

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
FINANCE, FACILITIES AND TECHNOLOGY COMMITTEE
MEETING MINUTES
February 12, 2009**

Finance, Facilities and Technology Committee Members Present: Tom Renier, Chair; Clarence Hightower, Vice Chair; Trustees Duane Benson, Ruth Grendahl, Allyson Lueneburg, Dan McElroy and Scott Thiss

Finance, Facilities and Technology Committee Members Absent: James Van Houten

Other Board Members Present: Cheryl Dickson, Jacob Englund, David Olson and Terri Thomas

Leadership Council Representatives Present: Vice Chancellor Laura King, President Ann Wynia

The Minnesota State Colleges and Universities Finance/Facilities Policy Committee held its meeting on February 12, 2009, 4th Floor, Board Room, 30 East 7th Street in St. Paul. Chair Renier called the meeting to order at 9:07 am.

1. MINUTES OF JANUARY 20, 2009

The minutes of the committee's January 20, 2009 meeting were approved as presented.

2. FY 2010-2011 BUDGET PLANNING UPDATE (*Information*)

Trustee Renier began the discussion by thanking members for making time for the meeting. He acknowledged that future meetings may be needed to clarify the potential impacts of budget actions so good decisions can be made in May or June when the FY2010-2011 operating budget is presented for the committee's review.

Vice Chancellor King echoed Trustee Renier's thank you to members for attending. She asked the committee for their guidance and advice as the conversations about budget planning continues. The governor's FY2010-2011 budget recommendation would result in a \$146M base reduction to Minnesota State Colleges and Universities. The governor asked that the system eliminate duplication in its programs and focus on its core priorities in order to continue meeting student needs. The governor encouraged the Board of Trustees to institute a firm cap on tuition increases.

The governor's budget recommendation and a planning assumption of a 4 percent tuition rate increase each year would result in the state appropriation and tuition percentage changing from 50.6 percent appropriation/49.4 percent tuition in fiscal year 2009 to 46.5 percent appropriation/53.5 percent tuition by fiscal year 2011. If the planning assumptions are correct, FY2010 would be the first time that tuition would provide a larger share of the operating budget than state appropriation.

Mary Davenport, Director of Government Relations, reported on the federal stimulus bill. The bill may be ready for the president's signature later this week. Details were not available about the impact to higher education although it is anticipated that Pell Grants will be increased and the HOPE credit will also be increased.

Vice Chancellor King referred to a table which showed two gap scenarios. In Scenario A, inflation for compensation and other operating costs was calculated at 0% which led to a negative gap for the biennium of \$65.7M. Scenario B included a 3% calculation for inflation which resulted in a much larger negative gap of \$199.3M. Scenario A would require tuition increases of 11% in FY2010 and 4% in FY2011 to solve the gap if only tuition was used. Scenario B would require tuition increases of 18% in FY2010 and 6% in FY2011.

Trustee McElroy requested that additional scenarios be added to the table. Scenario C should reflect a 1% total reduction in expenses and Scenario D should reflect a 2% reduction in expenses.

The Chancellor and presidents are committed to working diligently to make better use of current resources. The Chancellor and Leadership Council have discussed tools available if faced with drastic budget reductions. The tools come with limitations however. For example, the deadlines have passed for layoff notification of permanent faculty in fiscal year 2010. The earliest the system could impose faculty layoffs for permanent faculty would be in fiscal year 2011.

Vice Chancellor King stated that presidents are trying to make budget decisions that will not have adverse effects on students. She noted there are places where services are pretty basic and the edges will start to fray if further reductions are made. President Wynia asked for guidance from the Board. She commented that many of her campus costs are not directly tied to students but are necessary and often mandatory. She gave examples of such items as campus security, deferred maintenance, hazardous waste disposal and business office staff. Vice Chancellor King pointed out that Minnesota State Colleges and Universities ranked as the 46th lowest in administrative spending per student when compared nationally to similar public two and four year institutions.

The governor's recommendation is the first step in the 2009 legislative process. The upcoming revenue forecast, scheduled for release on March 3, will provide additional insight into the state's near and middle term fiscal challenge. Today's discussion on the strategic plan and proposed 2010 action plan priorities at the joint meeting of the Academic and Student Affairs and Finance, Facilities and Technology Committees will assist in identifying the system's strategic priorities. In March the Finance, Facilities, and Technology Committee will begin to allocate available state resources to the various categories (i.e., basic, incentive, special, and system) and provide direction for investments within each category.

Vice Chancellor King asked the Committee to provide guidance regarding the spending down of general fund reserves and the expectation of restoration to the 5 to 7 percent level. As stated in Board procedure "system and/or institution reserves may

be called upon in cases where other reasonable methods have been insufficient to maintain a balanced budget.” The Board has cautioned colleges and universities from using reserves to solve the \$20 million unallotment in fiscal year 2009 recognizing that reserves will be needed to transition through budget reductions in the next biennium.

At the close of fiscal year 2008, colleges and universities had reserve levels totaling \$70.8 million (6 percent of total general fund revenues). The system reserve level was \$7.0 million (1 percent of total state appropriation). Vice Chancellor King recommended that the colleges and universities be allowed to spend down to a 2 percent reserve level and that restoration efforts to the minimum 5 percent level begin in fiscal year 2012. She noted it is important to maintain the system reserve in case some institutions need more help in coming years.

Although committee members agreed that the FY2010-2011 biennium might be the “rainy day” that reserves are being saved for there was concern that perhaps the “rainfall” will worsen. It was urged that caution be used when spending reserves as the outlook for the FY2012-2013 biennium is unknown. Vice Chancellor King will also provide information to the committee on the system’s “primary reserve” as it is shown in the system’s financial statements. Unlike the budget reserve measure which is based on a general fund cash-based measure the primary reserve measures all funds on a full accrual system.

Vice Chancellor King noted that in the current biennium the Board set a fixed cap on tuition increases. A tuition cap results in different revenue increases to different institutions. On average, a 1 percent tuition rate increase for college students would be \$41 and for university students would be \$56. However, at individual colleges the range would be from \$35 to \$45 per student and at the universities from \$52 to \$61 per student. The method of approaching tuition increases using a maximum dollar amount per student would address the disparity that results in setting a maximum percentage increase. For example, an institution with a higher than average tuition rate would gain more additional tuition per student based on a set percentage increase than an institution with a lower than average tuition rate, assuming each institution raised tuition by the maximum percentage.

Vice Chancellor King asked the committee to consider pursuing a maximum dollar per undergraduate student tuition increase rather than a maximum percentage framework. Table 5 showed the range of annual tuition increase to be between \$210 and \$285 at the colleges and between \$285 and \$390 at the universities. Concern was expressed over raising tuition above the percentage discussed in the budget request which was approved in November 2008. Ms. King noted however that the budget request was based on receiving an additional \$71M from the legislature. The worsening state economy has resulted in the governor making a recommendation to negate the \$71M increase and in fact lower the System’s appropriation by an additional \$146M. This recommendation would create a \$200M problem for Minnesota State Colleges and Universities.

Trustee Benson noted that perhaps the higher HOPE credit for students in the federal stimulus bill would offset any tuition increases. He questioned whether higher tuition would cause enrollment to decrease. Vice Chancellor King stated there is only anecdotal evidence that indicates enrollment grows as unemployment increases. Board Chair Olson commented that keeping our tuition costs low would follow the same pattern that many businesses are using – cutting costs to keep customers. Trustee Dickson noted that higher education is different from businesses which have fewer customers; colleges and universities anticipate serving more students.

Vice Chancellor King thanked the committee for their input. The discussion of the FY2010-2011 budget will continue at the March committee meeting.

The meeting adjourned at 10:38 am.

Respectfully submitted,
Nancy Lamden, Recorder