

April 3, 2009

To: Metropolitan State University Community
From: Sue K. Hammersmith, President
Subject: Growing in Uncertain Times

I am writing today to continue our University-wide conversation on budget-related matters. I will continue to issue periodic updates as we move forward.

FISCAL OVERVIEW

For the current fiscal year, Metropolitan State University is in a relatively healthy financial position. At this time we do not expect layoffs, as do some of our sister MnSCU institutions, because:

- Our enrollments this year exceeded our projections, and the additional tuition resulting from this growth was enough to cover the Governor's January "unallotment" of \$597,000.
- The State is now projected to end the current fiscal year with a slight budget surplus, sparing us a second "unallotment" that we had feared. (The current fiscal year, FY 09, ends on June 30.)

Nonetheless, we urge all possible expenses avoidance until the end of the fiscal year (June 30, 2009). We know that we can expect a reduction in our state funding allocation in the next fiscal year (which begins July 1), and any savings we can achieve this year will stay here at Metropolitan State University and will help us build our budget for the coming year. We also face some unexpected contingencies associated with our upcoming construction projects (more information on page 2) for which we need to capture additional funding from the current fiscal year.

The Coming Years (FY10 and beyond)

In the next biennium, the State is projected to have a budget deficit of \$6.4 billion. That deficit is structural – i.e., spending exceeds revenue streams – and can only be addressed by increasing revenues (e.g., taxes, fees, licenses) and/or by reducing the state budget.

The federal stimulus package will provide significant relief in the coming biennium (FY 2010-11). It will reduce the State's projected deficit from \$6.4 billion to \$4.7 billion. In light of the stimulus package, the Governor has released a revised budget proposal for FY2010 that calls for a net reduction to the MnSCU budget of \$28.8 million (compared with a MnSCU reduction of \$161.8 million in his original budget proposal). The federal stimulus package will last only two years, however. Consequently, unless the State takes action to increase revenues, MnSCU will still have to absorb a reduced state allocation in FY 2012-13. In short, the federal stimulus package only delays the budget cuts that MnSCU will have to absorb.

The governor's latest budget proposal, which takes the federal stimulus package into account, calls for MnSCU's allocation to be reduced by 10.7% (\$146 million) in the 2012-2013 biennium. This proposal assumes that the State will not take action to increase state tax revenues. I understand that other budget proposals are taking shape in the Minnesota House and Senate, and that those call for somewhat less reduction to MnSCU's state allocation. At this point, however, it is too early to know which budget scenario will prevail. In any case, we are told to expect some reductions in our state allocation for the next two biennia (i.e., through the time period ending June 30, 2013).

Tuition

In order to maintain quality and access, MnSCU is tentatively projecting an *average tuition increase of 5% per year, and using some of the federal stimulus dollars to "buy down" part of the increase.* One option being discussed, for instance, would be to raise tuition by 5% but then use part of the federal stimulus package to provide students with scholarships worth 2% or 3% of that increase. This would enable to institutions to preserve quality and access while softening the effect on our students.

The MnSCU System and Board also recognize that some institutions have fallen behind in their tuition increases over the years. Metropolitan State's tuition, for example, lags more than 10% behind that of the other MnSCU universities. There are plans to present tuition increases in terms of actual dollar amounts, instead of percent increases, to enable the institutions to move toward greater parity.

The Governor is asking that tuition be frozen or capped, which would be very deleterious. There is widespread agreement, however, that we should not get into double-digit tuition increases as we did in the past.

Collective Bargaining

I congratulate both IFO and MSCF for their initiative and leadership in achieving early settlements of their labor contracts, and for their willingness to be a part of the solution to our current economic challenges. I hope and trust that our remaining contracts will be settled as amiably and as respectfully. Within MnSCU, *there are no plans, discussions, or indications of interest* in some of the more controversial concepts that have made their way into the newspapers. I deeply regret if these concepts – or talk of possible furloughs – have caused any anxiety or stress to our outstanding employees.

Construction Projects

Our Smart Classroom project is moving forward in the state legislature. It will replace the abandoned building between New Main and St. John's Hall.) The legislature has identified this project as "ready to bid within 30 days of approval." It has been approved by the State Senate, and we are optimistic that it will be passed yet this session and proceed toward immediate construction.

Our Law Enforcement and Criminal Justice Education Center is currently out to bid. We expect construction to begin in May. Unfortunately, we recently learned that the University's share of the cost to complete the facility will be \$2 million, double the amount we had anticipated. While this cost increase was unexpected, it is a one-time expense, and we will be able to cover the expense from the reserve funds we are working to accrue.

In FY09, we have two high-priority needs for one-time funds: completing the Law Enforcement Center and creating a reserve to cushion us against the allocation cut we expect in 2010. Consequently, I am asking the entire University community, effective immediately, to avoid or delay all possible hires and other expenditures

until July 1, 2009, in order to create an extra-large reserve. Remember that these funds are university savings, not cuts to our base budget. This reserve will remain with Metropolitan State University and will allow us to address our one-time construction cost increase and to minimize the impact of a FY10 cut to our allocation.

Building the Budget for FY 2010

We have begun the process of creating the University's budget for FY10. This work will be helped immensely by the painstaking work done by Vice President Murtuza Siddiqui and his colleagues in Finance & Administration to construct a thorough, printed University budget book for FY09. This document will serve as the basis for drafting our budget plans for the upcoming fiscal year. University leadership and the Planning and Budget Council began their work with assumptions that both our enrollments and our tuition would increase by 4% in the coming year. More recently, we have had to raise the tuition increase assumption to 5%. While we await final information about enrollments, tuition, state allocations, and the remaining union contracts, we are asking division heads to tentatively build their budgets for FY10.

We also plan to ask supervisors to trim their FY10 budgets by 2% in order to create a University strategic investment fund. This fund will give us increased flexibility during the year to handle unexpected emergencies or to invest in high-priority initiatives in the University Plan. These funds will remain with Metropolitan State University and will be reallocated back out to units or projects to enable us to preserve quality and access in uncertain times. Our base budget will remain unchanged by this action. This will also provide a mechanism by which we can accommodate some of the uncertainties that remain on the fiscal horizon. It will provide a cushion if our actual resources end up less than we anticipated, and it will provide a reallocation framework to accommodate growth or unanticipated needs.

In order to put the University's budget planning on a stable foundation, the FY10 budget will be developed in the context of plans for the next two biennia (2010-2013). MnSCU is asking us to be prepared, by the end of 2012 or 2013, to absorb the full 10.7% reduction in state allocation that was originally included in the Governor's budget proposal. We will be expected to report on how we will use federal stimulus funds as well as how we are going to transition to a reduced base allocation for FY12 and FY13.

While some of the financial information we would wish to have will not be available until near the end of this fiscal year, the planning scenario I have described is a prudent basis for preparing for a range of probable outcomes. I am pleased that the University Planning and Budget Council has endorsed this planning scenario.

CONCLUSION

Metropolitan State University is entering into a very exciting era. Although we are in a relatively healthy financial position at the moment, we nonetheless face a challenging and uncertain economic environment. Our enrollments continue to grow, as do those at the metro area two-year institutions who provide us with transfer students. Our challenge is to serve growing numbers of students with the quality and personal attention they expect from Metropolitan State University. The current economic recession will constrain our growth in the near-term, but the demand for our high-quality programs will be long-term and will continue after the economy recovers.

By being extremely economical in our use of resources for the remainder of FY09, we can build a reserve that will allow us to complete our current construction project. This reserve will also help cushion us against the allocation reduction in FY10. As we build a budget for FY10, reserving 2% of our resources for a strategic investment/contingency fund will further protect us from 2010 reductions, or, we hope, will allow us to

strategically expand our instructional capacity as we learn more about the growth in demand over the course of the year.

As I mentioned in my February 18th message, we already are pursuing many cost-containment measures, and we continue to look for new opportunities to reduce costs, achieve greater efficiencies, and generate new revenues. Our web-based Budget Conservation Forum remains open, and I encourage many more colleagues to visit it and to share specific ideas for conserving or increasing our resources. I also invite all members of the University community to join together in the cost-avoidance strategies that will enable us to maintain a strong financial position and to continue the growth trajectory that is available to us in the years ahead.

I will continue to issue periodic updates as additional information becomes available. Thank you.