

Budget Briefing

Dec. 10, 2014

Library Building, Room 148

Chancellor Mark Nook

First of all, welcome to what is likely to be a series of conversations around our budgets of the coming year. On Monday all of you received some information on our budget.

We are giving some information to you on our budget today.

We've provided some information to the press so they can get this story out as well and help the conversation get started.

Before I go too far in the line, I want to introduce to you some people that are really critical in the discussions we are going to have in putting the budgets together. Terrie Iverson, our vice chancellor of administrative affairs, and Trudy Collins, our budget director.

And in addition to that we have two individuals that are leading the university budget committee—Barb Wheeling in the College of Business and Francisco Saldivar who is out at City College, who is giving a final at this moment.

He will join the group that meets out there about an hour and a half.

We are going to use the university budget committee in a very critical way we'll talk about that a little bit.

First I'm glad to see you all here— this is a big issue, as all of you know. We are looking at a 10% gap between the revenues that we have and the expenses that we currently have as we move into the next year.

All of this is about next year's budget.

To be able to solve that we are all going to have to work on this collectively. It's not going to be something that I can make a decision about sitting at the top. I could but I think that that would be extremely inappropriate.

Also we should understand that we are extremely early. Right now we know what the gap is that's all we know. We don't know and we don't have a plan for how we are going to close that gap.

We are starting this conversation much earlier than we've ever started a budget conversation on this campus.

University Budget Committee is generally pulled together in February. We pulled the University Budget committee in September late September early October for the first time.

One, to deal with a \$900,000 gap that was left in the current year's budget. We worked through that and found a solution and now we are starting to work on the next budget.

We have the governor's budget proposal out there and from that we can start to make estimates about how much funds we might receive from the state.

What our tuition might be and we're at the place to start estimating where our enrollments are and get all of this put together.

And so I need everyone on this campus. We all need to engage in a conversation on how we solve this gap between our revenue, our estimated revenues and our estimated expenditures.

These numbers are going to change over time. These are now our best estimates. Might they go up and we have a bigger gap, yes. Might they go down, yes we may have a smaller gap.

But right now what we have to work on and start to plan for is what we have now and then continue to just iterate until it becomes clear exactly what we are going to get and exactly what our student enrollment is.

We won't have our final budget put together until late into May maybe early June depending on legislative agenda.

We will be back, we'll be getting together again in the spring.

We may have to get together in the summer as well once we finalize this budget.

Everyone will be informed on what is going on and everyone will be involved in the conversations as we move forward. As we work towards solving this budget gap, finding that solution.

The university is going to work off of four principles that we've discussed with you. University budget committee that we discussed at cabinet and those are right up behind me.

I want to emphasize the first one, first and foremost we must look at the impact to our students.

That however we go about this, we must keep in mind that our mission is to serve our students and make sure that we do everything we can to meet their education, professional, and personal life goals.

Through the courses we offer, through the programs we offer, through the services we offer, through everything we do on this campus. We have to keep that in mind first.

Without that, let's just close the doors. We got to first focus on our students.

Following that are three other principles:

Two of them are pretty straightforward and should be on any university campus.

We are going to respect the shared governance process on this campus. Shared governance is essential to the way public higher education works.

We are going to engage the academic senate we are going to engage the staff senate and we will engage the student senate, some of the members are here with us today.

We are also going to, by law, but by first principle also respect all the contracts that we have. Those are negotiated, those are legal documents. We are going to follow and respect those documents.

As we do this and really growing out of that shared governance model and commitment to shared governance.

We are going to engage and communicate with everybody on this campus you all need to evolve.

This is the first of those the starting with mandate of letting you know what we do about the budget how big that gap was. And we'll continue to have these conversations.

We know that we discussed in various departmental meetings, business meetings, dean's meeting and all sorts of meetings across campus.

We will be using what we see critically, what we will see in the years to come, we have put together a representative office, so you will have somebody to talk to, faculty on there, staff on there, people from senate, students on there as well.

You'll be able to use those people to have a more concrete discussion with things through that as well.

Finally I've been asked a lot about how we do this and I think it's important that we make strategic decisions

By strategic I mean not everyone is going to get a 10% across the board reduction, I don't like across the board reductions for a couple of reasons:

One they are not fair to that first principle, First principle making sure we don't harm our students. If we take a program whether it's an academic affairs or student affairs or administrative affairs it doesn't matter, an athletics. And that program is growing and it doesn't have the services it needs to meet the students' needs, then cut it by 10% we have done a great damage to those students.

If we have another program that is overstaffed and enrollment is falling and has been falling for a long time and we have them the same level of cut, it hasn't impacted or it may not impact our students at all.

So out of that first principle grows this last one.

Secondly on this is we won't be opportunistic. And this for exactly the same reason.

By opportunistic I mean if someone retires we don't simply hold that position open because it's an opportunity at that place

Again if that program is already struggling and somebody retires or resigns and we don't fill that position we violate our first principle.

We can't afford to do that for our students, for our commitments, to the mission of this university.

So we will make cuts in a strategic way. Where we see growth we need to make some investments.

Where do we see some places where we are able to make some cuts without impacts a lot of our services to our students.

Let's look just a little bit at the budget.

Most of what you're going to see up here is our 2015 budget fiscal year 2015 numbers.

Using the numbers that are in the budget we've put together for this year is the budget upon which the transition will be made all of the expenditures are off of moving these forward. And that's where the gap comes from.

Our revenue is not going to be anywhere for this year we've got a gap if we keep going using this expense line. So in our budget what I've put up here is our entire budget. It's an 85 million dollar budget.

It includes about 51 percent in general operating, the blue section. The section on the right and then these smaller pieces designated auxiliaries, plant and restricted.

What we're going to be talking about is all in the general operating that 43.3 million dollar budget. And what we see is that there is a gap of 4.4 million in just that blue section.

We're in the process of looking at these others.

The designated and the auxiliaries are two other budgets that are also impacted pretty significantly or can be significantly impacted by enrollments.

So we need to be concerned about those.

The general operating budget though is the one budget that stretches entirely across our university. This budget just about all sizes.

The auxiliaries of the designated don't have quite that reach.

So we're focusing in on it first.

We're the sources of revenue into that budget and there really there's several but there is really only two and they go up and down. There's the state appropriation. The money that the state legislature gives to the Montana University System that then gets filtered to the University of Montana and Montana State University.

And from there it is distributed to the individual campuses and all our prep portion of that comes from about 50 percent of our general operating budget.

The other major source of revenue in our budget general operating budget is tuition.

That's the blue side here it's 47.6 and those are tuitions and fees that stay in general operating.

Many of the fees end up in your auxiliaries or designated and this is mostly tuition.

And then there are a few other things that make up a tiny, tiny fraction of about 2, 2.5 percent of our budgets.

Now why do we have this issue?

Many of you have read the paper or seen the news reports. The papers have said 10 percent decline in enrollment. That's in our head count.

We're funded though off of what we call our full time equivalent enrollment and that's in essence take all the credits that students take and divide it by 15 and that will tell you how many full time equivalent students we have. We're paid out of those.

That's what our enrollment that's what our budget comes from that's where the tuition goes that's where the state of appropriations term is, ok, is off of those enrollments.

We're going to take a look at our enrollments.

Along the bottom there you can see the numbers.

The red and the green line are enrollments for non-resident students and these WUE students for those of you especially that are new the WUE is the Western Undergraduate Exchange.

It's an agreement that several states in the west have about being able to have students from Montana go to these other western states and students from those states come here at a reduced tuition.

It's about 50 percent higher than our resident rate it's beginning to be lower than mine was.

The non-residents are paying about three times what our students pay.

The residents are the ones we really need to pay attention to and notice that they dropped off significantly from 2011 they've dropped off by almost 17 percent from 2011. They are our primary source of tuition they are also the only number upon which our state politicians count.

They are primary so as they fall off we get hit in both tuition and we get hit significantly in our state appropriation.

In that formula it works its way down to us.

The state doesn't really use an enrollment formula to hand us money.

It has a chunk over there but then as it gets divided to the two university systems U of M and MSU and gets that handout for campuses resident enrollment is what's important.

And they use a three-year rolling average of that enrollment.

We have crossed our high point and our rolling average is down on dropping numbers that's why it's becoming critical.

What's happening to our staff and what's happening on the revenue side I think this is a surprise but on these numbers and I'm going to be careful about these to make sure everybody understands them the contract faculty FTE is anybody that's hired to teach a course.

So it is our tenured faculty, our tenured track faculty, our part time faculty we figure out what the equivalent FTE is to get that number.

Contract admin and professional FTE are classified to receive the numbers all of them growing.

A couple of people see it quickly so I'll play it out right here it looks like we lost a bunch and gained a bunch.

This is the 6 FTE that were in the academic success center several moved from professional staff to faculty at City College this is the 6 FTE that's why I move whatever happens there.

But you can see that for all of our employment classes employee classes while our student body has been declining our staff has been increasing.

To look then at what has happened with our ratios of students to various employee types.

On the top is student to contact administrators.

The purple line here is the students to classified, students to faculty, students to total.

All of these show a decrease from 2011.

Again this little blip up is due to that transition to the 6 staff the 6 that are now faculty.

So how does all this work out in terms of our budget.

Where is the \$4.4 million.

So let me turn around here.

Estimated tuition revenue reduction.

So it was about a 1.15 million because we dropped students and that's from last year to this year.

We've got an estimated state support reduction due to the enrollment decline that happened here.

Estimated support reduction our performance based funding next year it looks like 10 percent of our budget will be based on performance based funding.

It's a little different for City College than it is for us on the main campus for the main campus I should say us, it's us everywhere right, City College Campus and the Main Campus.

On both campuses, one of the most significant factors is degree completion.

We're seeing our numbers of enrollments go down we're seeing our numbers of completers go down.

The other one on most campuses is retention, and our numbers have slipped there as well.

That is one of the reasons both of those are reasons that at the opening convocation I requested that we start the student success committee.

That committee has been named.

We're trying to get the time to get them together before the holiday break get them charged get them going.

Because we have to work on completions we have to work on not just on retentions for first and second year but how we keep them here also how we remove them.

Then the other one is how base budget expenditure increases due to an enrollment reserve.

Every year of that budget we put a slider an amount of money to say ok we have to estimate our budget revenues.

It means we have to estimate how many students we have coming how much tuition we're going to collect.

But there's a shot we won't be right so we put a little cushion in the budget and say we're going to reserve some money in case we miss then we can use it.

This year we had 900,000 behind this fall we went into that enrollment reserve and we had 490,000 in there so it got over half of it taken care of but that still mean we had to find another 410,000 dollars.

We've looked at and have Michael Barber estimated what our enrollment will be next year. It's going to be down about fifty FTE is the best estimate we can make on it.

That line is also suggesting that there's another plus or minus 50 FTE on that.

Now it sounds funny right but think about it we're estimating its down fifty we're talking about 3900 plus or minus 150 not fifty plus or minus 150 We're better than that.

But we're at 3,900 plus or minus 150.

So what we've done is to set up that's what the extra 300,000 comes for from is to set up an enrollment reserve that will cover that.

Now that money is in our budget.

If we hit the 3900 FTE students that we have planned we will have those dollars to use ok, we will have those dollars to use.

They are one-time dollars but we will have them to use.

So what we have in there are a normal reserve of when we see a budget we will say a million dollars there's actually about 700,000 a little over 700,000 about 750,000 that is true bulk reserve.

We put a few other things in there to help out especially disability services because their budget can swing greatly if we have student who is totally blind or depending on the number of deaf students things like that.

So we use the enrollment reserves as a place to hold some dollars for that they become available to us if we need them.

If we don't have the need if the student need isn't there for it.

So moving forward how do we progress.

So at the moment we have all the Vice Chancellors and the athletic director looking at their budgets and following those four principals to find where they can come up with the priorities, the programs, the cuts that can allow us to find 10 percent of our 4.4 million.

I think all of them though they're share will change and it might not be ten might be the region around there we will get together with UVC work with the exec department committee work with the cabinet to come up with final decisions once we really know this budget.

We are going to have to make some personnel decisions relatively soon because of the way contracts are written.

It is going to take some hard work on our part and we are going to have to make some real hard cut decisions about where we will take this university in the future.

The immediate future is one year but I think we need to be thinking much longer than that. We are a university that thought of ourselves as an institution of about 5000 to 6000 students.

We have come down a long ways from that.

And while we're going to work hard to try and increase the revenues to bring in as many students as we can that are qualified to be here.

That can be successful when they get here.

We have to we know that there are pressures out there because we've hit the bottom now of the number of students coming out of high school.

We've rolled over and we're at the bottom and it doesn't recover quickly it stays flat and low for a while.

So the odds of us increasing greatly in those students is small but it's what we need to be aggressive about addressing.

We need to be aggressive about transfer students we need to be aggressive about non-traditional students.

But those are things that right now we can't control.

Our estimate on enrollment is the best estimate we can make so we can put a budget together.

If we beat that number we have dollars to work with right now we can't plan on it.

One thing we can control at this point are expenses. So we have to work on the expense side.

We need people working to enroll as many students as possible, but from a budget perspective the revenues move and we'll adjust the expenses accordingly.

Thank you for coming and for engaging.

Questions:

Q. What do you think is driving enrollment numbers down?

A. I think there are two things we've been able to isolate. One is we've seen over the last several years this peak in the number of students coming out of school. But it's been falling now for quite some time. I think it peaked at about 2008 in the State of Montana, but it's been falling since then. It's continued to fall and we've hit the bottom this year.

The other thing we've seen in our enrollment is it's been absolutely following our unemployment rate in Billings. We've had a really hot economy. 18-year-old men in Bismarck can make \$55,000 or \$65,000 if they're willing to stand out and freeze on an oil rig. And at 18, they're all willing to do that.

Looking at national and generational trends and enrollment statistics, as the economy in the country is hot, university enrollment tends to lag. And as that unemployment gets high people return to college—they don't have jobs and need to improve their skills and try to get a better job when the economy starts to improve.

So, those are the two biggest pressures I think we've got going. I think what's important for us during this time to focus on our academic and service priorities. We need to make sure we've got the programs students want to be engaged in and that when they leave here, they're able to find professions and jobs. And I think we've got some good data in our academic prioritization that will help us sort through some of that.

Comment: I came in feeling like I was going to be upset. But I think what you're doing here is great. It all makes much more sense. I feel calm. I think this is a plan we all can live with and I appreciate you involving us in this process.

Nook: Thank you. I think it's important. As I said, principal #2 is shared governance. We are a public higher education institution. We make decisions together. It doesn't mean faculty decides on everything, or administration decides on everything. But, there are important things that faculty must address. There are important things Staff Senate must address. And there are important things Student Senate must address. And there are important things administration must handle. But, we can't handle these issues if we're not all talking. We'll try to engage everybody in the entirety of this conversation. Not doing so makes this a lot harder for everybody. I try to be completely open. We are making a lot of detailed information available to the Budget Committee. We don't have any problem sharing that with everyone, but it really gets down into the weeds. But, I think the Budget Committee needs to get down into the weeds.

Q. We've heard a lot over the Years from President Cruzado that we are One University System and that's what she wants us to be. Is there any indication that President Cruzado will step up and help us out a little bit?

A. We're too early to know that. We're too early to know that realistically. She and I've talked about this, she knows our numbers and she knows why it's come about. We'll be working especially with Terry Liest a little bit more. Is it a possibility? Perhaps. I haven't asked her because I don't think it's appropriate at this time.

I'm a person that would like to see us and the organizations we are a part of handle it. This is not an issue MSU created for us. It's one that we found ourselves in. We have to work our

way through it. Might I approach her, it might be about some transition funds and how we might be able to make this happen over a year or two. We do have a little rainy day fund, but we'd like to have some funds to help, one-time money, transition funds. It is a possibility.

Q. What work is being done in recruitment and showing non-traditional students in the job force what programs we have to offer them?

A. Quite frankly, while we are down in enrollment this year by 170 FTE, we have a larger incoming class than we did last year. So we are doing pretty good at the recruitment cycle. The problem with the Bakken, etc. our employment is under 3 %. So, jobs are available. We surveyed the 2013 class, 70% responded. 97% were employed, 55% employed right here in Billings.

The highest paid of our new graduates our welders. Second is liberal studies. Nobody expects that. But, it's because most of those majors are students working downtown. Those are things we need to keep in mind. It's a great way to recruit the older students.

Q. Will the budget issue have an impact on our efforts for a new science (and allied health professions) building?

A. Our budget isn't directly tied to that. However, the news that we are slipping in enrollments and have budget issues will make some donors think a little bit harder to donating to the building. We will have to work at it a bit harder. They might ask, is this a healthy institution?

Q. What can we do as students to help the situation?

A. What we need students, faculty and staff to do is to look seriously and critically at the programs we work with and associate with academic and across the board and ask what are the things that are high priority—essential to who we are to what we want to be and what we need to be in 10 years from now?

I think the really important thing for students is to look at where we need key programs to serve the workforce? Where are the skills sets this economy and region needs because 55% of graduates stay right here in Billings, and 88% are staying in Montana. And maybe a fraction of them just South of us in Wyoming. We are dealing with local students and we are training the future leaders and professions and laborers of this region and our state. We need to be in tune with our majors and graduates affect our quality of life. If we don't have them trained for jobs and careers here, they won't contribute to our quality of life.

Q. Timeline? When will these decisions be made?

A. Ultimately we need to have our budget done in May, to the Office of the Commissioner and the Board of Regents have to approve it in September. We have to have it ready in May. And that is about the time we'll know what the state will give us, what our share will be. We'll still be estimating what our enrollment will be for next year, hence what our tuition revenue. But, we'll mark it down as the budget about that time. As we look at the potential for personnel reductions, there are some notices that have to go out January through March, will need to have some idea in about a month to month and half. Some later. WE do have some rainy day funds that can help us with the transition, but it can't carry us for the whole \$4.4 million.