

**BOARD OF TRUSTEES  
MINNESOTA STATE COLLEGES AND UNIVERSITIES  
*INFORMATION ITEM***

**FY2006-FY2007 Biennial Operating Budget Request**

## **BACKGROUND**

Every other year, as part of the state's operating budget process, the Minnesota State Colleges and Universities develops a biennial budget request. The request for the FY2006-FY2007 biennium is due to the Governor and the legislature in the fall of this year.

This report provides a brief overview of the environment in which the request is being developed and begins the discussion of various request components and strategies the system might use as it brings its request forward. Further development, elaboration and refinement will occur over the next several months. Board member input concerning both the revenue outlook and the possible investment areas is sought at this time. Comments will be incorporated into the Chancellor's work this fall.

A basic message has emerged from the dialogue: funding the Minnesota State Colleges and Universities and the students they serve is an investment in the future of the state. MnSCU educates more undergraduate Minnesotans than all other providers combined. MnSCU has absorbed three years of state appropriation cuts during unprecedented enrollment growth. The students have shouldered large tuition increases.

### **Overview**

The Minnesota State Colleges and Universities exist to serve the public good and to meet the state's critical needs. Together, the state colleges and universities educate 78 percent of the state's new nursing graduates, 53 percent of the state's new teaching graduates and 92 percent of the state's law enforcement officers, in addition to the accountants, engineers, manufacturers, business owners, bankers, building trades members, accountants, social workers, health care providers and others who contribute to Minnesota's success. The state colleges and universities support economic development in communities throughout the state, reach out to students traditionally underserved in higher education (low-income students, students of color, first-generation college students, students for whom English is a second language), help laid-off workers find new careers and assist new immigrants to move into mainstream society.

Each year, the state colleges and universities serve about 240,000 students in credit-based courses and an additional 130,000 in noncredit courses. The seven state universities provide a strong foundation in the liberal arts and sciences and prepare students for professional careers in business, education, sciences, public administration, the arts, social services and other fields. The system's 25 two-year community and technical colleges provide the first two years of education leading to a baccalaureate degree or skills and training leading directly to employment.

## **Strategic Outlook**

As outlined in the system's three year strategic plan and the annual workplan, the Minnesota State Colleges and Universities System is dedicated to serving the people of Minnesota through its academic programs, applied research and specialized workforce training. Both as a system and through the individual institutions, Minnesota State Colleges and Universities is committed to the following:

To enhance educational programs and services by

- Continuously improving programs and services for students, workers and employers
- Advocating for a strong liberal arts foundation
- Supporting innovation and quality
- Providing efficient and effective credit and student transfer

To contribute to Minnesota's economic vitality by

- Providing access to certificate and diploma programs and associate, bachelor's and master's degrees
- Sustaining career and technical education
- Conducting applied research

To strengthen performance by

- Demonstrating accountability
- Aligning college and university programs, services and business processes
- Efficiently and effectively using facilities and technology
- Expanding private fund raising
- Aggressively seeking an appropriate level of state funding
- Increasing the diversity of students, faculty, staff and administrators
- Pursuing partnerships and collaboration

The development of the biennial budget request has been guided by the strategic plan and tempered by the financial outlook of the state.

## **Financial Outlook**

The state is projecting at least a \$400 million deficit for the FY2006-FY2007 biennium. This figure is based on aggressive assumptions underpinning the revenue projections and does not include inflationary expenditure increases and other enrollment adjustments to expenditures. With the additional expenditure adjustments, the state's deficit projection could easily exceed \$1 billion. Interim revenue projections have been positive, suggesting that the state's FY2006-2007 outlook is achievable and may not be any more negative than currently forecast.

In the FY2004-FY2005 biennium, Minnesota State Colleges and Universities were cut \$191 million from the FY2003 adjusted base. The total state appropriation level for MnSCU in FY2005 is \$546.5 million, which is the lowest state funding level for MnSCU since FY1998.

Since FY1999 enrollment has increased 29% or 30,700. As a result, state funding per student full year equivalent (FYE) has declined in both current and inflation adjusted dollars.

<b>State funding levels</b> (state support only)	<b>FY1999</b>	<b>FY2005</b>
Funding per FYE –current dollars	\$5,148	\$3,974
Funding per FYE – inflation adjusted	\$5,148	\$3,459

The funding gap created by the reduction in state appropriation has been partially filled through budget cuts, use of reserves, and significant tuition increases. Tuition increased 13.6% in FY2004 and 13.8% in FY2005. The inflation adjusted total revenues shown below represent a decline of 8.8% in per FYE revenues since 1999, even with large tuition increases.

<b>Total revenues</b> (state support and tuition)	<b>FY1999</b>	<b>FY2005</b>
Funding per FYE –current dollars	\$7,385	\$7,739
Funding per FYE – inflation adjusted	\$7,385	\$6,735

### **Context of Request**

The development of the biennial budget was initiated in December 2003 with the senior staff’s discussion of the biennial budget context and process. Along with the Chancellor’s formal management organization, including the Leadership Council and the Cabinet, a Biennial Budget Stakeholder Group was formed to provide input and feedback to the Chancellor as he determines the biennial budget to recommend to the Board. The group includes members of bargaining units, student associations, college and university administration, and senior staff. All groups have had preliminary discussions about possible components and strategies that the Chancellor and Board might want to consider as the budget request is brought forward.

The strategic plan and annual workplan have provided the general guide for the development of the FY2006-FY2007 biennial budget. Other key strategic challenges also influenced the deliberation, including state investment requirements and capacity; financial stability and internal investment capacity; and price and affordability.

The initial task was to create the general revenue parameters in which to develop the request. The revenue projections can be categorized into two types:

- **Enrollment adjustment** - The enrollment adjustment is a change made to the state-supported budget of the Minnesota State Colleges and Universities to account for the additional students enrolled in our colleges and universities. The FY2006-FY2007 adjustment based on enrollment changes over the past three years is estimated to total \$130 million.

The total is a combination of one-time funding of \$58 million and base funding of \$72 million over the biennium. The amount will be added to our base state appropriation budget by the Department of Finance prior to the release of the state Revenue Forecast in November 2004.

- **Biennial budget request** - The second portion of the revenue parameter is the formulation of the request for new state support. The internal dialogue to date has sought a balance between meeting the increasing demands placed on colleges and universities in an environment of increasing enrollments and declining state resources and recognizing the difficult budget position of the state.

The emerging recommendation is that a request of \$66.4 million be pursued in the upcoming legislative session. A request of this size represents a 4% annual increase over the current state appropriation level. It is the smallest request in MnSCU's history. If the state funds the enrollment adjustment and the 4% state appropriation request, the funding per FYE student would be higher than the current biennium, but lower than any time since FY1997. In inflation-adjusted dollars, the funding per FYE student would be comparable to the FY1984 level.

The request would also assume an increase of 4% in tuition in each year of the biennium. The 4% tuition increase, along with the enrollment adjustment and the request, would increase funding per student by 5% in FY2006 over the FY2005 level.

Table 1  
(\$ in millions)

**Revenue parameters for the  
Minnesota State Colleges and Universities  
FY2006-FY2007  
Biennial Budget Request**

<b>REVENUES</b>	<b>FY2006</b>	<b>FY2007</b>	<b>Biennium</b>
<b>State Formula adjustment</b>			
Base	\$36,000	\$36,000	\$72,000
One time	\$58,000		\$58,000
<b>Sub Total</b>	<b>\$94,000</b>	<b>\$36,000</b>	<b>\$130,000</b>
<b>Biennial Budget Request</b>			
4% State appropriation increase	\$21,858	\$44,590	\$66,448
4% Tuition increase	\$20,704	\$42,236	\$62,940
<b>Sub Total</b>	<b>\$42,562</b>	<b>\$86,826</b>	<b>\$129,388</b>
<b>TOTAL</b>	<b>\$136,562</b>	<b>\$122,826</b>	<b>\$259,388</b>

**Suggested Request Components**

The general investment categories have also been discussed. Final components and financing will be incorporated into an overall budget strategy that will be presented to the Board for review and approval this fall. Board input is sought at this time concerning the following items:

**1. Serving students -- addressing record enrollments and high demand areas by**

- Meeting critical state needs (nursing, teacher education, online learning)
- Funding innovation
- Technology and Leveraged Equipment
- Reaching underserved populations and markets
- Funding institutions with growing enrollments and providing access through the allocation framework implementation.

**2. Funding competitive salaries and inflation**

The funds would cover rising health care costs and other inflationary items. A preliminary proposal is being discussed to provide additional funding for exceptional performance or for those positions in high demand areas for which the system must compete for employees in regional or national markets.

In addition to the request items, a list of non-budget strategic issues is being developed. The list includes items that the system may advance during the 2005 legislative session. Some of the ideas may not need legislative approval, but are related to the FY2006-FY2007 biennial budget and may require Board or Chancellor action. Some of the issues that have been discussed include:

1. Changes to the state grant program, including dividing the program by education sector (e.g., MnSCU, University of Minnesota, private, etc.).
2. Price/affordability and tuition setting guidelines for colleges and universities.
3. Potential for enrollment limitations and caps if funding adversely impacted.

The Board will have its first reading of the budget proposal in September. Minnesota State Colleges and Universities constituents will have an opportunity to comment on the request at two public hearings in late September or early October. The Board will have its final reading in October, with approval scheduled for that time.

The state Department of Finance has yet to provide preliminary timelines and deadlines. It is expected that Minnesota State Colleges and Universities' formal request will be due to the Governor's office in mid-October. It is likely that the Governor's decision making will await the fall elections and the November 2004 revenue forecast.

*Date Presented to the Board: July 21, 2004*