



BOARD OF TRUSTEES STUDY SESSION

MAY 19, 2009

10:00 a.m.

**BOARD ROOM
WELLS FARGO PLACE
30 7TH STREET EAST
SAINT PAUL, MN**

Please note: Committee/Board meeting times are tentative. Committee/Board meetings may begin up to 45 minutes earlier than the times listed below if the previous committee meeting concludes its business before the end of its allotted time slot.

Chair Olson calls the meeting to order.

(1) FY 2010-2011 Operating Budget Including Tuition and Fees (pp 1-8)

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

INFORMATION ITEM
FY 2010-2011 Operating Budget Including Tuition and Fees

BACKGROUND

The system is continuing budget planning for the 2010-2011 biennium. Three principles are guiding the system's academic and financial planning work:

- The Chancellor and system leadership will seek to make decisions in a way that best serves students;
- Decisions will strive to take into account the system's mission to serve the economic development needs of the state and its communities; and
- Planning will take a multi-year approach, positioning the system for long-term financial viability.

The purpose of this report is to provide the Board of Trustees with additional information related to operating budget planning so that the Board will be better informed when making a final decision on the fiscal year 2010 operating budget including tuition recommendations. Board discussion will focus on budget planning parameters, use and distribution methods for stimulus funds and tuition parameters.

2010-2011 Legislative Negotiations

The state of Minnesota is faced with a projected fiscal year 2010 and 2011 budget deficit of \$4.6 billion. The governor, House and Senate have taken the following approaches to the budget deficit:

Governor:

Cost Shifts: \$1.3 billion

Spending Cuts: \$2.5 billion

New Revenues: \$ 1.1 billion - Health Care Access Fund Transfer

Tax Increases: None, actually made some tax reductions

House:

Cost Shifts: \$1.8 billion mostly in K-12 through payment delays from 90% to 73%

Spending Cuts: \$1.6 billion ranging from 3.5% to 7.5% in state spending areas - no cut to K-12

Tax Increases: \$1.5 billion

Senate:

Cost Shifts: None

Spending Cuts: \$2.4 Billion 7% across the board includes K-12

Tax Increases: \$2.2 billion

FY 2010-2011 Operating Budget Including Tuition and Fees 2

Both the House and Senate passed higher education bills for fiscal years 2010 and 2011 and are now in conference committee. The System is tracking for a \$161.8 million general fund reduction and \$133 million in federal stimulus funds in both the governor's recommendation and the House bill as shown in Table 1. The Senate bill has the System tracking for a \$103.7 million general fund reduction and \$75.6 million of federal stimulus funds. The outlook for fiscal years 2012 and 2013 is mixed. The governor's recommendation is to hold down the System's general fund base to \$608.6 million each year (\$146 million reduction from forecast). The House bill has the System's base at \$654.4 million (\$54.3 million reduction from forecast) and the Senate bill at \$627.8 million (\$107.6 million reduction from forecast).

Table 1

**Governor/House/Senate
Fiscal Years 2010-2013 Base Appropriation
Minnesota State Colleges and Universities**

(\$ in thousands)

	2009 fed funds	2010 base	2011 base	Biennial total	Fed funds 09-11	2012 base	2013 base	Biennial total	2010- 2011 change from forecast	2012- 2013 change from forecast
Governor – Forecast		681,597	681,597	1,363,194						
Governor Stimulus funds	3,469	600,694 65,000	600,694 65,000	1,201,388 130,000	133,469	608,597	608,597	1,217,194	(161,806)	(146,000)
Total		665,694	665,694	1,331,388						
House Stimulus funds	3,469	600,694 65,189	600,694 65,189	1,201,388 130,378	133,847	654,454	654,454	1,308,908	(161,806)	(54,286)
Total		665,883	665,883	1,331,766						
Senate Stimulus funds	15,578	615,362 60,062	644,038 -	1,259,400 60,062	75,640	627,802	627,802	1,255,603	(103,794)	(107,591)
Total		675,424	644,038	1,319,462						

At the time this report was written, a higher education conference committee was appointed and discussions were occurring on the differences between the House and Senate bills.

Budget planning parameters

Colleges and universities are taking a multi-year approach to budget planning. Budget discussions/consultations have been and will continue to be ongoing with both the campus communities and system constituents culminating with Board of Trustees approval of the fiscal year 2010 operating budget in July 2009. During its meetings, the Finance, Facilities and Technology Committee has received updates to the budget planning process to assist with discussion and guidance that has been provided to the Vice Chancellor – Chief Financial Officer.

Labor negotiations for the System's largest bargaining units have been completed for the 2010-2011 biennium. Compensation inflationary cost increases will generally be limited to insurance rate increases in the second year. With compensation expenses in excess of 70 percent of the general fund budget, limiting compensation cost increases is a critical part of balancing the 2010-2011 operating budgets.

Budget planning parameters being used by the colleges and universities include the governor's appropriation recommendation, a five percent tuition increase, and modest inflationary cost increases (one percent compensation and three percent other operating costs).

The Chancellor and Vice Chancellor – Chief Financial Officer have directed the colleges and universities to reach a structural balance at the beginning of fiscal year 2012 targeting the governor's planning estimate of \$608.6 million. The presidents understand that this is a conservative approach but is best for the system at this time. This means that the base budget needs to be reduced approximately \$50 million by the end of fiscal year 2011. The fiscal year 2012 base budget (prior to any tuition or inflationary cost increases) is targeted to be slightly lower than fiscal year 2009.

Budget scenarios have been presented to the Finance, Facilities and Technology Committee modeling varying assumptions. Prior to any tuition assumption, the System has a budget gap of \$226 million in fiscal years 2010-2011 based on the governor's budget recommendation and modest inflationary cost increases (Table 2). Building in a 5 percent tuition increase, the gap is reduced to \$127 million.

**Table 2 Minnesota State Colleges and Universities
Fiscal Years 2010-2013 Budget Outlook
(Without American Recovery and Reinvestment Act Funds)**

(\$ in thousands)

	2009 Base (doubled)	2010-2011 Base Governor Rec. (Prior to Tuition Assumption)	Change	2010-2011 Base Governor Rec. (5% Tuition Assumption)	Change	2012-2013 Base Target (Prior to Inflation & Tuition Assumptions)
Appropriation	\$1,363	\$1,202	(\$161)	\$1,202	(\$161)	\$1,217
Tuition	\$1,295	\$1,295	\$0	\$1,394	\$99	\$1,427
Other Revenue	\$216	\$216	\$0	\$216	\$0	\$216
Projected Revenue	\$2,874	\$2,713	(\$161)	\$2,812	(\$62)	\$2,860
Projected Expenses	\$2,873	\$2,939	\$66	\$2,939	\$66	\$2,860
Projected Budget Gap	\$1	(\$226)		(\$127)		\$0

Federal stimulus funds

As noted above, the System is tracking for \$133-134 million in federal aid from the American Recovery and Reinvestment Act of 2009 in both the governor's recommendation and the House bill and \$75.6 million in the Senate bill. Under each bill, the System would have enough resources to assist the colleges and universities absorb base cuts to a new sustainable level as well as to provide tuition mitigation. This will be a challenge because it means spending one-time resources while the 2010- 2011 base budget is being reduced.

Generally, the stimulus funds can be used for education and general expenditures, in such a way as to mitigate the need to raise tuition and fees for in-State residents; or for

modernization, renovation, or repair of facilities that are primarily used for instruction, research, or student housing.

The Leadership Council has been consulted regarding the method for distributing the stimulus funds directed for college and university general budget support. The method that will be presented to the Board as part of the 2010 operating budget approval will be to distribute the resources based on percent share of the allocation framework. These funds will assist colleges and universities to transition to the fiscal year 2012 base budget.

There has been much discussion with the Leadership Council regarding the use of stimulus funds for tuition mitigation. The Finance, Facilities and Technology Committee has also discussed tuition mitigation. There is a concern about a cliff that will exist in fiscal year 2012 if stimulus money is used to mitigate tuition. Assuming a 5 percent tuition increase each year, tuition mitigation of 3 percent in fiscal year 2010 and 2 percent in fiscal year 2011 has been discussed. This approach would leave a cliff of 2 percent for students in fiscal year 2012 prior to any new tuition increases.

It would be the interest of the Chancellor to provide tuition mitigation to all students. However, the federal guidelines reference tuition mitigation for in-State students. As Minnesota has reciprocity agreements with a number of states that allow non-resident students to pay Minnesota resident tuition rates, clarification is being sought on interpretation of the guidelines. The method for distributing to colleges and universities the portion of stimulus funds directed for tuition mitigation would be based on eligible student enrollment.

Tuition parameters

Since early Fall 2008, discussions have occurred with the Leadership Council and the Finance, Facilities and Technology Committee around tuition parameters for fiscal years 2010 and 2011. The 2010-2011 biennial operating budget request of \$71.7 million was built on an assumption of 4 percent additional revenue – 2 percent tuition increase for college students and 3 percent tuition increase for university students – with the balance of revenue included in the operating budget request. With the System facing a large appropriation reduction in the 2010-2011 biennium and concern expressed with the outlook for the 2012-2013 biennium and the likelihood that continued pressures will challenge the System's efforts to serve the people of Minnesota, the tuition planning assumption has increased to a System average 5 percent.

There has been considerable interest in moving away from a percentage rate change to a dollar per student rate change. This will begin to address the disparity that results in setting a maximum percentage increase. This method will provide each college and university with the same amount of increased tuition on a full-year equivalent student, with a small variance in percent increase, if the college or university chooses to increase tuition at the maximum amount.

Colleges and universities have been advised of a maximum dollar per student rate increase for fiscal years 2010 and 2011. For colleges, the maximum amount per full-year equivalent undergraduate resident student would be \$210.00 or \$7.00 per credit for fiscal year 2010 and \$219.00 or \$7.30 per credit for fiscal year 2011. For universities, the maximum amount per

full-year equivalent undergraduate resident student would be \$285.00 or \$9.50 per credit for fiscal year 2010 and \$300.00 or \$10.00 per credit for fiscal year 2011.

As most of the biennial outlook will be known – state support, federal funds, and labor contract costs – it seems appropriate to pursue a vote of the full Board on both 2010 and 2011 tuition rate increases. Therefore, the Chancellor will recommend tuition rate increases for each college and university for both fiscal years 2010 and 2011 to the Board for review in June 2009 and action in July 2009. The Board will be provided detailed information on the fiscal year 2010 budget and less detail on the fiscal year 2011 budget. The consultation process at each college and university will continue for the fiscal year 2011 budget during the next academic year. The Chancellor will return in the Spring of 2010 with details of the fiscal year 2011 budget including campus consultation.

Alignment of financial resources to strategic priorities

Each year the Chancellor and Board direct financial resources to moving forward the System’s strategic priorities. At its March meeting, the Finance, Facilities and Technology Committee discussed the \$28.5 million (\$4.4 million of one-time funding) of resources in fiscal year 2009 supporting the strategic priorities (Table 3). With the System facing a large appropriation reduction in the next biennium, the Chancellor has sought input and guidance from the Leadership Council regarding distribution of limited resources. The Leadership Council has indicated that generally the activities funded with state resources could be pro-rated to the available level.

**Table 3 Minnesota State Colleges and Universities
Distribution of Financial Resources to System Priorities**

Priorities	FY2009	FY2010 (estimated pro- ration)
Centers of Excellence	\$5,000,000	\$4,343,700
Serving underrepresented	\$11,000,000	\$9,556,200
Technology (college/university)	\$7,500,000	\$6,515,600
Minnesota Online	\$600,000	\$521,200
Strategic priorities (one-time resources)	\$4,400,000	\$0
Total system priorities	\$28,500,000	\$20,936,700

The draft 2010 action plan, which has been shared with the Board, continues the System’s priorities for reaching the underrepresented, STEM, and workforce of the future and adds three new priorities of Minnesota Online and e-Learning, organizational change, and energy conservation. The Board will be provided information as to the capacity of colleges and universities to advance and respond to the System’s strategic priorities in light of the fiscal challenges and difficult resource decisions that have to be made during the next biennium. The Legislature is also discussing the alignment of financial resources to the System’s strategic priorities, and the Board will be advised of the final outcome when concluded.

Tuition scholarship program for unemployed Minnesota residents

In Spring Term 2009, three System colleges implemented a tuition scholarship program for individuals who are eligible for the state's unemployment insurance benefits. Education is the key to economic recovery and is an investment in people. The tuition scholarship program benefits unemployed individuals with the hope that the tuition scholarship will lead to future enrollments. The colleges that implemented the scholarship program are Anoka-Ramsey Community College, Minnesota State Community & Technical College, and Normandale Community College.

System Procedure 7.3.12, Scholarships, provides authority for presidents to fund scholarship programs for high priority student populations. Any tuition scholarship program is campus-based and dependent upon availability of financial resources at the college or university. A scholarship program should be initiative-based and linked to a college or university's strategic plan.

The tuition scholarship program can be designed in one of many ways. All three programs are administered on a space available basis. A summary of the three programs follows:

Anoka-Ramsey Community College: This program was designed for the tuition scholarship to cover 50 percent of the tuition charged, with no limit on the number of courses (credit or non-credit) registered for by the student. Approximately 204 individuals participated in credit courses and 40 solely in non-credit courses for Spring Term. The total amount of scholarships was \$129,544. This tuition scholarship program was met with positive responses both internally and externally. Some testimonials received from students participating in the tuition scholarship program:

- "I would not have considered college as an option if it wasn't for the Anoka-Ramsey's decision to provide this 50 percent tuition grant."
- "College would not have been an option for me if it was not for this program."
- "I was thrilled to find out I qualified for the tuition break and I wasn't about to pass on such a great opportunity."

Community leaders have praised Anoka-Ramsey Community College for reaching out to serve their community and strengthen the state's workforce by offering tuition assistance to unemployed individuals.

Minnesota State Community & Technical College: This program was designed for the tuition scholarship to cover 100 percent of the tuition charged, with no limit on the number of courses registered for by the student and only offered at the Fergus Falls campus. There were 27 students who initially registered for the program, with 15 still enrolled. The total amount of scholarships was \$11,972. The program was successful for students who had knowledge of both the financial and time commitment needed to be successful in college. The students who did not complete their courses were at a very different place in their processing. Those students needed more time to understand how the entire college experience worked and grieve the loss of their employment.

Normandale Community College: This program was designed for the tuition scholarship to cover 100 percent of the tuition charged, with a limit of 8 credits or less. There were 269 students who had enrolled in 327 eligible courses for a total of 1,017 credits (68 full-time equivalent enrollment). These students also registered and paid for an additional 86 courses for a total of 311 credits (21 full-time equivalent enrollment).

The tuition scholarship program for unemployed individuals was offered Summer Term 2009. It is likely that this tuition scholarship program for unemployed individuals will be offered by more institutions beginning Fall Term 2009 if the financial resources are available at the individual college or university. This type of tuition scholarship program is an excellent example of our institutions responding to the needs of their community. It is the interest of the Chancellor for colleges and universities to continue to provide scholarship programs for high priority student populations as allowed for under Board procedure.

Office of the Chancellor budget reductions

The Office of the Chancellor has undertaken budget planning reductions in the area of 10 to 15 percent. The Chancellor, Cabinet, and Leadership Council have had full and robust discussions over the past several months concerning the services and functions performed in the Office of the Chancellor. Significant staff energy was spent analyzing what activities are performed in the Office of the Chancellor and how those activities serve the System's core mission and support and serve the colleges and universities. Guidance and advice was sought from the Leadership Council on which functions within the Office of the Chancellor they view as most critical for their operations. The presidents have provided thoughtful insight, explaining what the impact on their campuses would be depending upon where cuts are made.

Some advice has remained constant throughout the conversations with the presidents:

- Do not apply budget reductions within the Office of the Chancellor "across the board";
- Avoid increasing or adding fees for service beyond what is currently being assessed;
- Avoid transferring legally or contractually mandated activities to the institutions for execution; and
- Attempt to find specific areas for elimination rather than diluting all areas of service.

Presidents are constant in their belief that all institutions have been significantly advantaged by the comprehensive services offered by the Office of the Chancellor, particularly in times of institutional stress and at times when specific expertise is needed to supplement local knowledge. The Cabinet is continuing to assess services and staffing levels that will be needed to ensure long term programmatic and fiscal strength for the System. To achieve a structurally balanced budget, the Office of the Chancellor is planning for permanent full-time equivalent reductions. The Chancellor will provide a two-year budget outlook for the Office of the Chancellor when operating budgets are presented to the Board in June 2009.

Date Presented to the Board: May 19, 2009