**Budget Advisory Committee**

**Update on Committee Activities**

**April 20, 2021**

On March 11th the re-established Budget Advisory Committee (BAC) held its first meeting with newly elected staff members and faculty members from the Faculty Life and Faculty Governance Committees. The group has met weekly, with the exception of Quiet Week, to articulate a shared understanding of the role of the BAC and set an agenda to develop a foundational understanding of the College’s financial resources.

Our apologies for the length of this initial communication; subsequent emails will focus on a single meeting agenda update. We encourage you to ask questions or make suggestions to any of the following BAC Committee members:

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| * Stacey Argabright | * Mike Goodson | * Ryan Sheppard |
| * Seth Binder | * Jan Hanson | * Marci Sortor |
| * Sarah Burt | * Alissa Jorgensen | * Mary Trull |
| * Carly Eichhorst | * Michael Kyle |  |

The following is a synopsis of the agenda topics to date and key points from those discussions.

**BAC Role and Responsibilities:**

* Be an advisory body to the VP/CFO and President’s Leadership Team regarding long-term financial planning
* Advise on the development of budget policies, processes, and calendars to ensure timely governance review and input
* Facilitate communication to enhance understanding of College resources – emphasis on transparency
* Provide suggestions to enhance efficiencies, generate revenues and/or reduce costs
* Research issues necessary to inform the budget development process and recommend funding priorities
* Review, recommend, and provide input on the overall College budget to key decision makers

**BAC Schedule of Agenda Topics and Presenters for the semester:**

March 18 Endowment Presentation with Mark Gelle

March 25 Enrollment Presentation with Chris George and Michael Kyle

April 1 FY21-22 Preliminary Budget Presentation with Angie Mathews; provides information/assumptions for budget that will be presented to BOR

April 15 Operating Budget Discussion with Angie Mathews

April 22 Capital Budget Discussion with Angie Mathews

April 29 Visioning Task Force update with Michael Kyle

May 6 No BAC meeting Board of Regents Meeting

May 13 Emerging/Long Term Trends, existing Strategic Plan and annual plan outcomes report; group discussion

May 20 Philosophies for year-end positive results, contingency, and compensation; group discussion

May 27 Aspirational budget; group discussion and summer communication plan

**Endowment Presentation Take-Aways:**

* Market value of the endowment in the past 10 years has grown from $274 million to $508 million as of May 31, 2020
* Ten-year growth includes $121 million from new gifts and matured planned gifts; almost $33 million from year-end net revenue; almost $39 million from reinvestments (earnings that were reinvested into the endowment), and over $232 million in investment returns
* The endowment has provided over $155 million to College operations over the past ten years, growing from just over $12 million in 2011 to almost $21 million in 2020.
* Endowment reinvestment: Approximately $78 million of endowment funds generated earnings that were reinvested into the endowment as of 5/31/20. In September 2020, $48 million of these reinvesting endowments were changed in order to spend and provide an additional $1.8 million to FY21 operating revenues. This change represents an additional 8.6% over what was originally budgeted this fiscal year for endowment revenue. The remaining $30 million of reinvesting endowments are directed as such based on donor directions, are under spending threshold policies, or have a pending purpose associated with them.
* Funding for Operations: The endowment is projected to provide over $24 million to operations in FY21.
* The Board’s Investment Committee has oversight of the endowment; CornerStone Partners is the College’s full-discretion endowment manager acting within constraints approved by the Investment Committee. The Investment Committee meets four times per year.
* Permanently restricted endowments are those where the donor has directed their gift to be held in perpetuity with earnings to spent either for a specific purpose/program or unspecified to be used for general support of the College
* “Quasi-endowments” are those without donor restrictions and for which the Board of Regents has discretion as to use. Examples of these are large estate distributions and the year-end operating surpluses.
* Endowment operates as a unitized endowment similar to how a mutual fund operates. When endowment gifts are received, the gift buys units based on the unit value of the prior month. For example, if the prior month unit value were $4.00, a $40,000 endowment gift would purchase 10,000 endowment units.
* Endowment spending considerations include the ability to maintain an inflation adjusted rate of spending over the long term, provide payouts such that donors see the benefit of the endowment gifts, and provide a consistent level of operating support to the College.
* Endowment return goal is to average 7%; this assumes an implied inflation factor of 2.5% and an implied spending rate of 4.5%.
* The current endowment spending policy is 4.7% of a 16-quarter rolling unit value average. The December value in the calendar year preceding the fiscal year in question is the final quarter of the 16 used to establish the average.

**Enrollment Presentation Take-Aways:**

* Admissions Considerations: Enrollment presented on how the incoming class is admitted based on historical yield patterns (yield is the percentage of students enrolling compared to the number of students who receive an offer of admission).  Yield varies based on the application decision round (early decision, early action, and regular decision), high school academic record, merit scholarships offered and demonstrated financial need.
* Use of Financial Aid: Merit scholarship and need-based aid for incoming students are evaluated and adjusted annually to help achieve the college’s enrollment goals: increase net comprehensive fee revenue, maintain a student body of ~3,000 students and increase the percentage of BIPOC students in the first year class.
* Tuition Revenue and Enrollment: Enrollment revenue and total student enrollment doesn’t need to come only from broader and more successful recruitment.  Success in retention increases enrollment.  In an environment of declining prospective students, retention takes on a renewed urgency.  The College’s first-year retention rate is 91%, an enviable rate when compared to national figures, but represented a 20 year low for St. Olaf in 2019.  Two-year retention rates were in the mid 80% in Fall 1997, rose to 90% in Fall 2009, and have dipped back to the low 80% in the last two years.  Three-year retention rates have followed the pattern of second-year rates, but to a smaller degree.
* Retention rates vary by high school academic preparation and financial need.
* Market position is determined by the College in relationship to other institutions in our competitive set.  St. Olaf competes in three distinct markets:  regional flagship institutions (University of Minnesota-Twin Cities and University of Wisconsin-Madison), regional liberal arts colleges (Gustavus Adolphus College, Luther College, and the University of St. Thomas), and national liberal arts colleges (Macalester College, Carleton College and Lawrence University).  St. Olaf experiences the most application overlap with the University of Minnesota-Twin Cities, the University of Wisconsin-Madison, Gustavus Adolphus College, and Luther College.
* The College has opportunities and choices to meet our incoming student revenue goals:
  + Do we enroll more students?
  + Do we enroll fewer students to grow net revenue per student, but reduce total revenue?
  + Do we attempt to change the mix of students who enroll?
  + Do we invest resources to improve the student experience and retention?
* The College also has challenges:
  + Competitive set is muddled and changing
  + Upcoming decline in total number of high school graduates in the Midwest and around the country
  + Families’ willingness to pay our net price has not improved
  + Survey data and retention rate declines are indications of a diminished student experience

**FY21-22 Preliminary Budget Assumptions and Operating Budget Overview**

* Expenses have grown at a greater pace than revenues over the past decade, which will create financial challenges going forward.
* Revenues are primarily driven by tuition, room and board fees collected from students, which has remained relatively flat over the past decade. A small fluctuation in number of students and the revenue per student can have a significant impact on the budget (e.g., 20 students at $50K each creates a $1M swing in the budget).
* Endowment allocations to the operating budget have significantly increased over the past decade as endowment gifts have grown. See take-aways from endowment presentation section above.
* Wages and benefits are the largest expense in the operating budget. The Strategic Resource Allocation Project (SRAP) led to some modest staff reductions. Some positions were phased out as people have retired or positions have become vacant.
* St. Olaf budgets for depreciation expense and sets that cash aside to fund capital projects such as library acquisitions, new faculty start-up expenses, equipment replacements and building renovations.
* The *preliminary* FY21-22 budget is balanced but without provisions for contingency or contribution to the strategic goal supporting capital enhancement. Budget assumptions include the following:
  + Net tuition revenue decreases slightly from the FY20-21 budget, while room/board revenue increases due to fewer students studying remotely.
  + Endowment income increases by 18% from last year’s budget.
  + Overall, preliminary revenue estimates increase by 6.0% over the FY20-21 revenue estimates.
  + Operating expenses also increase by 6.0% overall resulting in a balanced budget.
  + 780 first-year students each generating a $29K net comprehensive fee (tuition, room, and board)
  + 2,937 total full-time enrollment
  + COVID adjustments for IOS programs, camps/conferences, and alumni weekend have been incorporated. There may be other COVID adjustments related to testing and/or vaccination that will be determined over the next several months.
  + Wages increases of 3.0% plus 0.5% for promotions and market adjustments
  + Health insurance cost increase of 5%
  + Most non-compensation expenses remain flat.
* The preliminary budget will change as assumptions change and as we learn more about enrollment and what to expect with COVID going forward.
* The Student Government Association (SGA) follows a review and approval process for the budget allocation it receives to support student activities and organizations. (The student representative provided a presentation on this for the BAC.)

**FY20-21 Year-End Projections**

* The FY20-21 operating results are outperforming budget. Thiswill enable the College to make up for the lost retirement contributions and make one-time year-end compensation payments to faculty and staff. Factors contributing to this favorable year-end result include reduced travel and event expenses, COVID expenses being lower than estimated, utility savings from the campus being closed last summer, and receipt of Federal CARES funding.