UMD’s Structural Imbalance and Cash Balance Deficit
Proposed Plan for Resolution
02/12/2016

UMD has a significant structural budget deficit that must be systematically addressed within the context of the campus Strategic Plan and our shared governance system. UMD’s recurring structural imbalance is $4.3 million. That is, the University’s Expenditure Budget exceeds its Revenue Budget by $4.3 million. For the next two fiscal years (2016-17 and 2017-18) the University of Minnesota Chief Financial Officer is allocating one-time funds of $1 million each year, to help the campus deal with the imbalance, effectively bringing it to $3.3 million for those two years. On June 30, 2015, UMD had a deficit cash balance of $4.6 million which will increase by the negative balance remaining from the 2015-16 structural imbalance.

UMD is proposing a framework of six actions that will simultaneously eliminate both the recurring and one-time deficits while fulfilling its mission and moving toward its vision of becoming a premier comprehensive university. Each of these actions will be undertaken with faculty, staff, students, and administration fulfilling their respective roles within the campus shared governance and collective bargaining systems. Addressing the major budget deficits we currently face presents significant challenges, but members of our campus community will strive to cooperatively undertake the following budget-balancing actions while continuing to provide quality teaching and learning, relevant research and scholarship, and constructive public engagement for the people of Minnesota and the region.

1. “Required Savings” Budget Process
   A permanent implementation of a “Required Savings” concept will begin on July 1, 2016 to address the recurring structural imbalance. With “Required Savings” each campus unit (with exemptions for budget areas such as utilities, student financial aid, police) would be allocated an O&M target amount in the form of a recurring negative budget amount beginning in 2016-17 that would have to be balanced by June 30 of each year, using unspent lapsed personnel funds or unspent SE&E balances. Units would have the option of buying down the “Required Savings” amount by making a permanent allocation transfer. With a “Required Savings” O&M target of say 1%, the recurring campus-wide savings could be more than $1 million.

2. Academic Administrative Restructuring
   A reassessment of the campus’ academic administrative structure is underway working with the Strategic Planning and Budget Committee, Faculty Council, Staff Council, Student Association, and the Chancellor’s Senior Leadership Council. This review is focused on the current five school/college configuration, to determine if a more streamlined structure of three schools/colleges would not only allow for expense budget reductions and increased operational efficiencies but also enhance and encourage more interdisciplinary programs and research endeavors. The senior leadership will work with the Deans to put forward multiple scenarios for review and recommendation by a task force of faculty members coordinated by the EVCAA. A task force of college staff will be established to focus on the staffing logistics and structure to support the framework
coordinated by the VCFO and EVCAA. Task group members will be selected by the Chancellor. Recommendations from both committees will be forwarded to the Chancellor. The intent will be to have ongoing campus discussions and to have the draft framework of the restructure in place prior to the end of the 2015-2016 academic year with details worked out over the 2016-2017 academic year. Full implementation is planned during fiscal year 2017-2018. Administrative restructuring is expected to occur over the next two to three years and will result in recurring savings of approximately $1 million.

3. Academic Program and Course Offering Optimization

Simultaneously with the academic administrative restructuring, the EVCAA will lead a detailed assessment of academic programs and course offerings to establish a consolidated portfolio of high quality programs to serve students. Programs will be prioritized based on UMD strategic priorities, enrollment of majors in the degree, contribution to the liberal education mission and support of interdisciplinary programs. Some degree programs will be eliminated and some will be combined with other programs (utilizing tracks rather than separate degrees) with a focus on student experience and operational efficiency. Courses serving a threshold population of students in other majors will remain even if the corresponding degree program does not. A large number of courses with small enrollment are anticipated to be reduced. Additionally, in conjunction with the college restructure mentioned in item 2, degree programs will be clustered into departments with faculty FTE above 15 (and preferably between 20-30 FTE) as appropriate. Once the new structure is in place, enrollment goals will be implemented and recurring budgets will be adjusted to match resource requirements that are consistent with those goals. All current students will be accommodated to finish their degree. The anticipated result is to generate recurring budget savings of approximately $1 million through reduction in term faculty, staff and administrative appointments including non-replacement of lines in reduced or eliminated programs by fiscal year 2017-2018.

4. Targeted Reductions, Tuition and Revenue Generation

UMD will continue conducting a thorough review of its O&M budget allocations in all vice chancellor and chancellor units to determine where additional service reductions or eliminations could occur with the least adverse impact on Strategic Plan priorities. These actions will build on the campus Program Prioritization process that occurred in 2013-2014 and resulted in several budget reductions in these units over the past two years. For the 2015-2016 fiscal year, over $2.2 million was reduced from these areas. Those previous reductions will be taken into consideration before additional cuts are made. Where it is feasible, additional reductions will begin during 2016-2017. Units that will not be included in reductions include the UMD police department, financial aid, utilities, and the library. In addition, this review will assess the potential for shifting funding sources, or generating revenue by charging for space use or services. The target reduction (including additional generated revenue) for this item is $300,000. We believe this aggressive plan outlined in steps 1-4 of this document along with the $1 million allocation from the system being made permanent will eliminate the $4.3 million
recurring deficit by fiscal year 2018-19.

5. Enrollment Growth and Reinvestment
   In conjunction with the above actions, UMD will strive to grow enrollment in academic areas of high demand that are currently limited by availability of instructional and facility resources. This initiative is not intended to save budget resources but rather to increase revenues through enrollment growth and improved retention, new program directions that are consistent with the Strategic Plan, and expanding distance education and technology-aided instructional offerings as applicable. The revenue generated through this increased enrollment would be used to support those initiatives, to support new programs that respond to identified needs, and to bolster tuition revenue.

6. Deficit Reduction and Investment Fund Transfer (DRIFT)
   Given that our accumulated cash balance deficit will continue to grow to approximately $10-12 million as we implement the above-listed action items, we will reduce this cash balance deficit through the creation of a Deficit Reduction and Investment Fund Transfer (DRIFT) program. No later than June 30, 2019, units will be allowed and encouraged to retain 75% of any annual growth in their O&M carryforward balances. The remaining 25% of the growth would be transferred centrally to be used to retire the accumulated cash balance deficit and, eventually, to create a campus level reserve. This reserve would allow the Chancellor to invest in non-recurring campus initiatives. With the DRIFT program in place, we anticipate that the cash balance deficit could be eliminated in 5 - 7 years following the elimination of the recurring structural imbalance.

The exact process for these actions will be finalized within the context of shared governance and collective bargaining on campus. The amount of savings and revenue cited for each action is approximate and final amounts may change based on experience during this evolving process.