The following report was introduced at the September meeting of the Finance and Administration committee of the Board of Trustees. The information was also the subject of public hearings held by the committee on September 30 at Minnesota State University Mankato and October 14 at North Hennepin Community College.

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 this month.

This report provides a brief overview of the environment in which the request was developed and brings forward a recommendation. Basic messages emerging from the development process include:

- Funding the Minnesota State Colleges and Universities and the students they serve is an investment in the future of the state.

- Minnesota state colleges and universities educate more undergraduate Minnesotans than all other providers combined and has absorbed three years of state appropriation cuts during unprecedented enrollment growth.

- The students have shouldered very large tuition increases which have placed Minnesota’s two year public college tuition amongst the highest in the nation.

- Current and future students will be discouraged from enrollment if the cost continues to increase. Tomorrow’s students need encouragement and assistance in order to succeed in their school and work life.

- Without adequate resources, the System's ability to educate a successful workforce, bring new immigrants into the mainstream, move people from welfare to work, and support community and economic development are being threatened.
Financial Outlook

The state is projecting 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 including general inflationary adjustments and enrollment/population adjustments to higher education and health and human services programs. 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 since FY1998.

Enrollment is projected to increase by 29% or 30,700 between FY1999 and FY2005. The state funding per student full year equivalent (FYE) has been declining in both current and inflation adjusted dollars.

<table>
<thead>
<tr>
<th>State funding levels</th>
<th>FY1999</th>
<th>FY2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funding per FYE – current dollars</td>
<td>$5,148</td>
<td>$3,974</td>
</tr>
<tr>
<td>Funding per FYE – inflation adjusted</td>
<td>$5,148</td>
<td>$3,459</td>
</tr>
</tbody>
</table>

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.

<table>
<thead>
<tr>
<th>Total revenues</th>
<th>FY1999</th>
<th>FY2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funding per FYE – current dollars</td>
<td>$7,385</td>
<td>$7,739</td>
</tr>
<tr>
<td>Funding per FYE – inflation adjusted</td>
<td>$7,385</td>
<td>$6,735</td>
</tr>
</tbody>
</table>

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 work plan 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 three 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 $130.8 million. The total is a combination of one-time funding of $58.8 million and base funding of $72 million over the biennium for enrollment increases in FY2003, FY2004 and FY2005. 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. The $130.8 million is included in the adjusted base of $1.2 billion in Table 1.

- **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 growing enrollments and declining state resources and recognizing the difficult budget position of the state. The emerging recommendation is that a request of $66.5 million be pursued in the upcoming legislative session. A request of this size represents a 6% biennial increase in state appropriation over the current biennium. If the enrollment adjustment is included in the biennial base, the request is approximately a 5% increase. It is the smallest request in the history of the Minnesota State Colleges and Universities. If the state funds the enrollment adjustment and the 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.

- **Tuition assumption** - The request also assumes an increase of 4% in tuition in each year of the biennium. As done in prior requests, the tuition increase aligns with the Department of Finance’s inflation assumption. DOF is asking state agencies to cover inflation through reallocation of existing budgets. Past requests assumed 3% tuition increase based on the DOF inflation guidelines, whereas this request is a slightly higher 4%. The 4% tuition increase, along with the enrollment adjustment and the request, would increase funding per FYE student by 4.8% in FY2006 over the FY2005 level.
Table 1

Minnesota State Colleges and Universities  
FY2006-FY2007  
Biennial Operating Budget 
State Appropriation Request and Tuition Assumption  
($ in millions)  

<table>
<thead>
<tr>
<th>Request Component</th>
<th>FY2006</th>
<th>FY2007</th>
<th>Biennium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted Base*</td>
<td>$1,236.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Request</td>
<td>$ 66.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total FY2006-FY2007 State Appropriation</td>
<td>$1,303.3</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Tuition Assumption (4% annual increase) $62.9

* The adjusted base includes the $130.8 million enrollment adjustment for past enrollment growth, comprised of $36 million per year in base money and $58.8 million in one-time funds.

Request

Table 2 lists the components of the request, along with the proposed expenditure levels for each. The pages following the table provide further description. In general, the Minnesota State Colleges and Universities will present a request which:

- seeks to fund critical needs of the state,
- supports high priority areas of the strategic plan and work plan, and
- maintains core investments of the system.

Table 2

Minnesota State Colleges and Universities  
FY2006-FY2007  
Biennial Budget Request  
($ in millions)  

<table>
<thead>
<tr>
<th>REQUEST COMPONENTS</th>
<th>FY2006</th>
<th>FY2007</th>
<th>Biennium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meeting critical state needs</td>
<td>$7.8</td>
<td>$8.2</td>
<td>$16.0</td>
</tr>
<tr>
<td>MN Online</td>
<td>$3.5</td>
<td>$4.6</td>
<td>$ 8.1</td>
</tr>
<tr>
<td>Services and outreach to underserved markets</td>
<td>$6.0</td>
<td>$6.0</td>
<td>$12.0</td>
</tr>
<tr>
<td>Innovations fund</td>
<td>$2.5</td>
<td>$3.0</td>
<td>$ 5.5</td>
</tr>
<tr>
<td>Repair and replacement</td>
<td>$5.0</td>
<td>$6.0</td>
<td>$11.0</td>
</tr>
<tr>
<td>Competitive salaries</td>
<td>$4.6</td>
<td>$9.3</td>
<td>$13.9</td>
</tr>
<tr>
<td>Request total</td>
<td>$29.4</td>
<td>$37.1</td>
<td>$66.5</td>
</tr>
</tbody>
</table>

Inflation Assumption

Inflation @ 2.0% (funded through tuition) $20.7 $42.2 $62.9
In addition to the request and the inflation assumption, the enrollment adjustment of $130.8 million will be used to support growing enrollments, provide access, and maintain core investments at the colleges and universities. The $130.8 million which is part of the $1.2 billion adjusted base in Table 1, consists of $36 million per year in base funds and $58 million in one-time funds.

Description of Request Components

• **Initiative: Meeting critical state needs**  
  **Request: $16 million**

  **Nursing.** The objective of this item is to increase the number of nurses in the state at all levels of professional preparation through the master’s degree, including qualified nurse faculty in order to expand our teaching and clinical capacities. Minnesota, like many states, faces a severe shortage of nurses in the next five to 10 years. Shortages of licensed practical nurses pose a significant problem for long-term care facilities. The funding would increase capacity for training nurses, add innovative ways to educate nurses in a timely manner and build strategic partnerships in the healthcare industry.

  **Teacher education.** The initiative would support establishment of a teaching center to improve mentoring and retention programs for new teachers; meet needs in critical teaching areas; expand alternative or accelerated pathways to certification; and add a web-based clearing house for information about teacher education programs, services and resources.

  **Agriculture and small business management.** Management education programs provide education to a student population with limited access to the traditional education format. Students in this program currently own or manage a farm or small business on a full-time basis. The funds would serve diverse populations that have not previously accessed the programs; use technology to offer educational opportunities and course enhancements; support the program’s base; and provide tuition relief to participants.

• **Initiative: Minnesota Online**  
  **Request: $8.1 million**

  In addition to the use of one-time funds described on page 7 of this report, the base funding for Minnesota Online in this component will strengthen existing online services by offering seamless technical support for faculty and students 24 hours a day, seven days a week, expand tutoring and training services, and further develop services to corporate clients.

• **Initiative: Services and outreach to underserved markets**  
  **Request: $12 million**

  This initiative is designed to address the problems of students who have traditionally been underrepresented in higher education, including low-income, first-generation, and students of color, by taking a multi-level, multifaceted approach to improving the academic achievement and college motivation of these students. We envision the initiative to be similar in part to the successful TRIO programs, the federal educational opportunity outreach programs designed to motivate and support students from disadvantaged backgrounds. However, the initiative also relies heavily on the establishment of partnerships between colleges and universities to improve performance of students in lower grades by providing consultation, curriculum development and professional development for teachers. Federal funds for additional TRIO programs are extremely difficult to obtain, so state funds are being sought to advance this critical initiative. Working in partnership with the K-12 system, the colleges
and universities will undertake projects that will work with students at all levels of the K-12 educational pipeline.

- **Initiative - Innovations fund**  
  **Request: $5.5 million**  
The Innovations fund will provide resources for the development of emerging programs, program clusters and innovative education-industry centers. The Innovations fund would assist the System in addressing rapidly changing needs of both students and employers by providing seed funds that would be triggered on a matching basis by our institutions’ partner organizations, including private sector foundations and employers. It will focus on the state’s economic and community development needs as the basis for aligning educational products and services with critical skill demands. The Innovations fund would provide resources for curriculum design, equipment acquisition and program or service development to address significant state needs.

- **Initiative - Repair and replacement**  
  **Request: $11 million**  
Like the one-time funds described on the following page, the ongoing base dollars in this component will be used to “keep-up” with repair, helping the colleges and universities avoid costly physical plant problems in the future.

- **Initiative: Competitive salaries**  
  **Request: $13.9 million**  
Minnesota State Colleges and Universities seeks financial resources to enhance its competitive salary position in the academic marketplace and to encourage excellence from its faculty and staff. We wish both to improve in high demand academic disciplines and to encourage and reward particular actions and outcomes. This approach carries the potential of more differentials in faculty and staff compensation improvements than has typically been the case in previous contract settlements; however, the specifics of any such compensation arrangements would remain subject to the collective bargaining process. It is likely that resources would be needed to fund some combination of general adjustments and discretionary or incentive payments.
Description of the Enrollment Adjustment Components

- **Initiative: Supporting growing enrollments, access, and core investments**  
  **Request: $130.8 million**

  **Supporting growing enrollments and providing access**

  This initiative, funded through enrollment growth dollars, will support the full implementation of the allocation framework. All funds for this initiative will go directly to the colleges and universities. The additional dollars are needed to support the growing enrollments at all institutions. Implementation of the allocation framework moves the system away from using a base-plus funding model, which was unresponsive to changes in the institutions’ internal and external environment. Full implementation of the allocation framework also includes funding of the Board priorities of access, collaboration and quality.

  **Minnesota Online**

  Minnesota Online increases access by providing high quality e-learning opportunities to learners of all ages and types. These one-time funds will support existing online programs, encourage growth of online courses, and provide incentives for collaboration between institutions.

  **Supporting core investments**

  - **Leveraged equipment.** Upgrading instructional equipment continues to be a priority for the Minnesota State Colleges and Universities. Colleges and universities must continually upgrade equipment to stay current with industry needs and to make students marketable in many careers including science, health care, and technical fields.

  - **Technology.** The demand for providing instructional materials and services electronically continues to grow. The additional funds will continue to support technologies that will increase access, efficiency, and student satisfaction.

  - **Repair and replacement of facilities.** Well-maintained facilities are a fundamental element in providing quality education. The deteriorating condition of state-owned and operated buildings is a growing concern. Facilities maintenance and repair has been under funded, creating a backlog of needed repairs of over $500 million. These one-time dollars will be used to fund critical repairs, which is more cost-effective than allowing conditions to deteriorate and having to correct costly problems compounded by time and inflation.

  **Inflation**

  In addition to the specific request components, Minnesota State Colleges and Universities is seeking to fund an inflation increase of 2%. In its initial budget documents distributed in August, the Department of Finance has asked state agencies to plan for a 4% per year increase in compensation costs for the FY2006-FY2007 biennium. However, the DOF expects the state agencies to fund the compensation increase through base budget reallocations and not from new appropriations. The System plans to cover inflation through a tuition increase and budget reallocations. The reallocation portion of the inflation support is not shown in the request.
Other Strategic Issues

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. Several of the issues 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 include:

1. Changes to the state grant program to improve services to part time students, including dividing the program by education sector (e.g., Minnesota State Colleges and Universities, 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 state Department of Finance indicated that Minnesota State Colleges and Universities’ formal request will be due to the Governor’s office November 1, 2004. It is likely that the Governor’s decision making will await the fall elections and the November 2004 revenue forecast.

RECOMMENDED MOTION
The Finance and Facilities Committee recommends that the Board of Trustees adopt the following motion:

The Board of Trustees is committed to providing high-quality, accessible education at all Minnesota State Colleges and Universities. The Board strongly urges the state of Minnesota to support the Minnesota State Colleges and Universities FY2006-2007 biennial operating budget request as illustrated in Table 1.

The Minnesota State Colleges and Universities’ Board of Trustees approves the final FY2006-2007 Minnesota State Colleges and Universities biennial operating budget request for transmittal to the Department of Finance. The Chancellor is requested to provide periodic updates on the progress of the budget through the executive and legislative branch review and approval process.

Date Presented to the Board: October 20, 2004
Date of Adoption: October 20, 2004
Date of Implementation: October 20, 2004