

UMD Deficit Reduction Model
Fiscal Year 2018-19

UMD's current O&M Structural Imbalance at the end of fiscal year 2017-18 will be \$3,248,385. This means that the recurring O&M **Expenditure** budget calls for spending \$3,248,385 more than will be realized by the O&M **Revenue** budget (tuition receipts and state appropriations). In addition, the O&M Sequestered Deficit (the accumulated O&M budget deficits from prior years) is projected to be \$6,922,407 on June 30, 2018.

We were pleased that President Kaler, Senior Vice President Burnett, and the University's budget team responded to our requests for investment and allocated almost \$2 million in recurring new revenues to UMD for Fiscal Year 2018. In addition, they allocated \$1.7 million in nonrecurring repair and renovation funds for the UMD Sports and Health Center project and \$500,000 for the Coleraine Energy Labs water line replacement. The UMD administration will continue to advocate for additional state revenues, both recurring and nonrecurring, as we continue to work toward resolving our budget structural imbalance and sequestered deficit over the next few years.

On November 29, 2017, the UMD chancellor and vice chancellors met with President Kaler, Senior Vice President Burnett, Budget Director Julie Tonneson, and the President's Chief of Staff Jon Steadland. We ensured there was a common understanding among us regarding UMD's budget challenges, agreed upon a targeted timeframe to resolve these challenges, and explored possible strategies for ending the structural imbalance and sequestered deficit as soon as possible.

The UMD Deficit Reduction Model to address this Structural Imbalance and the Sequestered Deficit is attached although the critical column on this schedule is the green fiscal year 2018-19 budget numbers. The fiscal year 2019-20 through 2022-23 columns will be influenced by our success in meeting the fiscal year 2018-19 budget, tuition rate decisions by the Board of Regents, appropriation decisions to the University of Minnesota by the State Legislature, and the continued growth of UMD's student enrollment. Row 20 of the schedule projects the amount of recurring O&M budget reductions that will be necessary in each fiscal year if the estimated revenue and expenditure budget amounts are realized. Similarly, Row 29 projects the reductions in one time budget balances that will be necessary to eliminate the compounded budget deficits of prior years.

In reviewing the Deficit Reduction Model, especially for fiscal year 2018-19, **please pay careful attention to the footnotes for the respective budget lines on the schedule.** You will note that the Structural Imbalance for fiscal year 2018-19 is projected to grow to \$5,368,422 even though budget reductions totaling \$1,775,000 will be required and a debt restructuring by the UM System will reduce UMD's debt service by a recurring \$700,000. This increase in the structural imbalance is primarily related to:

1. Only a 1% growth in the 2018-19 tuition receipts budget since no resident undergraduate tuition rate increase is expected to be approved by the Board of Regents and the already

passed State Appropriation is \$10,000,000 less for the UM System than was appropriated for 2017-18.

2. The University of Minnesota Fringe Benefits Pool cost is expected to increase by \$1,100,000 for UMD due to prior year benefits costs exceeding the system-wide budgeted fringe pool.
3. A Compensation Increase of 2% is projected for 2018-19 although this compensation increase has not been approved by the Board of Regents. For 2019-20 and beyond only a 1% increase is calculated which enables the University System Budget Office to adjust the Compensation budget line to reflect whatever percentage increase is approved by the Board of Regents. It is important to keep in mind that any increase beyond 1% on the Deficit Reduction Model may require a like dollar amount of additional recurring revenues or budget reductions.
4. The operation and maintenance of the new CAMS Building is listed on the Deficit Reduction Model but without a dollar amount at this time since the estimated 6 month recurring cost of \$310,000 (for 6 months) will be included in UMD's 2018-19 Compact Request. If this cost is not funded by the UM System, it will increase the 2018-19 deficit by \$310,000 in the Deficit Reduction Model. The CAMs Debt Service amount reflects an estimate of the remaining required institutional contribution to the building debt, and this amount will be adjusted as additional funds are raised for the building and the UM System finalizes the debt financing plan in 2019.
5. The Model estimates a \$200,000 annual increase in the Cost Pool and Enterprise Assessment budget lines based on a directive from UM System administration to the support units funded by the cost pool to not include any new initiatives in their 2018-19 budgets.