

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
Agenda Item Summary Sheet**

Name: Finance and Facilities Committee

Date: October 20, 2015

Title: College and University Operating Budgets and Financial Recovery Plans (FRP) Update

Purpose (check one):

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|---|---|---|
| <input type="checkbox"/> Proposed New Policy or Amendment to Existing Policy | <input type="checkbox"/> Approvals Required by Policy | <input type="checkbox"/> Other Approvals |
| <input checked="" type="checkbox"/> Monitoring / Compliance | <input type="checkbox"/> Information | |

Brief Description:

At its June meeting, the Board of Trustees requested an update on the system's fiscal year 2016 operating budget and a status report on the colleges and universities operating under financial recovery plans (FRP).

Scheduled Presenter(s):

Laura M. King Vice Chancellor - CFO

**BOARD OF TRUSTEES
MINNESOTA STATE COLLEGES AND UNIVERSITIES**

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| INFORMATION ITEM |
| College and University Operating Budgets and Financial Recovery Plans (FRP) Update |

BACKGROUND

At its June meeting, the Board of Trustees requested an update on the system's fiscal year 2016 operating budget and a status report on the colleges and universities operating under financial recovery plans (FRP).

The operating budget update addresses three areas: 1) how the system level operating budget is performing compared to plan; 2) how the operating budget's enrollment, compensation, and tuition assumptions have changed since the budget was approved; 3) the projected impact of those changes, including the possible effect on fund balance.

The FRP update summarizes the progress colleges and universities are making in implementing their plans, based on information gathered from the college and university chief financial officers. In addition, detailed enrollment and fund balance information is presented for each college and university operating under a FRP.

EXECUTIVE SUMMARY

The fiscal year 2016 system operating budget was built on enrollment, compensation and tuition assumptions that were based on the best information available at the time. Three months into the fiscal year, college and universities budgets are being adjusted to incorporate revised information.

Enrollment is trending slightly lower than the enrollment levels projected in June.

- Both university and college fall enrollments are performing slightly below (0.8 percent) forecasted levels.
- The budgetary impact of lower than expected enrollment is a revision of expected revenue downward of \$7.8 million compared to the budgets approved by the Board in June 2015.

Compensation increases are expected to exceed planning estimates.

- MMB-negotiated contracts have been ratified and the system labor negotiators have reached tentative agreements with two of the three faculty units.
- The overall increase in total compensation costs (salary plus fringe benefits) is expected to be 3.4 percent compared with the 3.0 percent planning estimate.
- The estimated budget impact of this increase on the system is an upward adjustment of \$4.9 million.

Colleges and universities operating under a financial recovery plan continue to make progress, but risks remain.

- While six colleges added to their fund balance in fiscal year 2015, two universities spent over one-third of their fund balance during the same period.
- Enrollment dipped in fiscal year 2016 but not as sharply as in the recent past. However, three colleges continue to experience significant enrollment loss this year beyond their spring 2015 forecast.
- More complete financial information, including updated Composite Financial Index (CFI) calculations for each college and university will be available after the system and individual financial statements are completed in November.

Additional monitoring and follow-up.

- *Enrollment monitoring:* Enrollment continues to be tracked on a weekly basis.
- *Revised operating budgets:* Colleges and universities where fall enrollment is one percent or more below projected and all colleges and universities operating under a financial recovery plan have been asked to submit updated operating budgets in November.
- *Fund balance analysis:* An analysis showing the effect of enrollment, tuition and compensation changes on fund balance was performed. Colleges and universities with limited fund balance capacity will be monitored for adherence to their budget plans and, if applicable, their Financial Recovery Plans.

FISCAL YEAR 2015 ACTUAL FYE ENROLLMENT AND YEAR-END FUND BALANCE

Fiscal year 2015 enrollment totaled 138,973 full-year equivalent (FYE) students; 53,564 FYE at the universities and 85,410 FYE at the colleges. Total credit headcount enrollment 259,549.

- Fiscal year 2015 actual FYE enrollment was 3.8 percent (5,551 FYE) lower than fiscal year 2014 FYE enrollment; university enrollment was down 2.6 percent (1,419 FYE) and college enrollment was down 4.6 percent (4,132 FYE).
- Fiscal year 2015 actual FYE enrollment was marginally higher (67 FYE) than projected in May. College enrollment was up slightly (0.1 percent or 96 FYE) and university enrollment was slightly lower (28 FYE or 0.1 percent).
- Overall, fiscal year 2015 enrollment declined to 2008 levels as the unemployment rate has declined.

The preliminary combined fiscal year 2015 year-end general fund balances of the colleges and universities is estimated to total \$459.5 million, down \$3.1 million or 0.7 percent from fiscal year 2014 year-end balances. Final cash balances for all funds will be available in November 2015 as a part of the system's financial statements. Twenty colleges and universities added \$25.6 million to their fund balances in aggregate and 17 reduced their balances by \$ 29.2 million in aggregate. Sixty percent of the \$29.2 million in fund balance losses were accounted for by losses at two universities.

FISCAL YEAR 2016 BUDGET UPDATE

The fiscal year 2016 operating budget the Board approved in June was based on a number of critical assumptions about enrollment, compensation, and tuition. The financial performance of the system for fiscal year 2016 will depend both on the precision of those assumptions and on the ability of each college and university to adjust their budgets in a timely manner to changes in those assumptions.

With more than one-quarter of the fiscal year complete, the purpose of this section is to review the key assumptions and provide updates on those assumptions against plan.

Enrollment

The fiscal year 2016 operating budget assumed a 1.8 percent drop in system FYE enrollment from projected fiscal year 2015 enrollment levels. College budgets were based on a 2.5 percent decline in FYE enrollment (2,103 FYE); university budgets assumed a 0.7 percent decline in FYE enrollment (364 FYE). Year-to-date FYE enrollment shows that college enrollment continues to decline at a faster rate than university enrollment. Undergraduate enrollment at both colleges and universities is trending lower than prior year levels and lower than forecast for fiscal year 2016 in May 2015. Graduate enrollment is up compared to last year.

Year-to-date FYE enrollment trends:

- Summer FYE enrollment for the system was 2.7 percent lower than prior-year levels:
 - University FYE enrollment for summer term was up 0.7 percent over prior-year levels, with a 1.1 percent decline of undergraduate enrollment offset by a strong 7.6 percent increase in graduate enrollment.
 - College summer FYE enrollment was down 5.0 percent compared to prior-year levels.

- As of September 27, 2015, fall FYE enrollment for the system was 2.6 percent lower than prior-year levels:
 - University FYE enrollment is down 1.5 percent from prior-year levels. University undergraduate FYE is 2.0 percent below prior-year levels, while graduate enrollment is up 4.0 percent.
 - College FYE enrollment was down 3.3 percent compared to prior year levels.

Tuition Revenue

Lower than projected enrollment is expected to reduce tuition revenue. The fiscal year operating budget assumed \$778 million in tuition revenue based on a 1.8 percent enrollment decline.

- Assuming current fall and summer enrollment patterns continue throughout the fiscal year, FYE enrollment will likely fall 0.8 to 1.0 percent below the level projected in the operating budget.
- If FYE enrollment declines as projected, tuition revenue will fall an estimated \$6.2 million to \$7.8 million compared to the estimate contained in the spring 2015 college and university operating budgets approved by the Board.

Compensation

When the Board approved the operating budget in June, contracts with the system's employee bargaining units were not yet settled. Consistent with the biennial budget request, the college and university operating budgets assumed a three percent total compensation increase each year.

Since that time, Minnesota Management and Budget (MMB) reached tentative agreements with the state's classified units (primarily AFSCME, MAPE, and MMA), and those tentative agreements have been ratified. Tentative agreements have also been reached with two of the three faculty units, and ratification votes are underway.

Based on the outcome of these negotiations and revised employer-paid insurance estimates from MMB, the estimated compensation increase has grown from 3.0 to 3.4 percent. The fiscal impact of this increase on the operating budget is estimated to be \$4.9 million.

Estimated Overall Operating Budget Impact

- The combined impact of declining tuition revenue (\$6.2 - \$7.8 million) and compensation increases (\$4.9 million) is approximately \$11.1 to \$12.7 million, or 0.8 percent of the system's general fund budget.
- If the entire shortfall was absorbed through fund balance, rather than budget adjustments, the estimated impact to cash would be a 2.2 to 2.4 percent decline in general fund balances.
- An analysis of enrollment changes and compensation increases on individual colleges and universities operating budgets found that the fund balance of eight colleges and one university would decline by ten percent or more if the enrollment shortfalls were addressed entirely through the use of fund balances. Under this scenario, the general fund balances of four colleges and two universities would fall below 20 percent of general fund revenue.

FINANCIAL RECOVERY PLAN UPDATES

Seven colleges and four universities are currently operating under financial recovery plans (FRP) due to low CFI scores. As part of an on-going monitoring process, key financial indicators for these colleges and universities are closely monitored and analyzed. Status updates to plans are submitted to the system office on a regular basis.

Fund Balance Analysis

The analysis below examines the change in general fund balances for each of the eleven institutions operating under a FRP. The table shows the preliminary dollar change in fiscal year 2015 year-end fund balance, the percent change in year-end fund balance, and the fund balance as percent of fiscal year 2015 general fund revenue.

Fund Balance Analysis
Colleges and Universities Operating under Financial Recovery Plan

| College/University Operating under FRP | Preliminary Change in Year-end Fund Balance FY2015 v FY2014 | % Change in Fund Balance | FY2015 GEN Fund Balance as % of Revenue |
|---|--|---|--|
| Century College | 1,646,226 | 12% | 27% |
| Hennepin Technical College | 1,185,068 | 14% | 22% |
| Minneapolis Community and Technical College | 4,039,772 | 24% | 38% |
| Minnesota State College - Southeast Technical | 212,402 | 17% | 9% |
| Minnesota State Community and Technical College | 105,805 | 1% | 23% |
| Hibbing Community College | 436,389 | 16% | 22% |
| Mesabi Range College | (108,004) | -5% | 23% |
| Metropolitan State University | (7,739,569) | -33% | 22% |
| Minnesota State University, Mankato | (68,191) | 0% | 30% |
| Southwest Minnesota State University | (576,618) | -6% | 25% |
| St. Cloud State University | (9,829,673) | -37% | 11% |

Fund Balance Findings:

- Six colleges operating under a FRP added a total of \$7.6 million to their fund balance in fiscal year 2015. Fund balances for these colleges grew between one and 24 percent over the previous year, enhancing the ability of these six colleges to respond to risk and improve their financial resiliency. Restoration of fund balance is a critical component of financial recovery and a necessary action for long term financial health.
- Two colleges and three universities operating under a FRP used \$18.3 million in fund balance in fiscal year 2015. Fund balance use ranged from zero (essentially unchanged) to a decline of 37 percent. Two universities used over one-third of their fund balance in fiscal year 2015, eroding their capacity to respond to financial risks and budget shortfalls.
- A healthy fund balance is a key indicator of financial strength and resiliency. Fund balances less than 20 percent of revenues limit an institution's ability to respond to financial stresses, such as a decline in enrollment, and restrict the possibilities for investment in new programs and other growth opportunities. One university and one college reported fund balances less than 20 percent of revenue and warrant continued close monitoring until fund balances are re-built.

Enrollment Analysis

Enrollment activity is closely watched at all the system's colleges and universities, not just those operating under an FRP. The system office monitors two statistics on a weekly basis: year-to-date FYE enrollment compared to projected FYE enrollment, and year-to-date FYE enrollment compared to prior-year enrollment. The first measure provides a useful tool for budget monitoring (year-to-date enrollment compared to the enrollment assumptions in the budget plan), and the second measure provides useful trend data (enrollment trends compared to prior-year levels). The table below shows both measures for colleges and universities operating under FRPs.

Enrollment Analysis – Fall 2016

Colleges and Universities Operating under Financial Recovery Plan

| College/University Operating under FRP | Fall YTD FYE Enrollment Compared to FY2016 Projected Enrollment | YTD Fall FYE Enrollment Compared to Prior Year* |
|---|---|---|
| Century College | +3.9% | -2.3% |
| Hennepin Technical College | +1.1% | -3.8% |
| Minneapolis Community and Technical College | -7.1% | -7.1% |
| Minnesota State College – Southeast Technical | -6.2% | -6.5% |
| Minnesota State Community and Technical College | -1.0% | -1.3% |
| Hibbing Community College | +2.8% | +0.2% |
| Mesabi Range College | -9.1% | -11.5% |
| Metropolitan State University | +1.0% | +1.0% |
| Minnesota State University, Mankato | -1.0% | -1.6% |
| Southwest Minnesota State University | +1.4% | -0.1% |
| St. Cloud State University | -0.5% | -0.5% |

* Year-to-date fall enrollment as of September 27, 2015.

Enrollment Analysis Findings:

- Based on year-to-date fall enrollment data as of September 27, 2015, one university and four colleges are reporting fall term enrollment activity at rates better than projected in May. Conversely, four colleges and two universities are reporting fall term enrollment activity at rates lower than those projected in May.
- With the exception of one university, all colleges and universities operating under financial recovery plans are reporting fall enrollment rates below prior year levels.

Updates to Financial Recovery Plans

Colleges and universities report continued progress in implementing their plans. However, the following risks have been identified:

- Significant deterioration of fund balance at St. Cloud State University and Metropolitan State University, placing both institutions at risk in the event of unexpected budget stresses. The system office is in regular discussions with both universities as they undertake budget management actions.
- Continued unplanned enrollment declines at Minnesota State College - Southeast Technical, Mesabi Range College, and Minneapolis Community and Technical College, requiring budget adjustments in fiscal year 2016 operating budgets.
- All colleges and universities reported concerns about the fiscal year 2017 outlook and are taking steps now to plan for no increase in state appropriation and frozen/reduced tuition rates.

NEXT STEPS

As part of the on-going standard budget monitoring practices and based on the changes in operating budget assumptions over the past three months, the following steps will be taken for all Minnesota state colleges and universities:

- Continued weekly monitoring of enrollment activity for both the fall and spring terms.
- Updated operating budgets requested from all colleges and universities operating under a FRP and those whose FYE enrollment projections are one percent or more below the projections used in their operating budget. Revised budgets are due to the system office November 16. The system office and the colleges and universities are committed to actions necessary to stabilize and strengthen the college or university.
- Regularly scheduled meeting with the most at-risk colleges and universities to ensure compliance with financial recovery plans and/or budget plans.