

Memo

To: Minnesota State University Moorhead Bargaining Units

From: Edna Mora Szymanski, President

Date: January 25, 2011

Re: Possibility of Retrenchment

At this time, and as we have discussed in recent months, I must notify you of the possibility of retrenchment. There are several variables in play at this time, so it is not a certainty. As we have discussed, the Cabinet and I will continue to work together to find savings in order to avoid or limit the extent of retrenchments. In this memo, I will briefly explain (a) the MSUM budget context, and (b) timelines.

The MSUM Budget Context

When we began Fiscal Year 09 (the 08-09 academic year), our general fund budget was \$62.8M. At that time, the state appropriation comprised 48% of the general fund budget with the remaining 52% coming from tuition. During that year, we addressed a structural deficit of \$4.95M, a decrease of our state appropriation of \$3.3M, and an unallotment from the Governor of \$.89M. The resultant budget gap was \$9.1M, which was 14.5% of our general fund budget. We worked together as a campus to address that gap through hiring restrictions, increased fiscal controls, greater connections between resource allocation and revenue generation, efficiencies gained after a review of all programs and services, use of stimulus dollars to decrease long term base budget costs (i.e., early separation incentives, energy refits), and a strong focus on increased revenue (i.e., initiatives in admissions and marketing). The bargaining units helped by forgoing usual increases in their contractual settlements. As you recall, we just barely managed to enter FY10 without layoffs.

In FY10, the state appropriation portion of our general fund budget declined to 41%. Currently, in FY11, it is 39%, with the remaining 61% coming from tuition revenue.

As we balanced our budget for the FY10-11 biennium, we began work on the FY12-13 biennium. A large state revenue deficit has been known for some time. (See <http://www.mmb.state.mn.us/fin/fu>). Our current state appropriation is \$25.7M. We estimate a possible decrease of between \$5.8 and \$7.5M for the coming year, depending on the action of the current legislature. Given that our current general fund budget is \$64.5M, the decrease would be between 9.0 and 11.6% of our general fund budget. This is on top of \$9.1M deficit we addressed coming into FY10. The total deficit addressed in the two biennia will be approximately 23.1% to 25.7% of our current general fund budget.

In order to prepare for the decrease in state appropriation in FY12 (next year), we have done the following:

- Reduced personnel costs through hiring restrictions, early separation incentives, and some reorganization; (Note that we are currently down 85 long term employees, including 38 IFO members.)
- Decreased other expense areas, including fuel and utilities;
- Increased revenue through enrollment, summer session, and the continued impact of the revised tuition and fee structure.

To date, we have accounted for approximately \$4M of this decrease.

Our budget gap for 2012 is further complicated by three additional variables: contractual settlements, tuition caps, and projected enrollment growth.

- Personnel expenses account for 80% of our general fund expenses. Contractual increases will add expenses.
- Depending on the extent of the state appropriation decrease, tuition revenue will account for at least 65% of our general fund budget. The Board of Trustees is likely to impose some cap on the rate of tuition increase. We have modeled an increase of %5 each year of the biennium, which should enable us to continue most of our programs. However, that level is not guaranteed.
- Actual enrollment growth is the most difficult of the variables to predict. We have just recently reversed a multi-year trend of decreasing enrollment. The first marker was our increase in new entering freshmen, which appears to be on track to continue next year. As of the January 25, 2011 admissions report, even with a more selective approach to admissions, we are running 27% ahead of last year on admitted students and 51% ahead on applications. The question ahead will be the yield rate of admissions to enrollees.

To put some quantification on these variables, a 1% contractual increase adds approximately \$500,000 to expenses. A 1% tuition rate increase adds approximately \$400,000 to revenue. And, a 1% increase in total enrollment also adds approximately \$400,000 to revenue.

Timelines

The budget process will play out over the coming months in the legislature. After the session concludes, we will know how much a cut will come to the System. However, we will not know how the cut will be distributed or how it will be offset with tuition increase until action by the Board of Trustees. We suspect that the first reading of their budget will be the third week of June.

By the last week of June, we should also know how much we have been able to save through hiring restrictions and early separation incentives. We will also have a better estimate of enrollment growth.

In the first two weeks of July, we hope to let the campus know the draft budget for next year and whether or not retrenchment will be required. The budget will not be finalized until after the Trustees vote on their budget, which is likely to be the third week in July. Retrenchment notices, if needed, will go out no later than the last day in July. However, they will go out earlier in some circumstances.