

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

Agenda Item Summary Sheet

Committee: Finance, Facilities and Technology **Date of Meeting:** October 8, 2008

Agenda Item: Fiscal Year 2010-2011 Biennial Operating Budget Request (Public Hearing)

- Proposed Policy Change Approvals Required by Policy Other Approvals Monitoring
- Information

Cite policy requirement, or explain why item is on the Board agenda: Every other year, as part of the state’s operating budget process, the Minnesota State Colleges and Universities develops a biennial operating budget request. Board Policy 5.9 Biennial and Operating Budget Planning and Administration Including Revenue Fund, Part 3, states that the Board of Trustees shall approve the biennial budget requests and systemwide allocations.

Scheduled Presenter(s): Laura King, Vice Chancellor - Chief Financial Officer
 Judy Borgen, Associate Vice Chancellor Budget
 Karen Kedrowski, System Budget Director

Outline of Key Points/Policy Issues: The Board is being asked to consider a budget request recommended by the Chancellor that is focused on infrastructure needs, access and affordability, and strategic plan advancements. The request would be financed by two sources of new revenue: increased state appropriation and additional tuition revenue plus reallocation of current resources.

The requested increase in state appropriation totals \$126.7 million, with a 4 percent (\$222 per year) average tuition increase at the universities and a 3 percent (\$122 per year) average increase at the colleges generating an additional \$68.0 million for total new revenues of \$194.7 million. In addition, the Chancellor is recommending that the System reallocate \$20.0 million of existing resources to generate the necessary resources to support a total package of \$214.7 million.

Background Information: The development of the biennial operating budget request has been guided by the 2008-2012 strategic plan and the 2009 action plan and tempered by the financial outlook of the State of Minnesota.

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

BOARD ACTION

Fiscal Years 2010-2011 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 operating budget request. The request for the 2010-2011 biennium is due to the Department of Finance and Employee Relations and the Governor on October 15, 2008. The following proposal is submitted for the committee's consideration. A public hearing is scheduled for October 8, 2008 at which time campus constituents and the public will be invited to comment to the committee about the proposal. The committee and the Board will be asked to adopt a final proposal at the Board meeting scheduled for November 18 and 19, 2008. The Department of Finance and Employee Relations has been apprised of the later date for approval and will accommodate it in their process.

STRATEGIC OUTLOOK

In March 2008, the Board adopted its strategic plan for 2008-2012, *Designing the Future*, with the following four strategic directions:

1. Increase access and opportunity.
2. Promote and measure high-quality learning programs and services.
3. Provide programs and services that enhance the economic competitiveness of the state and its regions.
4. Innovate to meet current and future educational needs

The following five strategic priorities are included in the adopted 2009 action plan:

1. Reaching the Underrepresented
2. Science, Technology, Engineering, and Mathematics (STEM)
3. Tuition Study and Price of Attendance
4. Succession Planning
5. Workforce of the Future

The development of the biennial operating budget request has been guided by the 2008-2012 strategic plan and the 2009 action plan and tempered by the financial outlook of the State of Minnesota.

I. THE ECONOMIC ENGINE

The Minnesota State Colleges and Universities serve 6,000 employers across the state, providing workforce development opportunities to 151,000 employees each year. The training is tailored to the needs of employers, so employees get exactly the skills they need for the job, with training often provided at the workplace. The System also responds to dramatic changes in the state economy by providing retraining opportunities to displaced workers.

The 34,000 state college and university students who graduate each year make Minnesota work: business owners and teachers, nurses and carpenters, social workers and electricians, journalists and lab technicians, city managers and police officers, accountants and computer programmers and more. Statewide, the colleges and universities contribute to successful communities by providing education and training for:

- More than half of the state's new teaching graduates;
- 82 percent of the state's new nursing graduates;
- 89 percent of the state's law enforcement officers;
- 41 percent of new business graduates;
- 89 percent of new graduates in the construction trades; and
- 9,000 of the state's "first responders" – those first on the scene when disasters and emergencies strike – each year.

Almost 87 percent of these graduates land jobs related to their field of study within a year of graduation. Of critical importance to the state's investment in these students is that 83 percent of all graduates stay in Minnesota to work or to continue their education.

Companies of all sizes in every region of the state depend on the Minnesota State Colleges and Universities System to prepare and maintain a qualified workforce, increase workplace productivity and support new business growth. The System's colleges and universities provide career preparation and continuing career education for more Minnesotans than any other organization in the state. The institutions work closely with business and industry to develop and deliver skill-based instruction identified as essential by employers and executives.

There has been a broad range of skill-based instruction provided to business and industry. Training has occurred in advanced packing automation and motion control; environmental and safety issues for the ethanol industry; composite technology; lean manufacturing; Six Sigma; and web offset press and bindery training.

The continuing education component of the System's efforts to serve training and development needs of the workforce makes training possible through non-credit instruction. The System's colleges and universities can provide coursework that leads to skill advancement and increased employability. Individuals who enroll in continuing education

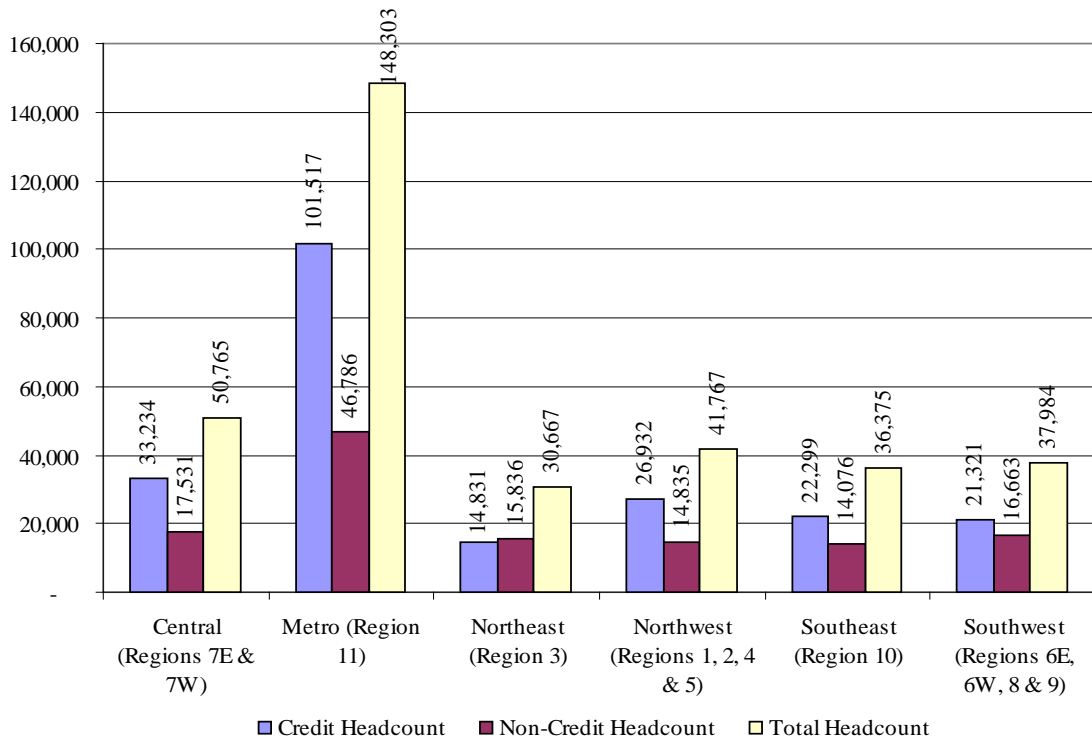
are generally seeking skill-upgrades to retain an existing job, improve upon their skills to support a new job or advance in their current position.

There are 47 workforce development centers located throughout Minnesota, with 8 centers located onsite at the System colleges. In fiscal year 2008, System colleges partnered with local workforce development centers and workforce investment boards, as well as business and industry partners, to win \$6 million in competitive grants from the U.S. Department of Labor. The four projects funded will increase the number and quality of workers prepared for employment in Minnesota's construction, health care, and energy industries.

The System educates about 382,000 students each year at 32 institutions on 53 campuses in 46 communities across the state; about 242,000 of those students are enrolled in credit-based courses. All economic development regions in the state directly benefit from the education and training provided to the students enrolled in credit and non-credit courses at the System's colleges and universities. Students enrolled in non-credit courses (approximately 125,000) are predominately individuals in the current workforce. Graph A shows student headcount in credit and non-credit courses by the Minnesota Department of Employment and Economic Development regions.

Graph A

**Minnesota State Colleges and Universities
Fiscal Year 2007 Credit and Non-Credit Headcount
By Department of Employment and Economic Development Regions**



Employment in the Minnesota State Colleges and Universities System is spread over 53 campuses in 46 communities across the state. The System is the largest state agency and comprises 38 percent of its workforce. The System is larger than the next three state agencies combined. Over 67 percent of the workforce is employed in communities outside of the Minneapolis-St. Paul metropolitan area. As a significant employer throughout the state, the Minnesota State Colleges and Universities are vital components of local economies.

Faculty members comprise 63 percent of the 19,486 total employees. Staff makes up 34 percent of the total and administrators make up 3 percent. On a full-time-equivalent basis, the total number of employees system wide was 14,903 for fiscal year 2007.

II. SHARED FINANCING RESPONSIBILITY

Measured on a full year equivalent (FYE) basis, enrollment is about 140,000 students per year. The vast majority – 86 percent – of those students are Minnesota residents; however, more than 3,300 students come from other countries.

Full-time students comprise about 59 percent of the total. Undergraduate students make up about 97 percent of all enrollment. The System is the fifth largest system of two- and four-year colleges and universities in the country, based on student enrollment. All of the System's two-year community and technical colleges have an open admissions policy, which means that anyone with a high school diploma or GED may enroll.

The Minnesota State Colleges and Universities System educates students from diverse academic, financial, cultural, racial and ethnic backgrounds. The colleges and universities educate students who are looking for an opportunity to better their lives and those of their families. The colleges and universities educate students who rank at the top of their class. The System enrolls more students of color than any other higher education provider in Minnesota – close to 33,000 in fiscal year 2007, not including international students. In addition, the System educates more than 20,000 high school students taking college courses through the Post-Secondary Enrollment Options program. About 5,900 students with disabilities were enrolled in fiscal year 2007. Enrollment of women exceeds that of men by 56 percent to 44 percent. The average age of students is 25.4 years. About 35 percent of all students are over age 25.

The colleges and universities offer over 3,900 academic programs that result in a credential – a degree, a diploma or a certificate. These programs are dynamic; from year to year, new programs are created and other programs are suspended or closed in response to declining enrollment or reduced labor market demand. In the past two years, our System has introduced 352 new programs, redesigned 563 programs, and closed or suspended 362 programs. Academic program declines in areas such as agricultural business and management, general sales, merchandising and related marketing operations, business operations support and assistant services, and vehicle maintenance and repair technologies have been offset by new programs in computer software and media applications, computer engineering technologies, nursing, and business administration and management. Almost 60,000 students each year are able to complete part of their education through online course work. The System's colleges

and universities now offer more than 230 programs completely or predominately online and more than 8,000 credit and non-credit course sections online.

For many years Minnesota has led the nation with a policy of “Shared Responsibility.” The principle behind the policy is that both a public and a private benefit are derived from investment in post secondary education. The state’s policy has been to value the public investment at 2/3 of the cost of the education and the private investment at 1/3 the cost. The policy was expressed both in state funding levels for the System and in the development and administration of the state’s financial aid program.

The state has not been able to fund its commitment to this policy for many years. While the policy statement remains in statute, the funding levels have declined over time. In the last decade, the System has seen revenue from tuition increase faster than state appropriation. Between fiscal years 1997 and 2007, the System saw an overall increase of 3.7 percent in state appropriation per FYE student, while tuition increased 105 percent during that same time period. (Graph B) Tuition has financed the state and student share of inflation.

Graph B

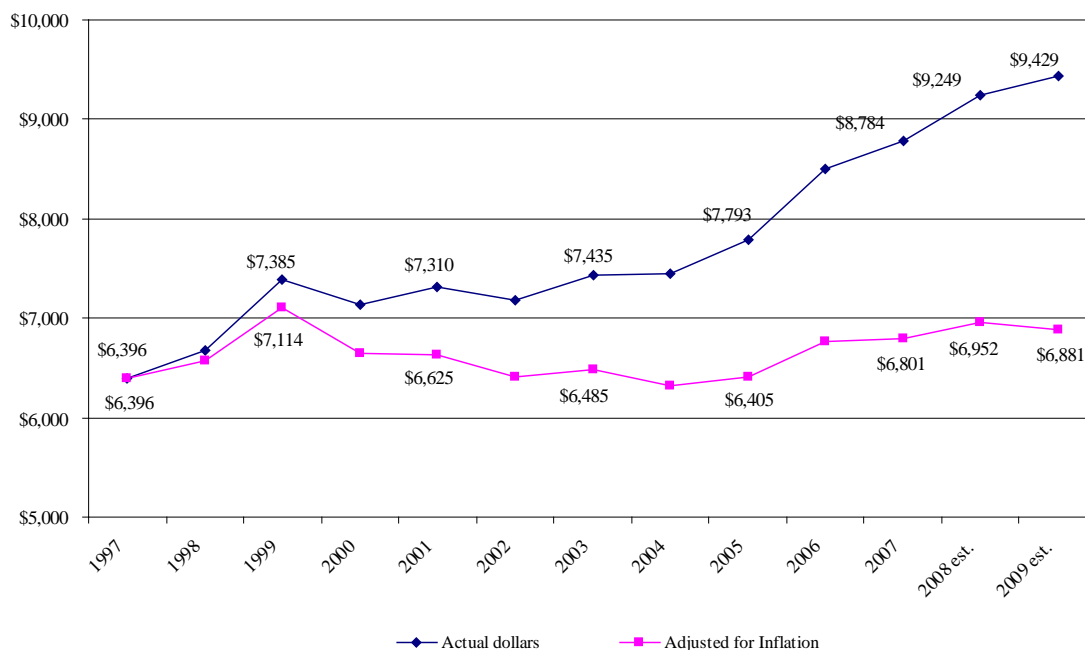
**Minnesota State Colleges and Universities
State Appropriation and Tuition
Per Full-Year Equivalent Student
Fiscal Years 1997 to 2009**



Despite increases in tuition and more recent increases in state appropriation, the System’s purchasing power is declining. Between fiscal years 1997 and 2007, actual appropriation and tuition per FYE student increased overall 37 percent (\$6,396 to \$8,784); when adjusted for inflation, the increase was just 6 percent (\$6,396 to \$6,801). (Graph C)

Graph C

**Minnesota State Colleges and Universities
Total State Appropriation and Tuition Funding Per
Full-Year Equivalent Student
Fiscal Years 1997-2009**



The System has responded to the declining purchasing power with aggressive cost controls, cost re-allocations and tuition increases. Even with the aggressive cost controls of the past ten years, the increased burden on students has been substantial.

III. AGENT OF CHANGE

The Minnesota State Colleges and Universities leads public colleges and universities across the nation in the establishment of a very exacting process of strategic planning, goal setting, measurement, and accountability for results. The 2008-2012 strategic plan guides the efforts of 32 colleges and universities and the staff in the Office of Chancellor. An annual action plan is adopted by the Board of Trustees which includes measurable goals with targets for each specific strategy. The goals are then translated to the work plan for the System leadership and measured as part of the annual performance evaluation process.

The Accountability Dashboard is a part of the change that has taken place in the past years. The Dashboard, which has received national attention, allows members of the public access in a transparent, accessible manner to key performance measures for each of the colleges and universities and the System overall. The following ten key performance measures are tied to the four strategic directions within the strategic plan:

Access and Opportunity

- Percent change in enrollment
- Net tuition and fees as percent of median income

Quality Programs and Services

- Licensure exams pass rate
- Persistence and completion rate
- High quality learning
- Student engagement

Meet State and Regional Economic Needs

- Partnerships
- Related employment of graduates

Innovation and Efficiency

- Innovation
- Facilities condition index

Data is available and displayed on six of these measures, and data collection for a seventh is underway. The remaining three (learning outcomes, partnerships and innovation) are under development and will be completed in 2009. Substantial effort will be devoted to improving these performance measures. For example, each presidential work plan includes strategies to support these measures as well as other priorities of the System's strategic plan

IV. PROCESS SUMMARY

It was important that development of the System's biennial operating budget be a collaborative process between the Board, the Leadership Council, and constituent groups. The development of the 2010-2011 biennial budget request began in May 2008 with a report to the Board regarding a proposed budget development process. All of the System's constituent groups have participated in multiple discussions concerning the proposal and were invited to propose elements for inclusion. The Leadership Council has been providing oversight and input as the proposal took shape. Information about the biennial operating budget process has been shared with the Board of Trustees at several meetings. Trustee input was also requested in order to frame the request in accordance with the goals of the Board. Most of the colleges and universities and constituent groups submitted items for consideration in the biennial operating budget request.

The state's most recently released planning estimates for 2010-2011 were considered as the System developed its 2010-2011 biennial operating budget request. The state has estimated, after 2008 legislative session adjustments, a \$940 million deficit in the 2010-2011 biennium before consideration of cost inflation. The deficit would increase by an additional \$1.04 billion assuming the Department of Finance and Employee Relation's initial inflation planning estimate of 1.9 percent increase per year. The state's economic outlook has a significant influence on the System's economic future. Slightly more than half of the System's general fund is supported by state appropriation. The System moves into the 2010-2011 biennium with a \$7.7 million reduction in appropriation as a result of 2008 legislative adjustments. In addition, the System will experience inflationary cost increases. This budget request represents a balanced approach to financing public higher education. It asks the Legislature and the people of Minnesota to invest in students, it asks students to continue to invest in their own education, and it anticipates reallocating \$20.0 million in existing resources to fund a share of the inflationary costs and academic initiatives.

A public hearing is scheduled for October 8, 2008 to allow additional input before the Board is asked to vote on the proposal at the November Board meeting.

V. PROPOSAL

The Board is being asked to consider a budget request recommended by the Chancellor that is focused on infrastructure needs, access and affordability, and strategic plan advancements. The request would be financed by two sources of new revenue: increased state appropriation and additional tuition revenue plus reallocation of current resources.

The requested increase in state appropriation totals \$126.7 million, with a 4 percent (\$222 per year) average tuition increase at the universities and a 3 percent (\$122 per year) average increase at the colleges generating an additional \$68.0 million for total new revenues of \$194.7 million. In addition, the Chancellor is recommending that the System reallocate \$20.0 million of existing resources to generate the necessary resources to support a total package of \$214.7 million. (Table 1).

Table 1

**Minnesota State Colleges and Universities
Fiscal Years 2010-2011 Biennial Operating Budget
Request Components**

(\$ in millions)	Request Components	FY2010	FY2011	Biennium
	Inflation	\$19.4	\$39.3	\$58.7
	Tuition Assistance	\$11.5	\$12.4	\$23.9
	Academic Initiatives	\$9.5	\$16.7	\$26.2
	State University Faculty Compensation Special	\$5.9	\$12.0	\$17.9
	Total New State Appropriation Request	\$46.3	\$80.4	\$126.7
	Tuition Assumption: 4% universities; 3% colleges	\$22.4	\$45.6	\$68.0
	Total New Revenues	\$68.7	\$126.0	\$194.7
	Reallocation Commitment	\$7.0	\$13.0	\$20.0

A. Inflation. In accordance with the Department of Finance and Employee Relations guidelines, inflation is assumed at 3 percent each year for total compensation and other operating expenses. Overall, the inflation assumptions incorporated into this budget request total \$133.6 million. The inflation costs would be covered by a combination of increased state resources and tuition dollars as follows:

- State appropriation: \$58.7 million
- Tuition: \$68.0 million. The package assumes a 4 percent (\$222 per year) average annual tuition increase at the universities and a 3 percent (\$122 per year) average increase at the colleges.
- Reallocation: \$6.9 million of existing resources will be reallocated to supplement the amount available to cover inflation.

The inflationary funds would allow the System to invest in its workforce, strengthen its ability to recruit and retain a high quality workforce that delivers exceptional services, and reward exceptional performance.

B. Tuition assistance. The request includes \$23.9 million for tuition assistance. The state resources would be used to fund the following tuition assistance programs:

- 1. Power of You:** The request includes \$5.3 million of state resources to be used to continue the successful program, Power of You, and expand the program to 4 institutions, 2 located in the metropolitan area and 2 located in greater Minnesota. The current Power of You program provides high school graduates of Minneapolis or Saint Paul public schools, who are residents of Minneapolis or Saint Paul, the chance to attend Metropolitan State University, Minneapolis Community and Technical College or Saint Paul College tuition-free for 2 years or 72 credits. The Power of You program also provides support services to ensure the academic success of the Power of You students. The additional state resources would ensure that the tuition assistance and support services continue at the current locations and would be expanded to new locations.
- 2. Part-time student grant program:** The request includes \$18.6 million of state resources for a new part-time student grant program. This grant program would be campus-based with grants awarded to financially needy Minnesota resident undergraduate students enrolled between 4 and 14 credits per term. A special focus would be on financially needy students who are enrolled part-time and who also work part-time (as these students are most often disadvantaged by the Minnesota State Grant proration formula for part-time students).

C. Campus initiatives. The request includes \$26.2 million of state resources to enable the colleges and universities and the System to move forward and make significant progress toward its strategic goals. It is anticipated that 95 percent of the funds will be distributed to colleges and universities. The balance of the funds is needed to support leadership, coordination, data collection, analysis and evaluation of these initiatives. The Chancellor is also recommending that the System reallocate \$13.1 million of existing resources to be used for the Workforce 2020 initiatives. The requested funds would support the following initiatives:

1. Workforce 2020 - \$21.2 million

- **Healthcare and manufacturing education (\$9.0 million):** These are the state's first- and second-largest industries facing the most critical workforce and skills shortage in the future. The funds would be used to support the following:
 - Increase the number of bachelor's prepared nurses
 - Focus on innovation, patient safety, and program accreditation
 - Support students who serve rural Minnesotans
 - Address the greater bottleneck – availability of nursing faculty
 - Customized skills development for small manufacturing and engineering firms
 - Expansion of training programs for low income students and under-skilled, incumbent workers to gain skills in high-tech manufacturing

- **Science, technology, engineering and math (STEM) education (\$9.0 million):** The funds would be used to continue support for the following:
 - Improve student preparation for college (e.g., bridge programs, K-12 outreach)
 - Increase student engagement and success (e.g., undergraduate research opportunities, faculty professional development)
 - Increase student knowledge of career opportunities and skill requirements (e.g., internships, curriculum developed in partnership with industry)
 - Develop and recruit effective STEM teachers and faculty
 - Provide infrastructure for effective STEM education (e.g., leveraged equipment program)
- **Centers of excellence (\$2.0 million):** Centers of excellence retain, attract, and engage employers, jobs, students, faculty and partners in strategically chosen instructional areas to address a state or region's greatest needs. The funds would be used to create two centers of excellence in two critical industry sectors for Minnesota's future competitiveness:
 - **Agri-industry:** The Minnesota State Colleges and Universities system offers education in over 40 different programs in the fields of agriculture, food, and natural resources; alternative energy; and environmental sciences on 15 college and five university campuses around the state. This center will provide guidance on the development of new programs, articulation, and advancements in the sciences to support Minnesota's agri-industries.
 - **Biosciences:** This was an area proposed by the Governor has one of the original centers of excellence. It would build on work funded through System initiatives focused on serving the biomedical device manufacturing, biotechnology, renewable energy, and nanotechnology industries and the convergence of technologies between these industries.
- **Entrepreneurship and small business education (\$1.2 million):** There are nearly 500,000 small businesses or sole proprietorships in Minnesota, many of which are currently served by Minnesota State Colleges and Universities' Small Business Management Education program. As the state continues to see growth in women- and minority-owned firms, entrepreneurship and small business education will be increasingly critical to fueling the state's innovation economy. Resources are needed to allow greater instructor efforts to recruit, educate and retain small business owners from these populations. The funds would be used to establish ten new entrepreneurship and business management education programs that will serve 350-450 new entrepreneurs and small business owners including underrepresented populations. In addition, funds will be used to conduct a market assessment of needs for small businesses to create training and education programs based on emerging trends.

2. Capacity building for the metropolitan area - \$5.0 million: The \$5.0 million of state resources would be used to support the metropolitan area planning initiative to aggressively expand the capacity of Metropolitan State University to provide baccalaureate and graduate education within the metropolitan area.

D. State university faculty compensation special. The request includes \$17.9 million to further the System’s efforts to improve the relative competitiveness of the base salaries of university faculty in order to improve the System’s ability to attract and retain outstanding faculty. Any salary increase will be the product of good faith collective bargaining in which the state universities will continue its efforts to develop a work environment that facilitates the delivery of high quality, high value educational opportunities that our students expect.

The tuition assumption in this request is predicated on receipt of the full \$126.7 million in requested new state appropriation resources. The tuition assumption incorporated into this request recognizes the Chancellor and Board’s interest in limiting the growth of tuition rates. If state resources are appropriated in an amount other than the request, the Chancellor would return to the Board after the conclusion of the legislative session for additional discussion regarding tuition.

VI. SUMMARY

The 2010-2011 biennial operating budget request is dedicated to supporting the System’s infrastructure and advancing the strategic plan. This biennial operating budget requests adds an additional \$126.7 million (9.3 percent increase) of state appropriation to the System’s current base of \$1,364.8 million for a 2010-2011 biennium total appropriation of \$1,491.5 million. (Table 2)

Table 2

**Minnesota State Colleges and Universities
Fiscal Year 2010-2011 Biennial Operating Budget Request**

(\$ in millions)	Fiscal Years 2010-2011	Percent Change
Base Appropriation	\$1,364.8	
Appropriation Request	\$126.7	9.3%
Total Fiscal Years 2010-2011 State Appropriation	\$1,491.5	

VII. RECOMMENDED COMMITTEE ACTION

The Finance, Facilities and Technology Policy Committee recommends that the Board of Trustees adopt the following motion:

RECOMMENDED 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 2010-2011 biennial operating budget request as illustrated in Table 2. This budget request builds in a modest tuition increase that supports the Board of Trustees' interest in affordability and accessibility. The Board of Trustees is committed to providing the System's colleges and universities with the ability to generate sufficient financial resources to provide a quality and competitive education to the learners of today. Final tuition decisions will be made at the conclusion of the 2009 legislative session.

The Minnesota State Colleges and Universities' Board of Trustees approves the final 2010-2011 Minnesota State Colleges and Universities biennial operating budget request for transmittal to the Department of Finance and Employee Relations. 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 8, 2008