Agenda Item Summary Sheet

Committee: Finance and Facilities   **Date of Meeting:** April 18, 2012

Agenda Item: Project 2022 Overview

☐ Proposed Policy Change	☐ Approvals Required by Policy	☐ Other Approvals	☐ Monitoring

☒ Information

Cite policy requirement, or explain why item is on the Board agenda:
Project 2022 is an analytical, scenario-driven tool to help Minnesota State Colleges and Universities (MnSCU) leaders and decision makers better understand and plan for a changing financial landscape.

Scheduled Presenter(s): Deborah Bednarz – Director of Financial Planning and Analysis

Outline of Key Points/Policy Issues:
For the past several years, colleges and universities have been operating in a rapidly changing financial environment. State funding has fallen sharply, enrollment has reached historic levels, and reliance on tuition revenue has grown. Creating a cohesive and viable financial plan in the midst of this change and uncertainty has proven to be one of the most important challenges facing MnSCU. Project 2022 is being developed as a tool to help decision makers better understand and plan for this new fiscal landscape.

Background Information:
In its FY2012-2014 Action Plan, the Board of Trustees called for "a fiscal sustainability agenda that draws on the collaborative and creative capacity of the system." Project 2022, an Excel-based financial analysis and planning tool, was developed to address the Board's directive. The goal of the project is to create a financial planning tool which models how changes in key financial drivers affect the financial viability of MnSCU over time.

INFORMATION ITEM
Project 2022 Overview

PURPOSE

Project 2022 is an analytical, scenario-driven tool to help Minnesota State Colleges and Universities (MnSCU) leaders and decision makers better understand and plan for a changing financial landscape.

BACKGROUND

In its FY2012-2014 Action Plan, the Board of Trustees called for "a fiscal sustainability agenda that draws on the collaborative and creative capacity of the system." Project 2022, an Excel-based financial analysis and planning tool, was developed to address the Board's directive. The goal of the project is to create a financial planning tool which models how changes in key financial drivers affect the financial viability of MnSCU over time. A prototype will be shown to the Board at its April 2012 meeting.

INITIAL OBSERVATIONS

- The tool provides an easy way to demonstrate the relative importance of various factors in MnSCU's financial model and how changes in those factors can influence financial viability over time.
- Viewing scenarios from an all funds, general fund, or revenue fund perspective allows for identification of problems that might not otherwise be recognized.
- Project 2022 reiterates the message: Decisions today impact choices tomorrow.
- All projections are estimates based on the best information available, with shorter-term projections providing more reliable estimates than longer-term projections. Nonetheless, longer term projections can be instructive in identifying trends that may threaten or support fiscal sustainability.

LINK TO STRATEGIC FRAMEWORK

Project 2022 supports the strategic framework's goal of creating and executing a long-term financial strategy to ensure affordable, excellent academic programs that meet the state's workforce and community needs.

PROJECT 2022 OVERVIEW

For the past several years, colleges and universities have been operating in a rapidly changing financial environment. State funding has fallen sharply, enrollment has reached historically high levels, and reliance on tuition revenue has grown. Creating a cohesive and viable financial plan in the midst of this change and uncertainty has proven to be one of the most important challenges facing MnSCU.

Project 2022 is being developed as a tool to help decision makers better understand and plan for this new fiscal landscape. The tool allows users to adjust key variables in order to:
      1) analyze how changes in these variables impact the financial outlook over time,
      2) better understand the relationships between key financial factors, and
      3) assist in long-term financial and strategic planning.

Project 2022 is being built from the ground up, starting with high-level, systemwide data and analysis, then adding in more complexity and nuances over time. The longer term goal is to develop a tool robust enough to use at the individual college and university level.

DESIGN OBJECTIVES

In September 2011, Vice Chancellor King directed her Associate Vice Chancellors of Finance and Facilities to convene a working group to address the Board's fiscal sustainability directive and develop a planning tool for use at the system and campus level. As work progressed, it became evident that additional expertise was needed to create an enrollment module. The cross-divisional working group includes members from both the Finance and Academic and Student Affairs divisions.

The work group is responsible for designing and creating the tool, including analyzing and verifying data, identifying various economic and financial variables, and determining their relationship to one another.

An advisory committee of campus representatives was formed to provide guidance on the development and design of the tool. Charged with reviewing the financial framework and economic assumptions, the advisory committee provides input and guidance to the working group. This collaborative approach ensures that all perspectives are considered throughout the design and development process.

The working group initially investigated the option of modifying off-the-shelf products but concluded these products did not meet the needs of the system's colleges and universities. The decision was made to create a customized tool specifically designed for MnSCU based on the following design objectives.

- *Easy to Use Interface*: To allow users to enter different assumptions and consider various financial and economic scenarios.
- *Built on accrual-based financial data:* To provide accrual-based forecasting outcomes.

- *Capacity to Ask "What If" Questions about the Most Relevant Financial Factors:* To help users understand the "big picture" of financial decisions or changes in key financial factors.
- *Ability to Model the Interaction between Key Variables:* To help users understand how changes in one factor can impact other areas, such as the interaction between enrollment changes, tuition revenues and compensation costs.
- *Multi-dimensional:* To analyze the impact of assumptions from an all funds, general fund or revenue fund perspective.
- *Flexible:* To be used for a variety of purposes including strategic planning, financial management and education.
- *Customizable:* To allow the tool to be adapted to the needs of individual colleges and universities and to account for new and emerging variables and model adjustments.

APPLICATIONS AND CONSTITUENCIES

Project 2022 is being designed for use by several different constituencies whose needs and use of the tool will vary considerably.

Target Constituencies:
- Board of Trustees
- Chancellor, Presidents and Cabinet
- College and University Chief Finance Officers
- System Office and Campus Research and Planning Staff
- System Office Finance Division
- Legislature, Students and the Public

Planned Applications:
- *Analytical Tool (macro level/system-wide)*: To analyze and consider the impact of changes to key economic variables at a systemwide level.
- *Educational Tool*: To educate key constituencies about the key economic drivers, their relative importance and their relationship to each other.
- *Analytical and Planning Tool (micro level/institution):* To analyze and model the impact of changes to key economic variables at the institution level.

DESIGN ELEMENTS

The Project 2022 financial analysis and planning tool consists of several separate but interrelated modules: enrollment, tuition, state appropriation, compensation, general obligation bonds, purchased services and supplies. Each module will allow the user to make different assumptions about key economic factors (e.g., increases or decreases in state appropriation, level of capital investment, tuition rate increases, etc.) in order to see how those changes impact overall financial viability over a ten-year time horizon. All projections are estimates based on actual fiscal year 2011 audited financial data.

Enrollment: Academic and Student Affairs is leading the development of the enrollment module. Analysis is underway to consider the impact of demographic information,

population changes, availability of student financial aid, the projected number of Minnesota high school graduates by region, tuition rate increases, post-secondary participation rates, retention rates and economic indicators on enrollment. The prototype model currently allows the user to input assumptions about enrollment growth or decline.

Tuition and Fees: This module projects tuition and fee revenues for colleges and universities. Users are allowed to make different assumptions about the rate of increase on tuition and fees by institution type (college versus universities). The tuition module interfaces with the enrollment module so as enrollment increases tuition revenues increase and vice versa. This module is being developed by the Financial Planning and Analysis unit.

State Appropriation: This module allows users to make various assumptions about increases or decreases in state funding. As currently designed, users can enter the rate of projected state funding growth or decline.

Compensation: The compensation module allows users to project differing rates of increase for salary and benefits. Separate assumptions can be made about the rate of growth for salary and benefits and for instructional and non-instructional staff. Full time equivalent staffing data and full year equivalent student data are available for users who want to analyze changes in student/staffing ratios. Financial Planning and Analysis is the unit responsible for the development of this module.

General Obligation Bonds: Led by the Facilities group, this module is designed to calculate the general obligation bond debt service cost over time. Current debt service cost for general obligation bonds is built in along with three separate scenarios for additional capital investment: robust, moderate and austere. Users have the ability to select an investment scenario.

Supplies and Purchased Services: These two modules identify the largest components of the remaining expenses. Analysis of prior spending rates informed the development of this module.

Fund Options: Project 2022 allows users to view results of any analysis from an all funds, general fund or revenue fund perspective.

NEXT STEPS

With the prototype version complete, the next step is to develop a tool that can be used at the individual college and university level. Currently, the advisory committee is prioritizing the modifications required for the tool to be useful at the campus level. The current plan is to work with one or two schools to develop a prototype campus version by late September.

In addition, more complexity is being added to the system-wide modeling, including completion of the enrollment module, the ability to model changes in the Revenue Fund, and incorporating balance sheet/CFI forecasting functionality. This work will continue through the summer, with an enhanced model planned for September 2012.

Submitted to the Board of Trustees: April 18, 2012