



# BOARD OF REGENTS DOCKET ITEM SUMMARY

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**Finance & Operations**

**June 11, 2020**

**AGENDA ITEM:** Recommendations of the Finance & Operations Planning Work Group

**Review**

**Review + Action**

**Action**

**Discussion**

*This is a report required by Board policy.*

**PRESENTERS:**

President Joan T.A. Gabel  
Brian Burnett, Senior Vice President and Co-chair of Work Group  
Kenneth Horstman, Interim Vice President and Co-chair of Work Group  
Michael Berthelsen, Vice President, University Services  
Julie Tonneson, Associate Vice President and Budget Director

**PURPOSE & KEY POINTS**

The purpose of this item is to present the recommendations of the President’s Finance & Operations Planning Work Group. The committee will review and act on a broad program of temporary employee furloughs or temporary employee salary reductions. The committee will review the work group’s recommendation for a retirement incentive offer program. In addition, the discussion will also provide an update on the University’s reduced operations and State of Emergency, and how both will be impacted by the Sunrise Plan.

**Finance & Operations Planning Work Group Recommendations**

The guiding principles of the Finance & Operations Planning Work Group are as follows:

- Retain current employees to the extent possible.
- Consider financial impact of decisions on our employees, with approaches weighting any financial burden toward those at higher income levels.
- Recognize CARES Act requirements on retention of employees to extent possible;
- Prioritize fiscal responsibility.
- Address financial challenge through a variety of mechanisms, including those with immediate nonrecurring savings and those involving organizational improvements with longer-term impacts.

The recommendations of the Finance & Operations Planning Work Group that were submitted to President Gabel included considerations of both short-term, non-recurring actions and long-term, recurring actions. The work group recommended the following items:

- Strategy 1 - Workforce Contributions: Furloughs and Pay Reductions
- Strategy 2 – Retirement Incentive Offer Program

The President is recommending that the committee review and act only on Strategy 1 at this time.

In the coming months, the Finance & Operations Planning Work Group will continue to examine long-term, recurring actions. In addition to recommendations related to that work, amendments to the operating budget may be presented for Board action if the financial challenge necessitates changes. This allows University operations to move forward in the context of uncertainty, while planning for multiple outcomes.

### **Strategy 1 - Workforce Contributions: Furloughs and Pay Reductions**

Although there is no new information to suggest the financial challenge for FY 2021 will be more or less than what is projected in Contingency Plans 1 or 2, some level of expenditure savings beyond the COVID-19 Adjusted Budget (CAB) would be prudent. Savings may be needed to address the revenue reductions and cost increases envisioned in the contingency plans, or to restore balances that were tapped during the first months of the pandemic. To jumpstart the contingency plans and take advantage of nonrecurring salary savings from the beginning of the fiscal year (rather than waiting), the President is recommending t for all employee groups a furlough or temporary pay reduction plan, to be implemented in July (summarized in Attachment A). This furlough/pay reduction plan:

- Includes increased financial impact as income level rises, and exempts the 9,165 University employees with annual pay under \$60,000.
- Is the recommended plan approved by a vote of the Faculty Senate on June 9, 2020.
- Is subject to bargaining with labor-represented employee groups.
- Will be reviewed in the context of the financial situation for possible suspension after six months.

The administration is also moving forward with a 10 percent voluntary pay reduction for the President's Cabinet, Twin Cities Athletic Director, and top paid coaches. This pay reduction was announced previously and is not before the Board for action at this time. As with the furlough or temporary pay reduction plan, the 10 percent pay reduction will be reviewed for possible suspension after six months.

### **Strategy 2 – Retirement Incentive Offer Program**

While not recommended for Board action at this time, the committee will also receive an overview of a potential retirement incentive offer program. The Board will act on the program at a future meeting.

The new Retirement Incentive Option (RIO) is a one-time opportunity for voluntary retirement designed to meet the needs of both employees and departments. It is anticipated that RIO will provide for two payments into the State of Minnesota Health Care Savings Plan for employees who are eligible for retirement, one half in each fiscal year. These payments will total an amount roughly equivalent to the value of 24 months of University medical and dental subsidy, at 2020 rates. Interested employees must apply for the RIO between July 30 and September 30, 2020, and voluntarily retire at a date mutually acceptable to the employee and their unit, but no later than January 15, 2021. One half of the payment is payable upon receipt of a release, signed on the last day of work. The other half of the payment will be payable in July, 2021, if the individual has not rehired into University employment.

<b>Proposed Offering</b>	
<b>Eligibility</b>	Normal eligibility for University retirement - Age 50 with 15 or more years of service, Age 55 with 5 years or more of service, 30 years or more of service without regard to age.  Actively working a 75 percent or greater appointment of 9 months or more.
<b>Estimated Eligible Employee Count</b>	Approximately 6,000 Total 1,800 faculty 1,700 P&A 1,300 civil service 1,200 labor represented
<b>Acceptance Rate</b>	Anticipated 6-8 percent
<b>Estimated Savings</b>	\$40 million in first year annual salary and fringe savings. This assumes an acceptance rate of 7 percent, a 30 percent fringe rate savings, and costs associated with lump sum payments for the medical and dental premiums. We estimate another \$40 million in second year savings. These figures assume no vacated positions are replaced. Any replaced positions would reduce savings. <b><u>Conservative estimate of 40 percent backfill would yield a net savings of \$24 million each of first two years.</u></b>
<b>Window to Accept</b>	July 30 to September 30, 2020 (2 months)
<b>Latest Retirement Date</b>	January 15, 2021. Participants must be on regular appointment when they retire.
<b>Benefit</b>	Health Care Savings Plan deposit equal to the value of 52 pay periods (2 years) of University subsidy for medical and dental coverage.
<b>Rehire Provisions</b>	No rehire for a minimum of 6 months following retirement. Beginning the seventh month, reemployment is permitted, but only in non-benefits-eligible appointments of 49 percent time or less. Individuals must not be re-employed prior to July 1, 2021, if they wish to receive the second payment.  Positions vacated by RIO participants may only be backfilled in accordance with the hiring freeze processes/procedures in place, if any, at the time the eligible participant vacates their role.

**Finance & Operations Planning Work Group - Next Steps**

Since the recommended strategies support the series of events anticipated by the contingency plans, and are not planned as part of the CAB, the estimated savings are not incorporated into the CAB (just as the potential further revenue losses anticipated in the contingency plans are not incorporated into the CAB). Savings from these strategies, as well as any additional actions to

reduce expenditures and leverage revenue growth, will be provided to the Board. As noted above, any amendments to the CAB would be presented for Board action.

Through the summer and into early fall, further analysis on the financial situation for all units will be conducted. This analysis will inform an update of the contingency plans and recommendations on how to address any projected shortfalls. Those recommendations may include workforce reductions associated with necessary program changes or restructuring. In addition, they may include actions resulting from continued analysis being conducted by the Finance & Operations Planning Work Group to find opportunities for efficiency gains and process improvements.

### **Update on Reduced Operations and State of Emergency**

The University's Sunrise Plan is intended to slowly and carefully reopen some limited functions based on updated guidance from state and public health officials, and the University's own medical and public health experts. As more non-essential work is being performed on-site, the University is planning to take administrative action to end the Extended Reduced Operations status to a COVID-19 Adjusted/Normal Operation status. This change will deactivate certain pay provisions, including premium pay for essential employees. A variety of administrative tools are available for units to work with staff on this transition, including bringing them back to work (if essential or other work which cannot be done remotely), use of emergency leave (if eligible), use of vacation days, and accommodations if necessary based on individual needs. The University-declared state of emergency will remain in place, which enables the continuation of certain emergency leave and compensation provisions.

### **BACKGROUND INFORMATION**

The Board previously discussed this topic at the following meeting:

- May 7, 2020: *President's Recommended FY 2021 Annual Operating Budget*, Finance & Operations

### **PRESIDENT'S RECOMMENDATION**

The President recommends approval of the resolution related to workforce contributions: furloughs and pay reductions.



## REGENTS OF THE UNIVERSITY OF MINNESOTA

### RESOLUTION RELATED TO

#### **Workforce Contributions: Furloughs and Pay Reductions**

**WHEREAS**, the Board of Regents (Board) will act on the FY 2021 COVID-19 Adjusted Budget at the June 2020 meeting; and

**WHEREAS**, the FY 2021 COVID-19 Adjusted Budget discussion included a necessary framework for contingency planning that, due to the uncertainty in the current environment, will take multiple forms involving multiple tactics to address any emerging financial challenge; and

**WHEREAS**, a risk of further financial disruption continues to exist in the coming months related to enrollment, state support, the ability to generate other miscellaneous revenues, and required expenditure growth in the face of changing operations due to the pandemic; and

**WHEREAS**, broad actions to adjust compensation spending levels across all employee groups and all units of the University of Minnesota, as effective tactics in the contingency plans, are most beneficial when implemented as early in the fiscal year as possible; and

**WHEREAS**, the President will recommend amendments to the Fiscal Year 2021 COVID-19 Adjusted Budget for Board review and action should that be deemed necessary in future months as determined by continued financial monitoring and analysis, and

**WHEREAS**, the Finance & Operations Planning Work Group recommended to the President two actions in the form of a compensation savings plan for furloughs and temporary pay reductions and a retirement incentive offer program, and

**WHEREAS**, the recommended compensation savings plan for furloughs and temporary pay reductions was approved by a vote of the Faculty Senate on June 9, 2020.

**NOW, THEREFORE, BE IT RESOLVED** that for Fiscal Year 2021, the Board of Regents hereby approves the compensation savings plan for furloughs and temporary pay reductions as outlined in Attachment A.

## **Attachment A**

### **Workforce Contributions: Furloughs and Pay Reductions**

Following an internal consultation process, and in support of the contingency plans outlined in the FY 2021 budget before the Board of Regents for action in June, the President is proposing cost-saving measures for immediate implementation to address both anticipated and unanticipated negative impacts on University revenues and expenditures in the next fiscal year. These recommendations are presented at this time to jumpstart the contingency plans and take advantage of nonrecurring salary savings from the beginning of the year (rather than waiting until months into the fiscal year).

#### **Principles**

Earlier this spring, the University established a set of principles to guide decision-making, which the Finance & Operations Work Group followed in developing this recommendation. Those principles are as follows:

- Retain current employees to the extent possible
- Consider the financial impact of decisions on our employees, with approaches weighting any financial burden toward those at higher income levels
- Recognize CARES Act requirements on retention of employees to the extent practicable
- Prioritize fiscal responsibility
- Address the financial challenge through a variety of mechanisms, including those with immediate nonrecurring savings and those involving organizational improvements with longer-term impacts

#### **Methods**

The Finance and Operations Planning Work Group is recommending a number of actions. The first initiatives will largely be non-recurring and provide immediate temporary savings through salary actions. The longer-term initiatives, which require significantly more analysis and would not be considered until later this fall, would address opportunities to align administrative services throughout the University to provide efficiencies and cost-savings on a recurring basis.

#### **Recommended Action:**

##### **Workforce Contributions: Furloughs and Pay Reductions**

A broad program of temporary employee furloughs or temporary employee salary reductions is recommended for implementation in FY 2021. The total all-funds estimated savings from this program, combined with the previously announced 10% pay reduction for the President's cabinet and the top-paid coaches, is \$45-\$50 million. The total estimated savings in unrestricted funds alone (where the financial challenge is focused) is \$35-\$40 million. Employees who have an annual salary of \$60,000 or less would be exempt from this program, but for all employees with salaries above \$60,000, furlough days/temporary salary reductions would incrementally increase as salary bands increase. The program would also exempt senior leaders, who have already accepted the

10% salary cut for FY 2021, regardless of their income level. This plan was approved by a vote of the faculty senate on 6/9/20.

Characteristics of the plan:

- Some employee groups will receive furlough hours and some will receive temporary pay reductions (based on compliance with legal, University policy, and collective bargaining requirements).
  - Civil Service employees would be subject to furlough days, with dates at the discretion of the employee and the supervisor.
  - Faculty and P&A employees would receive a temporary pay reduction but would receive an equivalent number of “off days” that they could use at their discretion but in consultation with the supervisor (similar to personal holidays). Those days would only be available during the duration of the temporary pay reduction.
  - The Office of Human Resources will meet and confer with the unions representing bargaining unit employees to reach agreement on any potential impact on their members.
- The plan is divided into six-month intervals. Half of the furlough hours and half of the off days for Faculty and P&A employees, will be allocated to the first half of FY 2021, with the remaining to the second half. Should the budget outlook for the second half of FY 2021 look more favorable than anticipated, the University could potentially dismiss the second half of the furlough schedule, and roll back pay reductions, for January through June of 2021.
- If approved by the Board of Regents, the decision to move to graduated temporary furloughs/pay reductions will be announced to the workforce immediately, to begin preparations and bargaining for planning and implementation as soon as possible.
- During furlough hours, the University will continue to provide a health and dental plan subsidy to those already eligible for these benefits.
- Faculty Retirement Plan and MSRS contributions would be adjusted for furlough hours and for a temporary pay reduction.
- Employees who have furlough hours may be eligible for unemployment insurance through the State of Minnesota and expanded federal unemployment benefits in effect through July 31, 2020 under the CARES Act. Guidance on the potential benefits and how to access them would be provided to all relevant employees.

## Temporary Furlough/Pay Reduction

DRAFT RECOMMENDATION

Earnings Tier	Total # of Employees	Recommended Model				
		# of Hours of Furlough* Civil Svc and Labor Rep'd	Savings from Furlough Hours Civil Svc and Labor Rep'd	% of Pay Reduction Faculty and P&A	Savings from Pay Reduction Faculty and P&A	Total Savings
\$0 - \$40000	2,352	0.00	\$0	0.000%	\$0	\$0
\$40000 - \$45000	1,350	0.00	\$0	0.000%	\$0	\$0
\$45000 - \$50000	2,068	0.00	\$0	0.000%	\$0	\$0
\$50000 - \$55000	1,934	0.00	\$0	0.000%	\$0	\$0
\$55000 - \$60000	1,461	0.00	\$0	0.000%	\$0	\$0
\$60000 - \$65000	1,321	15.50	\$300,963	0.750%	\$313,647	\$614,610
\$65000 - \$70000	1,062	31.25	\$483,801	1.500%	\$591,229	\$1,075,030
\$70000 - \$75000	957	35.00	\$418,485	1.685%	\$747,104	\$1,165,590
\$75000 - \$80000	863	39.00	\$324,630	1.870%	\$924,569	\$1,249,199
\$80000 - \$85000	713	42.75	\$269,578	2.055%	\$936,074	\$1,205,652
\$85000 - \$90000	648	46.50	\$305,923	2.240%	\$959,990	\$1,265,913
\$90000 - \$95000	658	50.50	\$289,240	2.425%	\$1,181,492	\$1,470,732
\$95000 - \$100000	518	54.25	\$182,469	2.610%	\$1,132,086	\$1,314,555
\$100000 - \$105000	442	58.25	\$125,964	2.795%	\$1,136,906	\$1,262,871
\$105000 - \$110000	343	62.00	\$66,619	2.980%	\$1,028,458	\$1,095,077
\$110000 - \$115000	332	65.75	\$60,296	3.165%	\$1,117,279	\$1,177,575

DRAFT RECOMMENDATION		Recommended Model				
Earnings Tier	Total # of Employees	# of Hours of Furlough* Civil Svc and Labor Rep'd	Savings from Furlough Hours Civil Svc and Labor Rep'd	% of Pay Reduction Faculty and P&A	Savings from Pay Reduction Faculty and P&A	Total Savings
\$115000 - \$120000	268	69.75	\$59,034	3.350%	\$995,688	\$1,054,722
\$120000 - \$125000	246	73.50	\$25,988	3.535%	\$1,035,849	\$1,061,837
\$125000 - \$130000	190	77.50	\$23,699	3.720%	\$876,021	\$899,721
\$130000 - \$135000	184	81.25	\$36,361	3.905%	\$913,461	\$949,822
\$135000 - \$140000	118	85.00	\$11,387	4.090%	\$649,348	\$660,735
\$140000 - \$145000	144	89.00		4.275%	\$876,353	\$876,353
\$145000 - \$150000	112	92.75		4.460%	\$735,432	\$735,432
\$150000 - \$155000	142	96.50		4.645%	\$1,004,093	\$1,004,093
\$155000 - \$160000	80	100.50		4.830%	\$609,135	\$609,135
\$160000 - \$165000	88	104.25	\$16,302	5.015%	\$701,191	\$717,493
\$165000 - \$170000	70	108.25	\$8,622	5.200%	\$599,565	\$608,187
\$170000 - \$175000	68	112.00		5.385%	\$630,293	\$630,293
\$175000 - \$180000	61	115.75		5.570%	\$602,688	\$602,688
\$180000 - \$185000	65	119.75		5.755%	\$681,684	\$681,684
\$185000 - \$190000	84	123.50		5.940%	\$936,202	\$936,202
\$190000 - \$195000	74	127.50		6.125%	\$870,584	\$870,584
\$195000 - \$200000	49	131.25		6.310%	\$609,916	\$609,916

DRAFT RECOMMENDATION		Recommended Model				
Earnings Tier	Total # of Employees	# of Hours of Furlough* Civil Svc and Labor Rep'd	Savings from Furlough Hours Civil Svc and Labor Rep'd	% of Pay Reduction Faculty and P&A	Savings from Pay Reduction Faculty and P&A	Total Savings
\$200000 - \$205000	49	135.00		6.495%	\$644,706	\$644,706
\$205000 - \$210000	36	139.00		6.680%	\$499,297	\$499,297
\$210000 - \$215000	35	142.75		6.865%	\$510,037	\$510,037
\$215000 - \$220000	31	146.75		7.050%	\$475,711	\$475,711
\$220000 - \$225000	25	150.50		7.235%	\$402,011	\$402,011
\$225000 - \$230000	22	154.25		7.420%	\$371,738	\$371,738
\$230000 - \$235000	18	158.25		7.605%	\$317,539	\$317,539
\$235000 - \$240000	17	162.00		7.790%	\$313,945	\$313,945
\$240000 - \$245000	21	166.00		7.975%	\$404,973	\$404,973
\$245000 - \$250000	12	169.75		8.160%	\$242,002	\$242,002
\$250000 - \$255000	17	173.50		8.345%	\$356,769	\$356,769
\$255000 - \$260000	12	177.50		8.530%	\$263,440	\$263,440
\$260000 - \$265000	8	181.25		8.715%	\$182,879	\$182,879
\$265000 - \$270000	10	185.00		8.900%	\$237,705	\$237,705
\$270000 - \$275000	9	189.00		9.085%	\$222,415	\$222,415
\$275000 - \$280000	9	192.75		9.270%	\$231,989	\$231,989
\$280000 - \$285000	9	196.75		9.455%	\$240,651	\$240,651

**DRAFT RECOMMENDATION**

**Recommended Model**

Earnings Tier	Total # of Employees	# of Hours of Furlough* Civil Svc and Labor Rep'd	Savings from Furlough Hours Civil Svc and Labor Rep'd	% of Pay Reduction Faculty and P&A	Savings from Pay Reduction Faculty and P&A	Total Savings
\$285000 - \$290000	0	NA		NA	\$0	\$0
\$290000 - \$295000	7	204.25		9.825%	\$199,903	\$199,903
\$295000 - \$300000	7	208.00		10.000%	\$208,017	\$208,017
\$300000 - \$-	87	208.00		10.000%	\$3,244,102	\$3,244,102

Totals: **19,506** **\$3,009,362** **\$32,966,166** **\$35,975,528**

**DRAFT**

\$46,768,186  
\$35,076,140  
\$1,146,197

**\$36,222,337**

# Recommendations from the Finance & Operations Planning Work Group

Joan T.A. Gabel, President

Brian D. Burnett, Senior Vice President for Finance and Operations

Kenneth Horstman, Interim Vice President, Human Resources

Michael Berthelsen, Vice President, University Services

Julie Tonneson, Associate Vice President and Budget Director

## Finance & Operations Committee

June 11, 2020

**SENIOR VICE PRESIDENT FOR FINANCE AND OPERATIONS**

World Class Services for a World Class University



# Finance & Operations Planning Work Group

## Guiding Principles

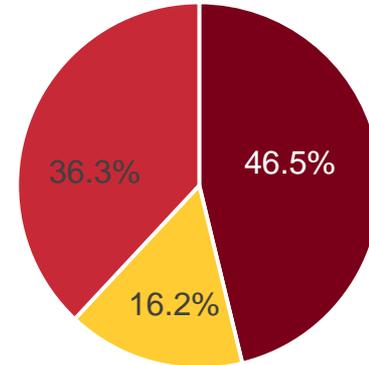
- Retain current employees to the extent possible
- Consider financial impact of decisions on our employees, with approaches weighting any financial burden toward those at higher income levels
- Recognize CARES Act requirements on retention of employees to extent possible
- Prioritize fiscal responsibility
- Address financial challenge through a variety of mechanisms, including those with immediate nonrecurring savings and those involving organizational improvements with longer-term impacts



# Why Employee Expenses Matter

- The University employs **27,202 employees**
- **Salary and fringe represent 62.7%** of the spend of total expenditures for FY20 and has been relatively stable for several years.
- Salaries are estimated to account for **\$1.824 billion** for FY20\*
- Benefits are estimated to account for another **\$623 million** (including FICA and Medicare taxes)\*

Estimated FY20 University Expenditures



■ Salary ■ Fringe Benefits ■ Remaining

\*Board of Regents Finance & Operations May 2020 Docket, Page 67 plus estimated sponsored fund salaries



# Finance & Operations Planning Work Group Recommendations – Compensation Savings

## For Immediate Implementation:

- For all employees – a furlough or temporary pay reduction plan
  - *increased financial impact as income level rises (exempts those under \$60K)*
  - *review financial situation for possible suspension after 6 months*

## For Review:

- A Retirement Incentive Option

## For Information:

- For the President's Cabinet, TC Athletic Director/top paid coaches – a 10% pay reduction
  - *review financial situation for possible suspension after 6 months*



# Temporary Furlough or Salary Cut Program

- Weighted more heavily to those with higher salary
- Employees exempt from program include:
  - Below \$60,000
  - Graduate students, professionals in training including postdoctoral associates and residents
  - H-1B and E-3 visa holders
- Those with unpaid furloughs will receive a bank of hours
- Those with a temporary pay cut will receive an equivalent number of days off, available only during the pay-reduction time frame
- Fiscal year program will occur in two 6 month segments
  - A financial review later in this year will determine the need for the second 6 month segment



# Recent and Ongoing Discussions

- Consultation
    - Faculty Consultative, Senate Consultative Committees (plan approved by a vote of the Faculty Senate on 6/9/20)
    - SCFA & SCFP Committees
    - Civil Service Consultative Committee
    - P&A Consultative Committee
- 
- OHR is conducting meetings with labor-represented employee groups to bargain furlough program implementation.



# Retirement Incentive Offer (RIO)

- One time opportunity for voluntary retirement
- Eligibility based on normal University retirement eligibility
- Approximately 6,000 eligible
  - Past history indicates an acceptance rate of 7%
- Enrollment period during 2020, with latest retirement date January 15, 2021
- Healthcare Savings Plan Contribution as incentive
- \$24 million net savings (salary savings-backfill)



## **Further Compensation and Other Savings - for future implementation if contingency plans require further action:**

- Longer-term non-personnel savings related to programmatic or process changes (supplies, equipment, travel, professional services etc.)
- Unit specific workforce reductions – through attrition or through lay-offs/non-renewals as a last resort and on a case by case basis
- Finance & Operations Planning Work Group recommendation for a temporary reduction in the University contribution to the faculty retirement program



# Update on Reduced Operations and State of Emergency

- State of Emergency stays in place
  - Allows receipt of State/Federal funds if available
  - Provides for certain emergency leaves and compensation provisions
- Extended Reduced Operations to end this month
  - Ends \$2/hr augmentation for essential employees
  - Continue to follow Governor's order for those who can to work remotely





UNIVERSITY OF MINNESOTA

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The University of Minnesota is an equal opportunity educator and employer.