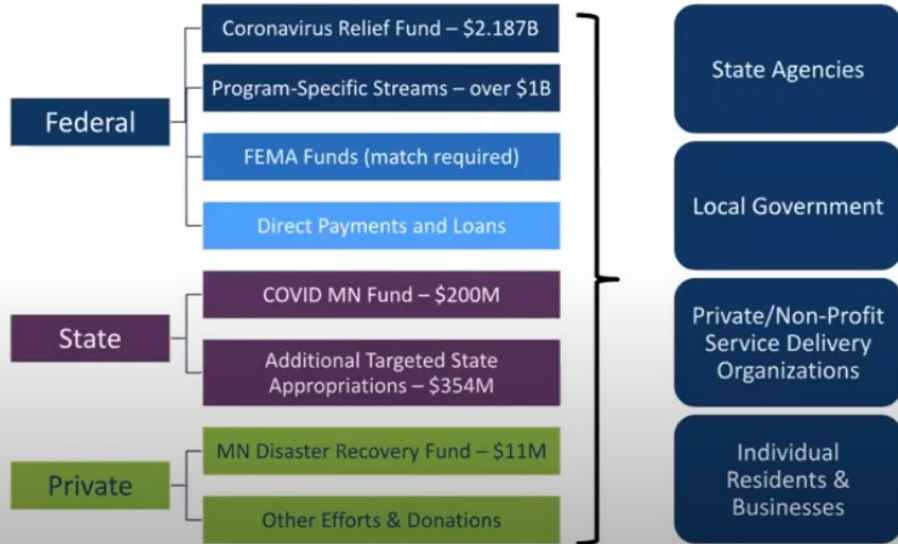
Updated Budgetary Deficit: (\$2.426 Billion)

*Changes to Stadium Reserve



The impacts of COVID-19 continue

Funding Resources to Combat COVID-19



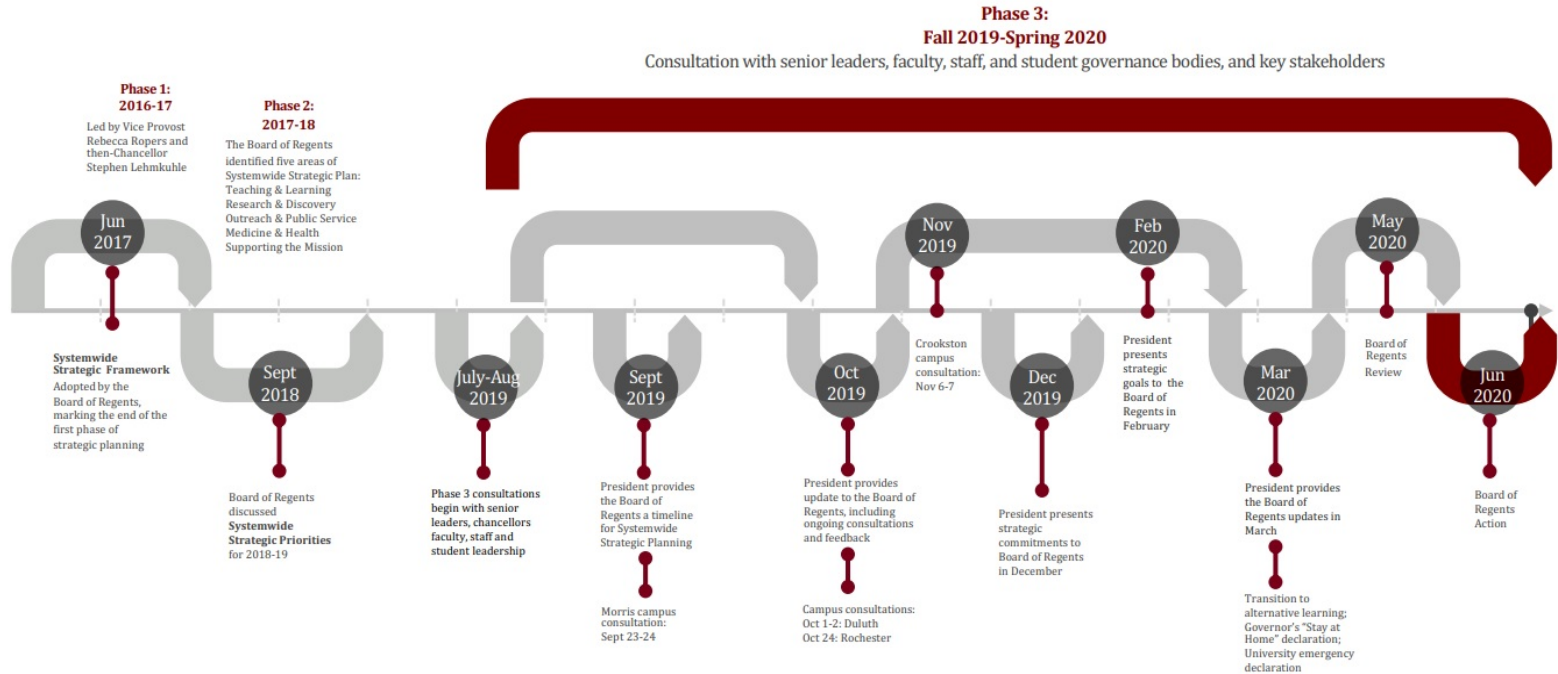
Budget Reserve Available to Mitigate Impact



\$2.359 Billion



Systemwide Strategic Plan



MPact 2025: Approved by the Board of Regents in June 2020



Our Commitments



71% of FY20 shortfalls were covered by University balances/reserves

Totals - FY20 Shortfalls due to COVID-19					Solutions				
A					B	C	D	E	
					Unit	Federal	Institutional	Central	
Net Shortfall					Balances	Targeted	Federal	Reserves	
Sum total for units with identified shortfalls due to COVID-19					64,896,000	24,187,968	1,053,642	17,773,390	21,881,000
							CR Authorized	25,000,000	
					carries over to be combined with \$10m CR authorized for FY21			3,119,000	



To “jump-start” FY21 budget savings, the board approved a furlough and temporary pay reduction program and a RIO program

Furlough/Temporary Pay Reduction Program

Estimated Annual Savings = \$45m to \$50m (all funds)

Retirement Incentive Option

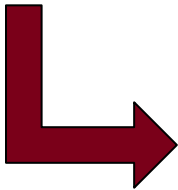
Estimated Annual Savings = \$40m with no backfill/\$24m with 40% backfill rate



Next steps (from October 2020)

By Unit – and Compared to Budget – Re-estimate:

- Tuition Revenue Based on Fall Enrollment
- Other Earned Revenues
- “Regular” Expenditures
- COVID-19 Related Expenditures
- Savings from Furlough/Temporary Pay Reductions
- Savings from the RIO



Projection of FY21 Significant Shortfalls by unit
and for the University Overall



At the same time, the State of Minnesota forecast improved...

Forecast Significantly Improved; COVID-19 Impacts Remain

- Current year projected deficit eliminated; \$636 million* surplus now projected.
- This forecast adds back about half of the current biennium revenue taken out in the May projection.
- Improved budget outlook continues into the next biennium, but a \$1.3 billion shortfall remains for FY 2022-23.
- Pandemic economic downturn has affected all Minnesotans, but unemployment has disproportionately impacted lower-wage workers.

*Revised to account for a required transfer from the general fund to the 21st Century Minerals fund when a surplus is projected.



Current Biennium Significantly Improved

(\$ in millions)	FY 2020-21 End of October Special Session	FY 2020-21 Nov. Forecast	Forecast Change
Beginning Balance	\$3,971	\$3,971	\$ -
Revenues	45,189	47,100	1,912
Spending	48,680	47,627	(1,053)
Budget Reserve	2,377	2,377	-
Cash Flow Account	350	350	-
Stadium Reserve	66	81	15
Budgetary Balance	\$(2,314)	\$636	\$2,950

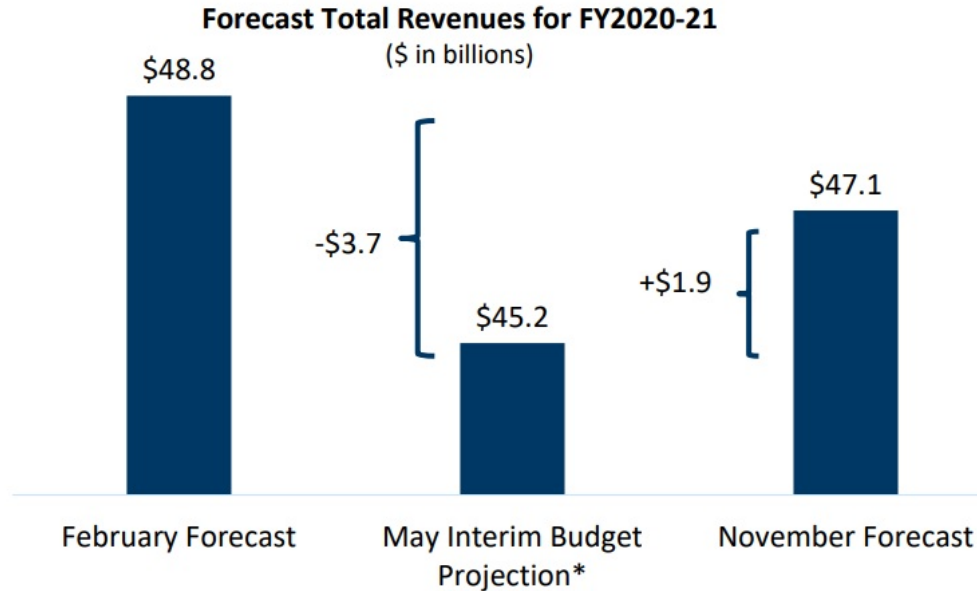


Shortfall in Next Biennium Remains in Forecast

(\$ in millions)	FY 2020-21	FY 2022-23	\$ Change
Beginning Balance	\$3,971	\$3,444	
Revenues	47,100	49,494	
Spending	47,627	51,110	
Budget Reserve	2,377	1,886	(491)
Cash Flow Account	350	350	-
Stadium Reserve	81	230	149
Budgetary Balance	\$636	\$(638)	
Shortfall (Excluding FY 2020-21)		\$(1,273)	



Economic Volatility Drives Revenue Forecast Changes



*Adjusted for legislative changes since May



FY21 Update at the December 2020 Board Meeting

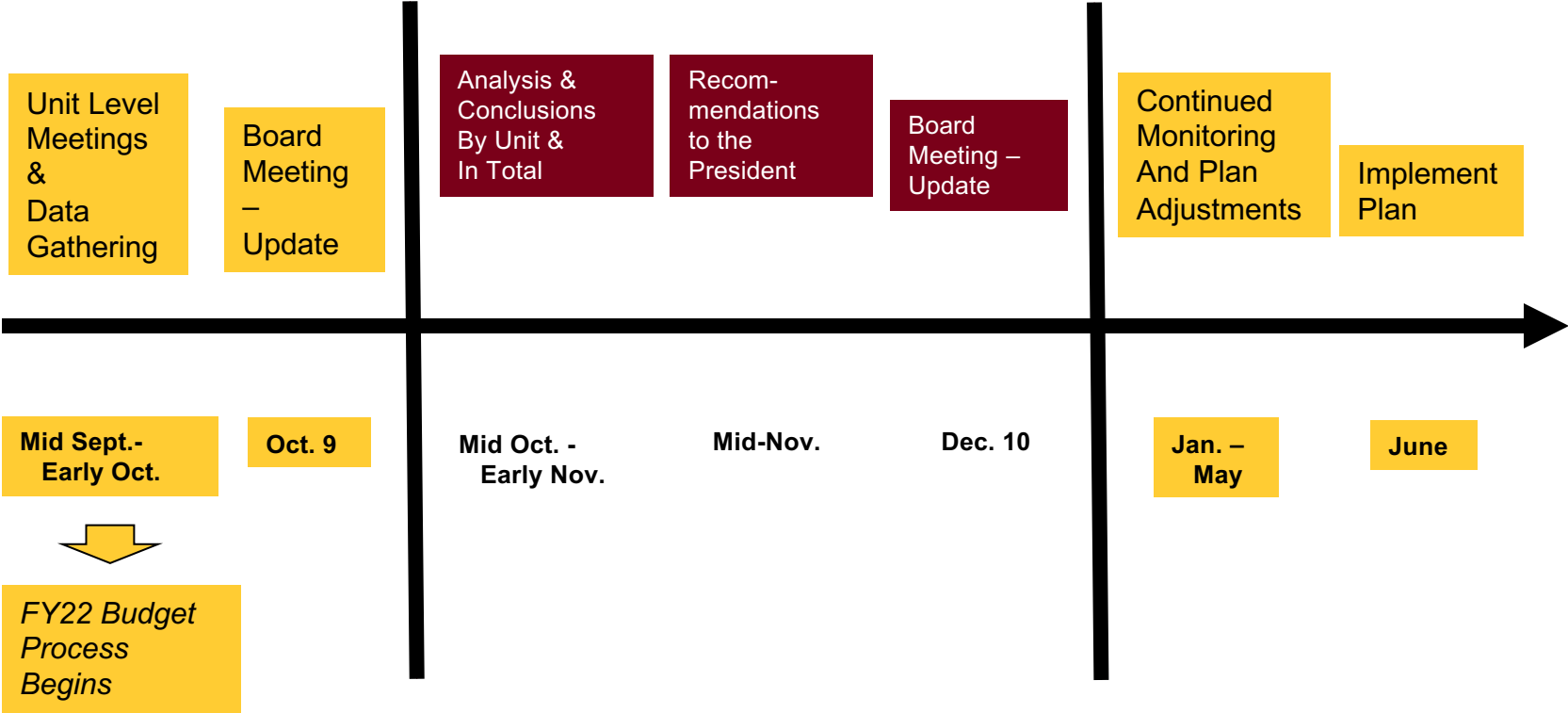
Net Tuition Shortfall	Net “Other Revenues” Shortfall	Significant COVID-19 Expenditures	Total
(\$16,000,000)	(\$148,000,000)	(\$2,000,000)	(\$166,000,000)

- 5 units estimating tuition above budget +\$3.7m
- 3 units estimating tuition right at budget \$0
- 15 units estimating tuition below budget (\$19.5m)
- Significant COVID-19 related expenditures (\$2.0m)
- Estimated loss of other revenues (\$148.0m)

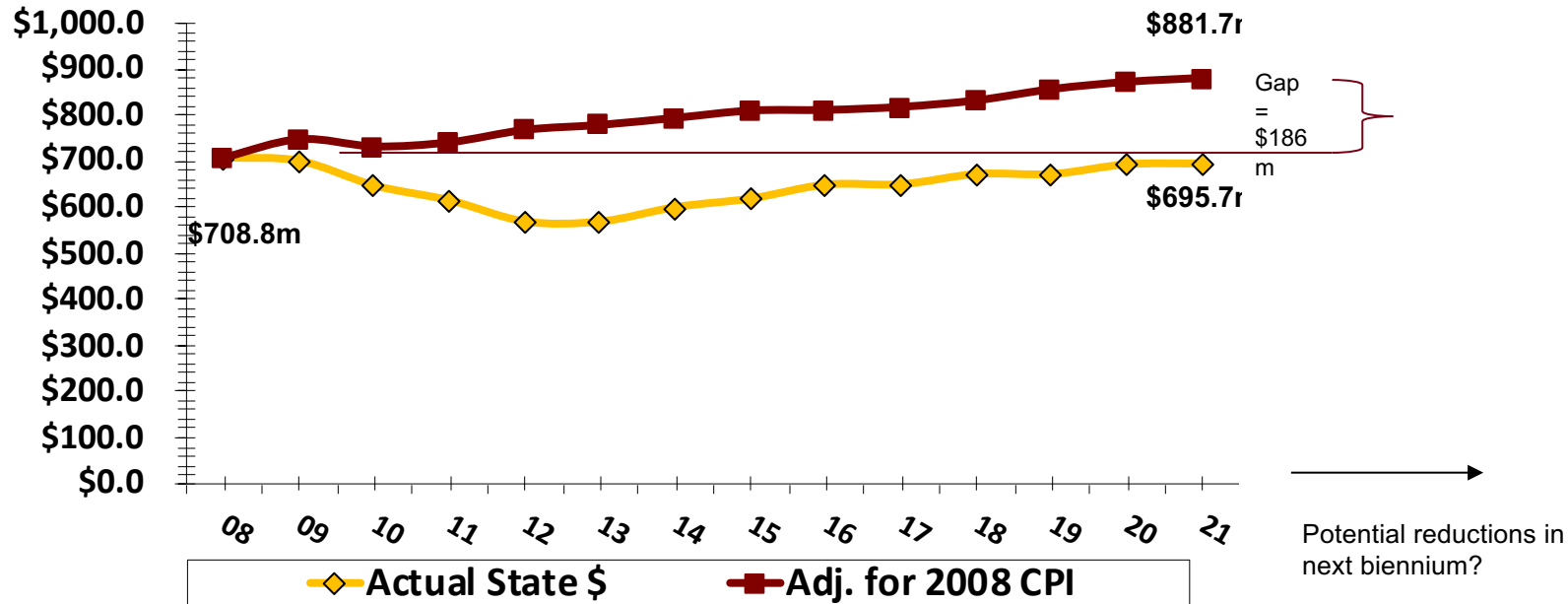
(largely external sales - \$123.5m in Athletics & Other Auxiliaries)



Budget Timeline – FY21 Review



The actual \$708.8m appropriation* in 2008, if adjusted for CPI, would equal \$881.7m in 2021. The actual appropriation in 2021 is \$695.7m



→ Potential reductions in next biennium?

*Includes Cigarette Tax and MnCare – excludes nonrecurring project appropriations
 Source for adjusted data: U.S. Bureau of Labor Statistics, CPI Inflation Calculator, August 26, 2020



Finance and Operations Planning Work Group Update on Non-Recurring Savings

- Senior Leader voluntary pay reductions
- Hiring Pause
- FY21 Merit Freeze
- Furlough and Pay Reduction Program
- Retirement Incentive Option (RIO) Program



Hiring Pause

- Hiring pause with exception process instituted in April of 2020
- Year-over-year comparison of hiring rates

FY19 Hires	FY20 Hires	Difference
11,869	7,606 est.	4,263 (-35.9%)

- 2,023 fewer openings estimated for FY20
- 788 current openings
 - Approximately 480 of these openings support research and instruction
- Median base salary for faculty and staff is \$80,000 including fringe



Hiring Process under “Pause”

- Hiring that does not require an exception
 - COVID-19 related, health and safety, 100% grant funded, teaching positions, faculty reappointments, and student workers
- Hiring that requires an approved exception request
 - Tenure/Tenure-Track, administrative staff, offers of \$100,000 or higher



FY21 Merit Freeze

- Merit freeze eliminated merit pay increases based on FY20 performance
 - This action provided an estimated \$50 to \$62.5 million (including fringe) in cost avoidance



Estimated Cost Containment Impact Summary

Program Savings Estimates	FY21	FY22	Estimated Total
RIO (including incentive without replacement)*	\$23.40 M	\$52.1 M	\$75.5 M
Furlough and Pay Reduction	\$41.5 M	NA	\$41.5 M
Senior Leader Pay Reduction	\$3.76 M	NA	\$3.76 M
Total Program Savings Estimate	\$68.66 M	\$52.1 M	\$120.76 M

**Estimated RIO savings including incentive and 40% replacement rate for FY21-22: \$45.3 M. Total estimated program savings for FY21-22 would be reduced to \$90.56 M.*



F&O Planning Work Group Recommendations: Next Steps

- New ways to modernize and streamline administrative services in order to realize recurring cost savings while also improving quality of service:
 - Examine shared services for the University
 - Renegotiate or leverage existing and future purchasing contracts
 - Leverage the use of technology to create efficiencies, reduce costs, and capture cost savings
 - Explore “in-sourcing” vs “out-sourcing”
- To that end, the University will seek a partner to help create a roadmap to achieve the following objectives:
 - Modernize “in-scope” processes to achieve efficiencies in workflow
 - Improve overall service quality
 - Fully leverage the capabilities of the University’s systems and technology investments
 - Impact future cost growth and capture recurring savings to direct to strategic priorities



Campus Planning + Strategic Commitments



East and West Bank, Minneapolis

STRATEGIC COMMITMENTS

1. Student Success
2. Discovery, Innovation, and Impact
3. MNtersections
4. Community Belonging
5. Fiscal Stewardship (Master Plan)
 - Build comprehensive long-range capital facilities and land-holding strategies to drive strategic growth.



FY 2022-23 State Budget Request

Incremental over prior year

FY22

FY23

Total
Biennial Math
(yr 1 x 2) + yr 2

FY22-23 Request-Incremental Over Base			\$ 15,500,000	\$ 15,500,000	\$ 46,500,000
General Fund	Growth %	Annual	2.3%	2.3%	
		Biennial over base			3.5%

of ↓

<i>Current Biennium Recurring GF Appropriation Base</i>			
	FY21		
O&M	\$ 602,818,000		
St. Specials	\$ 68,438,000		
	\$ 671,256,000	x 2 =	\$ 1,342,512,000



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