

Advancing the Excellence of the University of Minnesota

Report of the Future Financial Resources Task Force

October 8, 2009



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Future Financial Resources Task Force: Context

The New Normal:

- “Why now? Because a **convergence of economic, demographic and global challenges will push the University into mediocrity** if we do not anticipate and get ahead of them.”

“The U’s Quest for Excellence,” Sullivan and Jones, April 2005

- “Shifting finances, changing demographics, global competition, and increased accountability—these are the new realities that we will continue to face even after the economy stabilizes. They are not insurmountable, **provided the University emerges strong from its current challenges.**”

“New Realities, Renewed Urgency,” Bruininks, March 2009



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Future Financial Resources Task Force: Charge

The Challenge:

*What will it take to finance the future of the University,
and how can we achieve it?*

- A long-term financial model with core principles, assumptions and recommendations to maximize resources, efficiency and productivity;
- Assumptions, principles and incentives to strengthen the University's academic excellence and financial health;
- Methodological strategies for modeling and managing potential budgetary scenarios;
- Strategies for managing potential cost reductions and likely cost increases, including strategies for internal and external communication to strengthen public confidence;
- Recommendations to strengthen budgeting, reducing overhead and ensuring creativity in managing and growing resources to achieve and support academic excellence, productivity and impact.



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Future Financial Resources Task Force

Richard Pfitzenreuter, Vice President and CFO for Budget and Finance (co-chair)

Steven Rosenstone, Vice President for Scholarly and Cultural Affairs (co-chair)

Jordan Bronston, Student Representative to the Board of Regents

Susan Cable, Chair, Civil Service Committee

Carol Carrier, Vice President for Human Resources

Charles Casey, Chancellor, University of Minnesota Crookston

Frank Cerra, Senior Vice President for Health Sciences

John Finnegan, Dean, School of Public Health, and Chair, Twin Cities Dean's Council

Amber Peifer Fox, Senator, Council of Academic Professionals and Administrators

Patricia Franklin, Associate to the Vice President and Chief of Staff, Office of the President

Steven Goldstein, President and CEO, University of Minnesota Foundation

Robert Jones, Senior Vice President for System Academic Administration

Jay Kiedrowski, Senior Fellow, Hubert H. Humphrey Institute of Public Affairs

Kjell Knudsen, Dean, UMD Labovitz School of Business and Economics

Kristi Kremers, President, Graduate and Professional Student Assembly

Judith Martin, Chair, University Senate Finance and Planning Committee

Tim Mulcahy, Vice President for Research

Kathleen O'Brien, Vice President for University Services

E. Thomas Sullivan, Senior Vice President for Academic Affairs and Provost

Lincoln Kallsen, Director, Office of Budget and Finance

Beth Nunnally, Chief Financial Officer, Academic Health Center

Julie Tonneson, Director, Office of Budget and Finance



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The University of Minnesota's New Fiscal Reality

1. There has been a dramatic and permanent reset of the University's sources of revenue: the share of the U's budget provided by the State of Minnesota has dropped precipitously.
2. Tuition now exceeds state support as the University's largest revenue stream and tuition will likely be the University's largest source of revenue in the future.
3. Operating costs, the cost of academic excellence, and the University's appetite for new academic investments are now rising faster than revenue.
4. Over the years ahead, the University of Minnesota will face even steeper competition for students, faculty, and research grants.



Strategies to Advance the Excellence of the University of Minnesota in Light of the New Fiscal Reality

1. Grow a larger and more diversified portfolio of revenues.
2. Grow tuition revenue while ensuring financial access for qualified students from families with modest financial means.
3. Substantially increase administrative and academic effectiveness, reduce costs, and boost efficiency.
4. Narrow the scope of the University's mission to advance a distinctive constellation of excellence.
5. Develop and execute long-term financial plans and budget and planning processes that advance the vision, inform decision making, track progress, and discipline the setting of priorities.



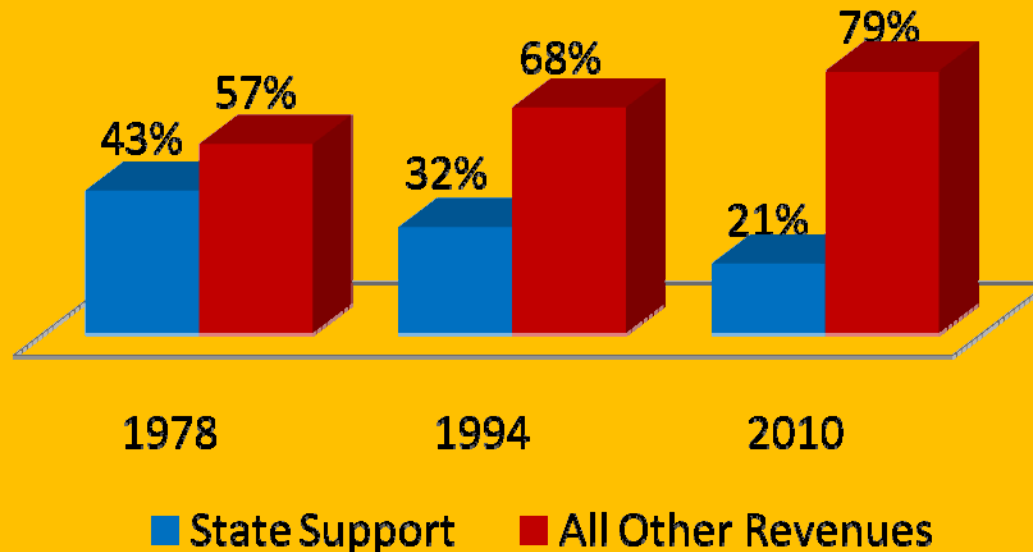
The University of Minnesota's New Fiscal Reality



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1. There has been a dramatic and permanent reset of the University's revenues



- The share of the University's budget provided by the State of Minnesota has dropped precipitously.
- *Unrestricted* state appropriations comprise only 18% of the University's FY 2010 budget.

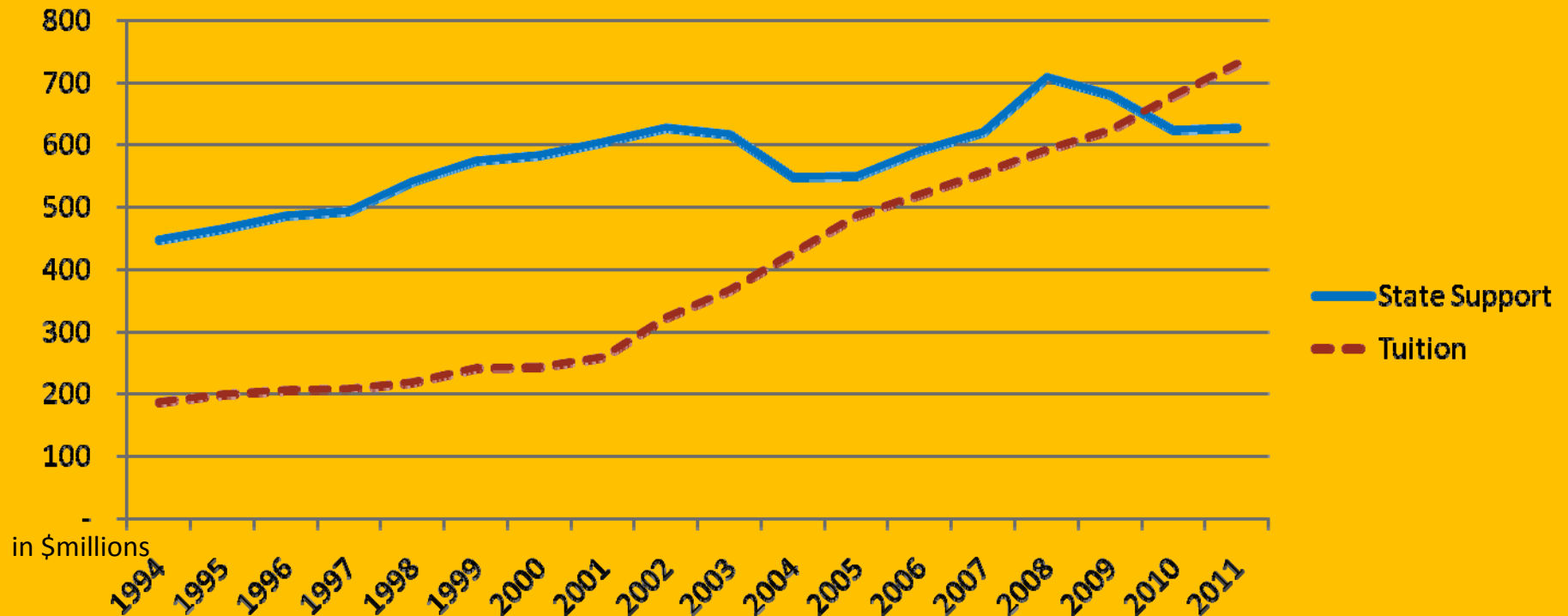


Over the decades ahead, state support may not grow at even the modest historical 2.2% average annual rate.

The share of the University's budget funded by the State of Minnesota will continue to decline.



2. Tuition now exceeds state support as the University's largest revenue stream.



Tuition has grown from 15% of the University's budget in 1994 to 26% of the budget in FY 2010. In the future, tuition will continue to be the University's largest source of revenue.



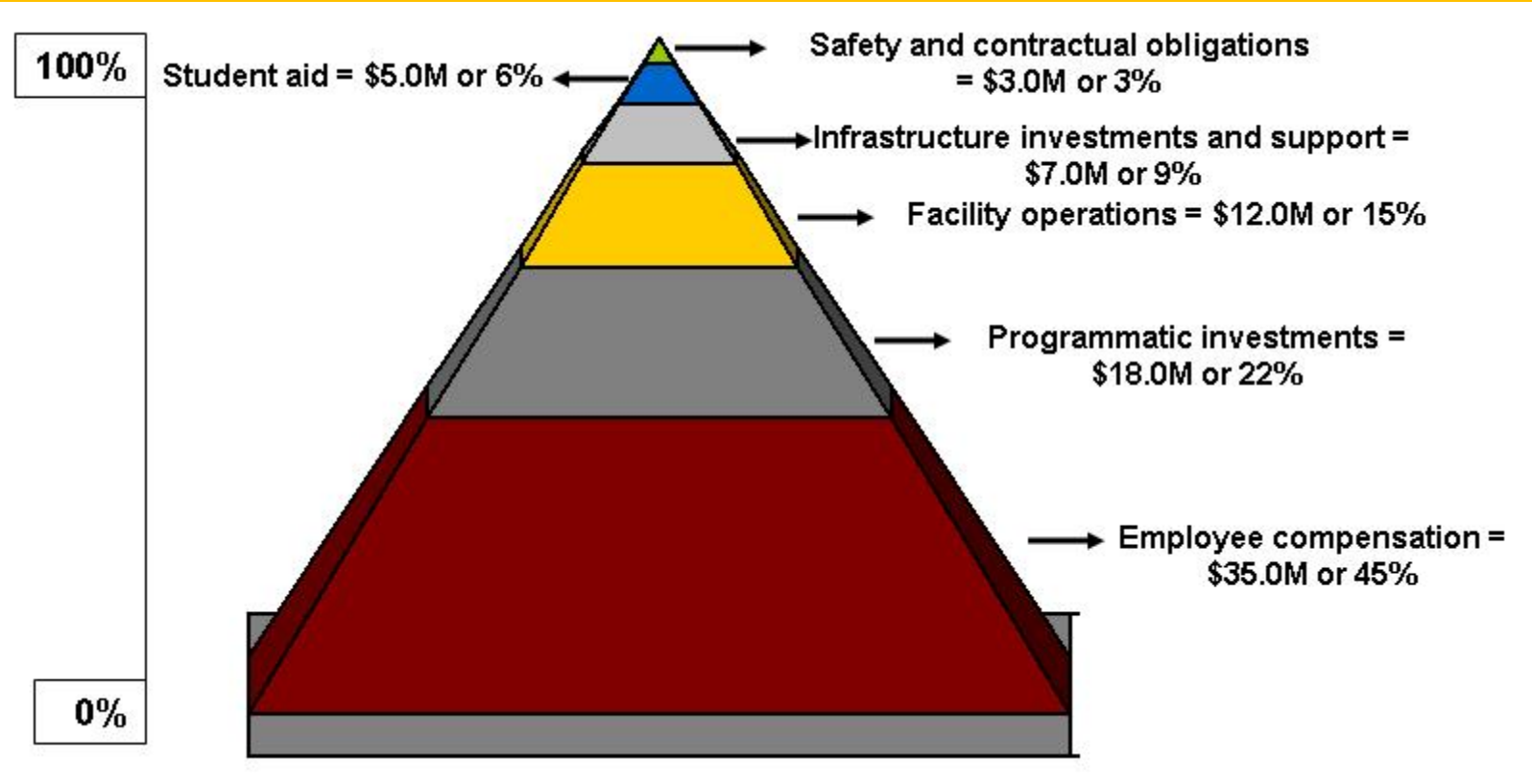
3. Operating costs, the cost of academic excellence, and the University's appetite for new academic investments are now rising faster than revenues.

- These rising costs result from the increased demand for personnel, space, technology, support services, and scholarships, etc. as well as inflationary cost increases.
- Just to meet *incremental* costs and fund a modest level of academic investment, the University has historically needed an incremental \$80 million recurring each year.



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- In addition, the initiatives that have emerged from the strategic positioning process require an incremental \$400 million to \$600 million in new and/or reallocated recurring resources.
- The University's compact with the State of Minnesota to prepare the next generation of leaders in health and other professions is at risk. For example, at the same time the state needs more doctors, nurses, pharmacists and dentists to care for an aging population, the resources from the state and from patient care are diminishing.



4. Over the years ahead, the University of Minnesota will face even steeper competition for students, faculty and research grants.

- The growing excellence of the University of Minnesota means that we now compete with better public and private institutions, but our competitors are also getting stronger and their resources are growing.
- Competition for top faculty will intensify as the baby boom generation retires from the academy over the next decade.
- The number of high school graduates will decline over the next decade, not only in Minnesota, but also in neighboring states. High school graduates will also be substantially more diverse. Competition for top students will intensify.
- The gap between resources available to top private and public institutions will continue to grow, intensifying competition for top students, top faculty, and research grants.



The shift in revenues, rising costs, and increased competition are enormous challenges that require a paradigm reset in our academic and financial strategies for the future. The challenges demand a new portfolio of academic, fiscal, administrative, and planning strategies as well as sharper incentives to advance the excellence of the University of Minnesota.



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**Strategies to Advance the Excellence
of the University of Minnesota
in Light of the
New Fiscal Reality**



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1. Grow a larger and more diversified portfolio of revenues.

State Support

- Forge a “new covenant” with the State of Minnesota that clearly articulates the long-term rationale and responsibilities of the state to support teaching, research, and outreach.

Private Giving

- Increase annual giving, unrestricted gifts, and major gifts that advance academic priorities.

Indirect Cost Recovery

- Do not voluntarily reduce ICR rates below negotiated rates; negotiate for rates more consistent with the true indirect costs.



Intellectual Property

- Invest in the Office of Technology Commercialization consistent with ROI; cover costs before distributions of royalties are made.

Real Estate Development

- Implement a long-term plan for the best use / best value of properties to meet mission critical teaching, research, and outreach and ensure effective monetization of assets.



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These new revenues are important, but together they will not be sufficient to replace the loss of state support, meet rising costs, fund the University's broad strategic positioning agenda, or ensure the excellence of the University of Minnesota.



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2. Grow tuition revenue while ensuring financial access for qualified students from families of modest financial means.

Tuition is the revenue stream with the highest potential for significant, long-term growth. It will need to grow at an annual rate of \$35 million to \$40 million (in current dollars) to meet even half of the expected incremental annual increase in costs.



Strategies to grow tuition revenue

- Continue to advance the quality and reputation of U of M education.
- Clarify what's distinctive about a University of Minnesota education.
- Develop a long-term tuition and financial aid model that ensures financial access to qualified Minnesota students and from families with modest financial means.
- Strategically manage undergraduate, graduate, and professional enrollments across the University system.
- Improve the U's relationship with and ability to serve diverse populations.
- Enhance collaboration with K-12 and MnSCU institutions to ensure diverse pipeline of students who aspire to attend the University.



Potential constraints on tuition revenue

- Ability of students and families to afford tuition and their ability to borrow more to finance their educations.
- Morris, Crookston, and Duluth are already priced beyond market.
- The number of high school graduates from Minnesota and neighboring states will decline over the next decade.
- Politics.
- The quality, reputation, and distinctiveness of the University's academic programs and student experience have dramatically improved, but still lag behind the very best universities.
- Additional investment needs to be made in scholarships, recruitment, and improvements in the quality and reputation of academic programs and the student experience.
- The reciprocity agreements significantly limit the U's tuition revenue.
- Our campuses are a long distance from other major population centers making it difficult to attract non-resident students.



Tuition Policy Questions

- What is the University's long-term tuition and financial aid strategy?
- What is the "correct" number of students? Should headcount increase?
- Should the University withdraw from the tuition reciprocity agreements?
- Should we serve more undergraduate students beyond Minnesota and the reciprocity states?
- Should the University continue to move to higher tuition with higher levels of financial aid for undergraduates of modest financial means?
- Should resident undergraduate tuition rates vary significantly across our campuses?
- Should the tuition rate for professional schools be set at market level?
- Should there be resident rates for all graduate and professional programs? Should they all receive state support?



3. Substantially increase administrative and academic effectiveness, reduce costs, and boost efficiency.

Continue current efficiency initiatives

- Focus on the major cost drivers: personnel and benefits, space utilization, capital investment, information technology, and research infrastructure.

Create more powerful incentives

- Create explicit and consistent incentives in the internal budget and increase user influence over the cost and quality of services.

Increase coordination and collaboration

- Increase standardization, enterprise solutions.
- Strengthen coordination among U-level operational units.
- Increase collaboration with other colleges and universities in Minnesota, in neighboring states, and in the CIC.



Reduce cost structures

- Discontinue activities that are not core University competencies.
- Decide which activities are best done locally, which are best coordinated across units, and which are best performed at the college, campus or system level.
- Simplify degree programs, reduce time to degree, and implement innovative, effective, and more cost-efficient models of learning.
- Simplify systems and processes.
- Make better use of existing fixed-costs assets, such as space.

Continue to build a culture of innovation, effectiveness, service, efficiency, and productivity

- Everyone must understand the impact of choices on quality and effectiveness, costs and revenues, and service to students and the people of Minnesota.



New revenues, annual budget reductions, and efficiency gains will not yield sufficient new resources to ensure the excellence of the University of Minnesota. The University of Minnesota cannot become one of the best universities in the world and meet its land-grant responsibilities without narrowing the scope of its mission and directing resources to activities that will ensure a distinctive constellation of excellence.

The organization of the University into 5 campus, 16 colleges, 138 departments, over 400 undergraduate, graduate, and professional programs, and 289 centers and institutes reflects a legacy of decisions made over the University's 158-year history. It offers a window into the University's past, not a deliberate strategy for its future.



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4. **Narrow the scope of the University's mission to advance a distinctive constellation of excellence.**

- Identify and invest in nodes of distinctive excellence and programs that have the potential to be among the best in the world.
- Articulate what's distinctive about a University of Minnesota education, about its programs of research, and about its service to the people of Minnesota and beyond.
- Identify the programs, centers, institutes, academic units, activities, and services that will be discontinued, reduced or consolidated. Identify those that will be strengthened and/or expanded, and those that will be maintained at current or slightly reduced levels of support. Set a timeline for implementing these decisions.
- Reallocate savings to higher priorities and eliminate costs (e.g. take buildings off line).
- Strategically configure academic units and reporting lines to fuel synergies as well as innovative, excellent, and efficient teaching and research.



5. Develop and execute long-term financial plans, as well as budget and planning processes that advance the vision, inform decision making, track progress, and discipline the setting of priorities.

Strengthen the budget and planning process

- Budget decisions must be made within the context of an overall strategic and financial framework that relies on and adheres to a realistic set of financial assumptions and parameters while also ensuring that the University can respond with agility to new opportunities.
- Academic and financial planning must move beyond a single biennial cycle to take a long-term perspective.
- Create clear and consistent incentives in the internal budget model.
- Identify those academic and support units that can be financially self-sufficient and that will receive no state support.



Increase data-rich, analytic decision making

- Strengthen U-wide measurement and reporting of effectiveness, quality, productivity, costs, and revenue.
- Develop stronger data-driven analytical capabilities to inform strategies, measure progress, and understand the consequences of alternative choices

Strengthen the strategic planning process

- Periodically (e.g. in the spring of a gubernatorial election year) update collegiate / academic unit strategic plans.
- Draw upon the collegiate / academic unit strategic plans to update the University's strategic priorities.
- Align the University's legislative proposals with its long-term strategic plan.



Employ long-term financial planning tools

- Model trends in costs and revenues as well as the direct and indirect, and short- and long-term financial consequences of decisions.
- Use these long-term planning tools to understand the trade-offs, consider various scenarios, and inform decision making.
- Employ these planning tools at the unit and campus level and, where practical, aggregate to create University system-level projections.



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Conclusions



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Sustaining Excellence: Takeaways

- **Quality is job one.** As students and stakeholders focus on the value the University provides, our commitment to academic excellence, service and productivity becomes even more critically important.
- **Everyone must take part.** Our investments are concentrated primarily in areas of growth and opportunity, so we cannot cut our way to the future. All units must set priorities, disinvest where appropriate, and look for ways to better leverage or grow resources.
- **We can meet these challenges.** Our strategic plan anticipated this new normal, and while it arrived more quickly than expected, we are well prepared to meet these challenges with a renewed sense of urgency.



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Sustaining Excellence: Next Steps

All-University Steering Committee

Budget and Planning Processes

Financial
Planning and
Revenue
Strategies

Scope of the University's Mission
and Academic Priorities

Strategies to
Reduce
Overhead and
Streamline
Administration

Metrics Initiative



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