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' Pfutzenreuter, 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**

- **Federal**
  - Coronavirus Relief Fund – $2.187B
  - Program-Specific Streams – over $1B
  - FEMA Funds (match required)
  - Direct Payments and Loans
- **State**
  - COVID MN Fund – $200M
  - Additional Targeted State Appropriations – $354M
- **Private**
  - MN Disaster Recovery Fund – $11M
  - Other Efforts & Donations

**Budget Reserve Available to Mitigate Impact**

- State Agencies
- Local Government
- Private/Non-Profit Service Delivery Organizations
- Individual Residents & Businesses

$2.359 Billion
Systemwide Strategic Plan

Phase 3:
Fall 2019-Spring 2020
Consultation with senior leaders, faculty, staff, and student governance bodies, and key stakeholders

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

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Approved by the Board of Regents in June 2020
Our Commitments

- Student Success: Meeting all students where they are and maximizing their skills, potential, and well-being in a rapidly changing world.
- Discovery, Innovation, & Impact: Channeling curiosity, investing in discovery to cultivate possibility, and innovating solutions while elevating Minnesota and society as a whole.
- MNtersections: Inspired by Minnesota to improve people and places at world-class levels.
- Community & Belonging: Fostering a welcoming community that values belonging, equity, diversity, and dignity in people and ideas.
- Fiscal Stewardship: Stewarding resources to promote access, efficiency, trust, and collaboration with the state, students, faculty, staff, and partners.
71% of FY20 shortfalls were covered by University balances/reserves

<table>
<thead>
<tr>
<th>Totals - FY20 Shortfalls due to COVID-19</th>
<th>Solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A</td>
</tr>
<tr>
<td></td>
<td>Net Shortfall</td>
</tr>
<tr>
<td>Sum total for units with identified shortfalls due to COVID-19</td>
<td>64,896,000</td>
</tr>
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<td></td>
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carries over to be combined with $10m CR authorized for FY21
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

<table>
<thead>
<tr>
<th></th>
<th>FY 2020-21 End of October Special Session</th>
<th>FY 2020-21 Nov. Forecast</th>
<th>Forecast Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beginning Balance</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>45,189</td>
<td>47,100</td>
<td>1,912</td>
</tr>
<tr>
<td>Spending</td>
<td>48,680</td>
<td>47,627</td>
<td>(1,053)</td>
</tr>
<tr>
<td>Budget Reserve</td>
<td>2,377</td>
<td>2,377</td>
<td>-</td>
</tr>
<tr>
<td>Cash Flow Account</td>
<td>350</td>
<td>350</td>
<td>-</td>
</tr>
<tr>
<td>Stadium Reserve</td>
<td>66</td>
<td>81</td>
<td>15</td>
</tr>
<tr>
<td><strong>Budgetary Balance</strong></td>
<td><strong>$(2,314)</strong></td>
<td><strong>$636</strong></td>
<td><strong>$2,950</strong></td>
</tr>
</tbody>
</table>
## Shortfall in Next Biennium
Remains in Forecast

<table>
<thead>
<tr>
<th>($ in millions)</th>
<th>FY 2020-21</th>
<th>FY 2022-23</th>
<th>$ Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beginning Balance</strong></td>
<td>$3,971</td>
<td>$3,444</td>
<td></td>
</tr>
<tr>
<td><strong>Revenues</strong></td>
<td>47,100</td>
<td>49,494</td>
<td></td>
</tr>
<tr>
<td><strong>Spending</strong></td>
<td>47,627</td>
<td>51,110</td>
<td></td>
</tr>
<tr>
<td><strong>Budget Reserve</strong></td>
<td>2,377</td>
<td>1,886</td>
<td>(491)</td>
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<tr>
<td><strong>Cash Flow Account</strong></td>
<td>350</td>
<td>350</td>
<td>-</td>
</tr>
<tr>
<td><strong>Stadium Reserve</strong></td>
<td>81</td>
<td>230</td>
<td>149</td>
</tr>
<tr>
<td><strong>Budgetary Balance</strong></td>
<td><strong>$636</strong></td>
<td><strong>$(638)</strong></td>
<td></td>
</tr>
</tbody>
</table>

*Shortfall (Excluding FY 2020-21) $(1,273)*
Economic Volatility Drives Revenue Forecast Changes

Forecast Total Revenues for FY2020-21
($ in billions)

- February Forecast: $48.8
- May Interim Budget Projection*: $45.2
- November Forecast: $47.1

*Adjusted for legislative changes since May
FY21 Update at the December 2020 Board Meeting

<table>
<thead>
<tr>
<th>Net Tuition Shortfall</th>
<th>Net “Other Revenues” Shortfall</th>
<th>Significant COVID-19 Expenditures</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>($16,000,000)</td>
<td>($148,000,000)</td>
<td>($2,000,000)</td>
<td>($166,000,000)</td>
</tr>
</tbody>
</table>

- 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

Unit Level Meetings & Data Gathering
Board Meeting – Update

Analysis & Conclusions By Unit & In Total
Recommendations to the President
Board Meeting – Update

Continued Monitoring And Plan Adjustments
Implement Plan

Mid Sept.-Early Oct.
Oct. 9
Mid Oct.-Early Nov.
Mid-Nov.
Dec. 10
Jan. – May
June

FY22 Budget Process Begins

From December 2020 BOR presentation
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

From December 2020 BOR presentation
Hiring Pause

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

<table>
<thead>
<tr>
<th>FY19 Hires</th>
<th>FY20 Hires</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>11,869</td>
<td>7,606 est.</td>
<td>4,263 (-35.9%)</td>
</tr>
</tbody>
</table>

- 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

<table>
<thead>
<tr>
<th>Program Savings Estimates</th>
<th>FY21</th>
<th>FY22</th>
<th>Estimated Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>RIO (including incentive without replacement)*</td>
<td>$23.40 M</td>
<td>$52.1 M</td>
<td>$75.5 M</td>
</tr>
<tr>
<td>Furlough and Pay Reduction</td>
<td>$41.5 M</td>
<td>NA</td>
<td>$41.5 M</td>
</tr>
<tr>
<td>Senior Leader Pay Reduction</td>
<td>$3.76 M</td>
<td>NA</td>
<td>$3.76 M</td>
</tr>
<tr>
<td>Total Program Savings Estimate</td>
<td>$68.66 M</td>
<td>$52.1 M</td>
<td>$120.76 M</td>
</tr>
</tbody>
</table>

*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:
  o Examine shared services for the University
  o Renegotiate or leverage existing and future purchasing contracts
  o Leverage the use of technology to create efficiencies, reduce costs, and capture cost savings
  o 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:
  o Modernize “in-scope” processes to achieve efficiencies in workflow
  o Improve overall service quality
  o Fully leverage the capabilities of the University’s systems and technology investments
  o Impact future cost growth and capture recurring savings to direct to strategic priorities

From December 2020 BOR presentation
Campus Planning + 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

<table>
<thead>
<tr>
<th>FY22-23 Request-Incremental Over Base</th>
<th>$15,500,000</th>
<th>$15,500,000</th>
<th>$46,500,000</th>
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</thead>
<tbody>
<tr>
<td>General Fund</td>
<td></td>
<td></td>
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<tr>
<td>Growth %</td>
<td>2.3%</td>
<td>2.3%</td>
<td></td>
</tr>
<tr>
<td>Annual</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Biennial over base</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Biennial Math (yr 1 x 2) + yr 2</td>
<td></td>
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</tbody>
</table>

#### Growth %

- Annual: 2.3%
- Biennial over base: 3.5%

#### Current Biennium Recurring GF Appropriation Base

<table>
<thead>
<tr>
<th></th>
<th>FY21</th>
</tr>
</thead>
<tbody>
<tr>
<td>O&amp;M</td>
<td>$602,818,000</td>
</tr>
<tr>
<td>St. Specials</td>
<td>$68,438,000</td>
</tr>
<tr>
<td></td>
<td>$671,256,000</td>
</tr>
</tbody>
</table>

\[ \text{Current Biennium Recurring GF Appropriation Base} = 671,256,000 \times 2 = 1,342,512,000 \]