



FINANCE, FACILITIES AND TECHNOLOGY COMMITTEE

FEBRUARY 12, 2009

9:00 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.

Committee Chair Thomas Renier calls the meeting to order.

- (1) **Minutes of January 20, 2009** (pp 1-8)
- (2) FY 2010-2011 Budget Planning Update (pp 9-18)

Members

Thomas Renier, Chair

Clarence Hightower, Vice Chair

Duane Benson

Ruth Grendahl

Allyson Lueneburg

Dan McElroy

Scott Thiss

James Van Houten

Bolded items indicate action required.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
FINANCE, FACILITIES AND TECHNOLOGY COMMITTEE
MEETING MINUTES
January 20, 2009**

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

Finance, Facilities and Technology Committee Members Absent: None

Other Board Members Present: Cheryl Dickson, Jacob Englund, David Olson, Louise Sundin 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 January 20, 2009, 4th Floor, Board Room, 30 East 7th Street in St. Paul. Chair Renier called the meeting to order at 1:08 pm.

1. MINUTES OF NOVEMBER 18 AND 19, 2008

Trustee Grendahl moved to approve the Finance, Facilities and Technology Committee meeting minutes of November 18 and 19, 2008 as presented. Trustee Thiss seconded the motion which carried with no dissent.

2. FINANCE, FACILITIES, AND TECHNOLOGY UPDATE (*Information Item*)

Vice Chancellor King reported that she and Senior Vice Chancellor Linda Baer have initiated a series of calls with new presidents to discuss leadership, communication, academic, and budget planning. The calls have been very fruitful and will continue into the summer.

The Advancement Committee will report on recent Senate budget testimony which was well received and on a report on Minnesota State Colleges and Universities' effort to identify barriers as requested by the Board in its motion approving the FY2010-2011 budget request.

The capital project review process began last week with over 60 representatives from colleges and universities participating in an all day review and scoring process. The Board will get its first look at the results in early February.

Vice Chancellor King reported the instructional management system (D2L) had essentially 100% availability during 2008. This would not have been possible without major investments in hardware, software, and personnel. A major software upgrade was completed in late spring without a hitch.

Database conversion testing is continuing in preparation for the planned conversion from rdb to Oracle in mid-February. Testing will continue up to the scheduled conversion. If any significant issues are uncovered, or if any unforeseen complications arise in the next several weeks, the conversion will be delayed until after the spring semester in order to avoid any potential for significant operational disruption.

Beginning December 1, a help line number was published on the student web application pages. Staffing personnel are now taking several hundred direct student calls each week. This substantially diminishes campus work load and also provides an early warning mechanism about potential outages or areas where the web applications are potentially confusing.

In partnership with the Center for Strategic Information Technology and Security, a program has been designed and contracts are being finalized with MnCSU faculty and staff to develop the first 10 mini-courses covering various information security related areas identified in campus security assessments conducted last year. The self paced mini-courses are 2-4 hours in length and will be delivered on-line. The courses should be available for MnSCU Campus technology staff by the end of April. These courses have the potential for use by state agencies and others, and are being designed with that potential market in mind.

3. MINNESOTA STATE UNIVERSITY, MANKATO CONSTRUCTION CONTRACT (*Action*)

Associate Vice Chancellor Allan Johnson, on behalf of Minnesota State University, Mankato, requested approval of a proposed construction project to renovate portions of the McElroy Residence Community, "H" and "I" Wings. Board approval is necessary because the project includes a construction contract valued over \$2 million. This is consistent with the University's long term plan for renovation of existing campus housing.

The project will generally include improvements to lounge windows, flooring, walls, ceilings, doors and hardware, plumbing, heating, ventilation, air conditioning, lighting, telecommunications and card access systems. Built-in closets and furniture replacement is also included in the project.

Design and construction of the project will be funded by the University using \$5,252,000 of Revenue Fund operating reserves, and repair and replacement funds which have been specifically planned and earmarked for this project. The construction contract is estimated at \$3,800,000. State universities have a choice of financing this type of capital improvement, either through Revenue Fund operating reserves accumulated over time or the use of revenue bond proceeds with resultant debt. Expenditure of these funds will not impact the University's ability to maintain required reserve levels. No state appropriation or tuition funds will be used for the project.

The proposed schedule for design, construction, and related contract awards is as follows: design – winter 2009; begin construction - May 2009; and substantial completion - July 2010.

Trustee Hightower moved that the Finance, Facilities, and Technology Committee recommend adoption of the following motion. Trustee Grendahl seconded the motion which carried with no dissent.

RECOMMENDED MOTION:

The Board of Trustees approves the construction contract to renovate McElroy Residence Community, “H” & “I” Wings on the campus of Minnesota State University, Mankato as described herein.

4. MINNESOTA STATE COLLEGE – SOUTHEAST TECHNICAL PROPERTY DISPOSITION (*Action*)

Associate Vice Chancellor Allan Johnson asked the Board to declare Minnesota State College – Southeast Technical’s Aviation Training Center property located in Winona, Minnesota as “surplus” and authorize the building for sale.

The Aviation Training Center facility is located on airport land leased from the City of Winona on a 100-year lease that began November 9, 1990. The 71,650 square foot facility opened in 1992. Ground rent is \$1.00 per year. In 2006, when the college decided to close the Aviation Maintenance program, the college backfilled the facility with programs in drafting, industrial maintenance, nursing and carpentry, but it was determined that there were cost savings to selling the building and consolidating at the main campus. Proceeds from the sale will be used to consolidate, remodel or construct space at the main campus in Winona, and upgrade the main campus facilities to better address allied health careers.

There are two major impediments to the sale. First, the ground lease requires the college to continue to use the facility for public vocational education or the lease terminates. Second, any sale would trigger the repayment of the original state bond investment pursuant to Minnesota Statutes 16A.695, Subdivision 3, which would obligate the college to reimburse the state up to its \$4.67 million appropriation from any proceeds generated from the sale.

To address the first issue, the college has initiated discussions with the City of Winona and the Port Authority, which has jurisdictional control over the airport. The city is supportive of the college’s proposal to sell the building, and have expressed an interest in acquiring the facility via the Port Authority. It is expected that the Port Authority would simultaneously sell the facility to an area business. If the city (via the Port Authority) were to purchase the facility, the lease issue would be satisfactorily addressed, as the city would agree to amend the lease to accommodate the new buyer. Any purchase would be based on the appraised value.

To address the second issue, the Office of the Chancellor will test the waters with the 2009 legislature and either propose a statutory change to exempt MnSCU from the full repayment obligation of the original bond investment or, as an alternative, pursue

a specific session law that would specifically exempt the college from the bond repayment provisions of the statute, provided that the campus uses the sale proceeds for a capital project.

The committee discussed the possibility of the college keeping the property and entering into a lease for the portion of the building they are not using. Vice Chancellor King and Trustee McElroy noted that statutes prohibit the leasing of state property to “for profit” entities. Mr. Johnson also advised the committee that if either of the proposed legislative actions fails the Board could reverse their decision to declare the property surplus.

Trustee McElroy moved that the motion be approved as presented on page 14. Trustee Benson suggested amending the motion so approval of the sale of the property would be returned to the Finance, Facilities and Technology Committee for further review before approval. Trustee McElroy withdrew his motion. Trustee Benson then moved that the Finance, Facilities, and Technology Committee recommend adoption of the following revised motion. Trustee Grendahl seconded the motion which carried with no dissent.

REVISED RECOMMENDED MOTION:

The Board of Trustees approves the designation as surplus and authorizes for sale the Aviation Training Facility operated by Minnesota State College – Southeast Technical at the Winona Municipal Airport, subject to final Board review and approval, ~~subject to legislative exemption of the repayment provisions under Minnesota Statutes §16A.695, subdivision 3, and directs the Chancellor or his designee to execute all necessary documents to complete the conveyance in compliance with such laws.~~

5. METROPOLITAN STATE UNIVERSITY CONTRACT APPROVAL *(Action)*

Metropolitan State University President Sue Hammersmith and Interim Vice President for Administration and Finance Murtuzza Siddiqui requested approval of a professional/technical services contract estimated to total \$4.5M. President Hammersmith apologized to the Board and acknowledged that the University was not in compliance with Board policies and the related system procedures in a contractual relationship with Bryant Rolstad Consultants, LLC to educate Wound, Ostomy and Continence (WOC) nursing students in an online format. Due to a high volume of staff turnover in the University’s Financial Management Office, it has been a challenge to maintain continuity and retain adequate knowledge. The University has already made significant improvements pertaining to procurement and is committed to following all Board policies.

The Office of the Legislative Auditor conducted a compliance audit of professional/technical contracts of various state agencies, including selected contracts at certain MnSCU institutions. As part of this audit, the auditors raised three issues regarding a contract between Metropolitan State University and with Bryant Rolstad, Consultants, LLC:

- No RFP – the contract was not competitively bid and was not identified as a sole source contract;
- the contract duration exceeded five years;
- Metropolitan State University exceeded its signature authority of \$50,000.

Vice Chancellor King responded to trustees' concerns that there is no question the program has been very successful from an educational perspective. She reassured the committee that as the University prepares an RFP for a new contract (the current contract is in effect through December 31, 2010) appropriate procedures will be followed and necessary approvals obtained.

Trustee Hightower moved that the Finance, Facilities, and Technology Committee recommend adoption of the following motion. Trustee Thiss seconded the motion which carried with no dissent.

RECOMMENDED MOTION:

The Board of Trustees approves the current contract between Metropolitan State University and Bryant Rolstad Consultants, LLC for estimated total expenditures not to exceed \$4,500,000.

6. FY 2010-2015 CAPITAL BUDGET UPDATE (*Information*)

Associate Vice Chancellor Allan Johnson updated the committee on the capital budget process currently underway in preparation for the 2010 legislative session. Mr. Johnson noted that discussions at the November Board meeting indicated that staff could develop an FY2010 capital budget request in the range of \$380 to \$410 million, but with great care to not oversubscribe 2012 with a large number of phased projects, or "tails."

Twenty four new projects were scored in early January and twenty three of the 2008 vetoed and phased projects will carry forward. The Board indicated that the capital budget hearing, now planned for February 25, 2009, should focus on those colleges and universities that have concern over their project's placement or non-placement on the draft capital projects priority list to be released in early February 2009.

Mr. Johnson commented on the recent talk about a new "economic stimulus" package, both at the federal and state level, for execution in 2009. Two major national higher education associations have called for capital project nominations that would be ready to bid in 30 days, to be provided to the President-elect's transition team. Likewise, the Minnesota House and Senate have indicated an interest in crafting a bonding bill for the 2009 legislative session containing projects that can be awarded quickly. In all cases, Minnesota State Colleges and Universities has recommended the five capital projects that were approved by the Board and legislature but subsequently vetoed by the governor in the 2008 session totaling \$40.3 million. Secondly, a HEAPR package in the range of \$50 million could be quickly executed within 12 months of funding. Finally, there are four projects that were partially funded in 2008 which could be bid within three to nine months of funding in

2009 totaling \$26.8 million. A handout describing potential capital projects for 2009 totaling \$117.11M was provided.

Mr. Johnson reviewed the Facilities Renewal and Reinvestment Model (FRRM) that is used as a planning tool for capital reinvestment at existing facilities. The program quantifies the current physical condition of a campus and forecasts future renewal requirements. The program is web based and easy for campuses to maintain. Mr. Rick Biedenweg, President of Pacific Partners Consulting Group, noted that the program uses life cycle modeling to estimate the remaining life of building systems and renewal costs so backlog can be quantified. The Facilities Condition Index (FCI) is the metric based on the backlog versus the current plant value. In 2008 the system had a \$685M backlog. The 2009 backlog is estimated to be \$700M. The goal is to reduce the backlog by 50% (\$35M per year) over 10 years to “catch up”. College and university operating funds are a vital part of facilities renewal and backlog reduction. One dollar per square foot per year should be the minimum campus operating budget target.

7. FY 2009 UNALLOTMENT ACTION (*Action*)

Associate Vice Chancellor Judy Borgen informed the Board that the Governor’s unallotment of \$20 million represents 2.9 percent of the Minnesota State Colleges and Universities state appropriation of \$688.3 million for this year. The following three principles were recommended to guide the system’s academic and financial planning work in the months ahead:

- Decisions will be made 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

Vice Chancellor King, after consultation with the Chancellor, Chair of the Board of Trustees and the Chair and several members of the Finance, Facilities and Technology Committee of the Board of Trustees as well as consultation with the Finance and Administration Committee of the Leadership Council, recommends the following proposed distribution:

- Colleges and universities: \$16.27 million
- Systemwide debt service savings: \$2.8 million
- Office of the Chancellor/Shared Services: \$.93 million

In terms of total tuition and appropriation revenue, the unallotment represents a 1.5 percent reduction to the Office of the Chancellor/Shared Services compared to an overall average of 1.4 percent reduction to colleges and universities. The Chancellor has informed the colleges and university presidents that there should be very limited use of reserves to absorb the \$20 million reduction. As the system approaches the 2010-2011 biennium and the state is faced with a projected shortfall of \$4.8 billion, reserves will be a more critical part of budget planning and transition.

Trustee Van Houten suggested that more specific guidelines be given to the colleges and universities on how to make the budget cuts. Chancellor McCormick stated he is holding presidents accountable for staying focused on the strategic plan. President Wynia commented that presidents have a clear understanding of the Board's expectations and are appreciative of being given the discretion individually to solve this budget problem. Trustee Hightower agreed with giving the presidents flexibility based on the three given principles. Chair Olson also concurred with this opinion.

Chancellor McCormick noted that he and Vice Chancellor King and Senior Vice Chancellor Linda Baer are working with the new presidents to make sure they understand the problems that are involved. If another unallotment comes in March after the February forecast is released it becomes much more difficult to handle.

Trustee Hightower moved that the Finance, Facilities, and Technology Committee recommend adoption of the following motion. Trustee Benson seconded the motion which carried with Trustee Van Houten dissenting.

RECOMMENDED MOTION:

The Board of Trustees approves the recommended distribution methodology for the \$20 million unallotment during the current fiscal year.

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

Vice Chancellor King acknowledged the daunting task ahead for the legislature to balance the budget due to the projected state shortfall. The system is approaching this challenge by holding three principles central to decision-making in a reduction environment as stated above in Item #7.

The Board will be updated on the budget process at their March, May, and June (first reading) meetings. The FY2010 operating budget and tuition rates are scheduled to be approved at the July Board meeting. The committee discussed calling a special meeting in February after the Governor releases his budget recommendations in late January. On behalf of the committee Vice Chancellor King has been conferring with an advisory group consisting of Trustees Renier, Hightower, and Thiss on issues as they arise.

The Vice Chancellor asked for direction from members on the system priorities and numerous initiatives funded with discretionary state resources such as serving the underrepresented, enterprise technology, centers for excellence, tuition subsidies, system wide audit program and contract/non-credit activity. Trustees acknowledged that everything is on the table and must be re-evaluated depending on the outcome of the legislative session. Tuition will be part of the solution. Other issues that need further discussion are the Centers of Excellence, use of reserves, employee contracts, and funding for under-represented students. Discussions will take place with the advisory group and at future committee meetings.

9. FY 2008 and FY2007 AUDITED FINANCIAL STATEMENTS (*Information*)

Vice Chancellor King noted this item is for members' information only. The FY2008 Financial Statements were presented to the Audit Committee at their November meeting. All audited financial reports are available online at:

<http://www.finance.mnscu.edu/accounting/financialstatements/yearendstatements/index.html>

The meeting adjourned at 3:45 pm.

Respectfully submitted,
Nancy Lamden, Recorder

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

Agenda Item Summary Sheet

Committee: Finance, Facilities and Technology **Date of Meeting:** February 12, 2009

Agenda Item: FY 2010-2011 Budget Planning Update

Proposed Policy Change Approvals Required by Policy Other Approvals Monitoring

Information

Cite policy requirement, or explain why item is on the Board agenda: The system is continuing budget planning for the 2010-2011 biennium. The budget planning is incorporating the potential impact of the governor's 2010-2011 budget recommendation. Colleges and universities are seeking guidance from the Board regarding institutional reserve levels and parameters for tuition rate increases.

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

Outline of Key Points/Policy Issues: The purpose of this report is to provide the Committee with information on the impact of the governor's recommended operating budget, system reserves, and tuition.

Background Information: In November 2008, a 2010-2011 biennial operating budget request of \$71.7 million was submitted to Governor Pawlenty and Minnesota Management and Budget. In December 2008, Governor Pawlenty unallotted \$20 million from the system's fiscal year 2009 appropriation. On January 27, 2009 Governor Pawlenty recommended a \$146 million appropriation reduction (10.7 percent) from the system's base for the next biennium.

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

INFORMATION ITEM

FY 2010-2011 Operating Budget Planning

BACKGROUND

The system has begun budget planning for the 2010-2011 biennium. In November 2008, a 2010-2011 biennial operating budget request of \$71.7 million was submitted to Governor Pawlenty and Minnesota Management and Budget. In December 2008, Governor Pawlenty unallotted \$20 million from the system's fiscal year 2009 appropriation. On January 27, 2009 Governor Pawlenty released his 2010-2011 operating budget recommendation. His budget recommends a \$146 million appropriation reduction (10.7 percent) from the system's base of \$1,363.2 million for the next biennium. The purpose of this report is to provide the Committee with information on the impact of the governor's recommended operating budget, system reserves, and tuition. The Committee will also be updated on budget planning underway at the colleges and universities and the Office of the Chancellor.

Governor's 2010-2011 General Operating Budget Recommendation

As the state approaches the 2010-2011 biennium, it is faced with a \$4.847 billion deficit in the general operating budget. The governor's 2010-2011 general fund budget recommendation totals \$33.611 billion in spending and was built on the principles of balancing the budget, funding priorities in order of importance, strategically positioning Minnesota for success in a changing world, enhancing and expanding pay for performance, and not increasing burdens by raising taxes.

The budget addresses the \$4.847 billion deficit as follows:

Spending cuts/savings	\$2.521 billion
Other resources	\$3.197 billion
Tax cuts/initiatives/reserve	(\$0.860) billion
Total	\$4.858 billion

Of the \$2.521 billion spending cuts/savings, \$2.368 billion is permanent spending cuts. The \$3.197 billion of other resources includes \$920 million of federal stimulus, \$1.294 billion in K-12 payment shifts, and \$983 million of tobacco appropriation bonds.

Table 1 summarizes the funding level for the various sectors of state government based on the governor’s 2010-2011 general fund budget recommendation. Under the governor’s budget recommendation, K-12 education would have a small increase and the property tax/local aids sector of state government would face the largest reduction at 15.3 percent (excluding the shift of debt service costs to the tobacco appropriation). Higher education, which includes the Office of Higher Education, the University of Minnesota, the Mayo Foundation, and the Minnesota State Colleges and Universities, is targeted for a 9.9 percent reduction (\$313 million).

Table 1

**State General Fund
Forecast Versus Proposed FY2010-2011 Budget**

(\$ millions)	Forecast FY2010- 2011	Governor FY2010- 2011	\$ Change	% Change
K-12 Education*	\$13,903	\$14,059	\$156	1.1%
Higher Education	\$3,158	\$2,845	(\$313)	-9.9%
Property Tax/Local Aids	\$3,419	\$2,897	(\$522)	-15.3%
Health & Human Services**	\$12,627	\$11,324	(\$1,303)	-10.3%
Debt Service/Capital Projects***	\$1,097	\$114	(\$983)	-89.6%
All Other Omnibus areas	\$3,620	\$3,555	(\$65)	-1.8%

* For comparability, excludes K-12 shift savings

** For comparability, reflects HHS Combined General and Health Care Access Funds

*** Reduction reflects general fund costs to be paid by tobacco appropriation bonds

As shown below, the governor’s budget recommendation would reduce the system’s appropriation by \$146 million (10.7 percent) over the 2010-2011 biennium to a funding level of \$1,217.2 million over the biennium (\$608.6 million per year). The proposed funding level would be approximately \$14 million higher than the system’s funding level for the 2006-2007 biennium and \$131.1 million lower than the current 2008-2009 biennium (excluding the \$20 million unallotment).

System’s forecast appropriation	\$1,363.2 million
Governor’s base reduction	(\$ 146.0) million
Governor’s budget recommendation	\$1,217.2 million

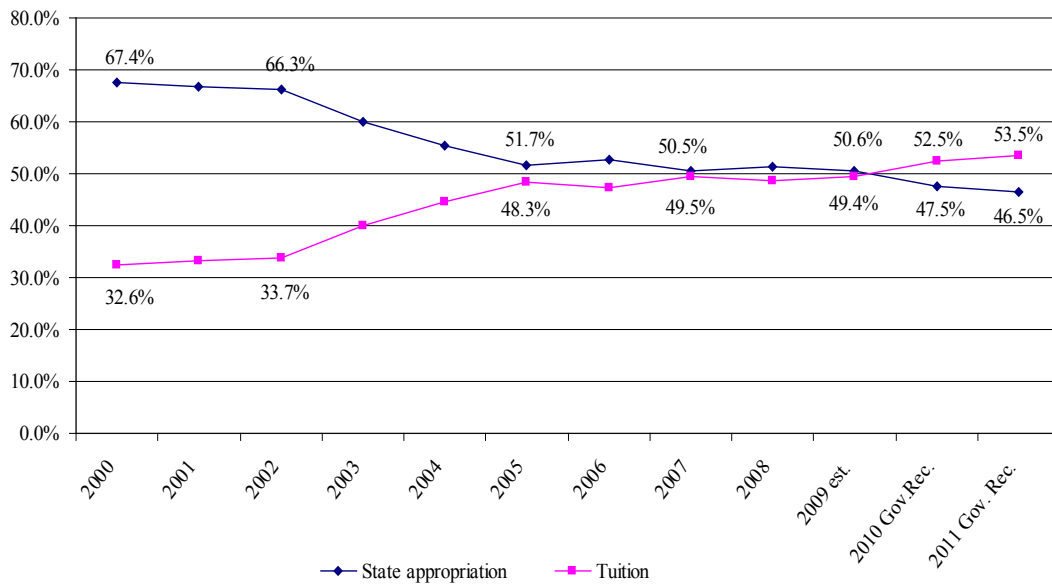
The governor asked that the system eliminate duplication in its programs and focus on its core priorities in order to continue meeting student needs. To ensure that rising tuition costs

do not unduly harm students, the governor encourages the Board of Trustees to institute a firm cap on tuition increases.

It is the legislature’s intent, as stated in Minnesota Statutes 135A.01, to provide at least 67 percent in appropriation support based on the combined revenue total from tuition and state general fund appropriations to public postsecondary institutions. 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. (Graph A) It is worth noting that the system’s 2010-2011 biennial budget request of \$71.7 million, if funded, would maintain the current relationship of 51 percent appropriation/49 percent tuition.

Graph A

**Minnesota State Colleges and Universities
State Appropriation and Tuition Relationship
Fiscal Years 2000 to 2011**



Budget scenarios have been developed modeling the potential impact of the governor’s budget recommendation coupled with a 4 percent tuition increase planning estimate and inflationary cost increases. Under a scenario of no inflationary cost increases, the model projects a budget gap of (\$65.7) million over the biennium. When inflationary costs (\$133.6 million at 3 percent) are added to the budget, the gap increases to (\$199.3) million. (Table 2)

Table 2

**Financial Framework:
2010-2011 General Operating Budget Planning**

\$ in millions	2009 Budget* (doubled)	Scenario A: 2010-2011	Scenario B: 2010-2011
Assumptions:			
State appropriation (based on governor's budget recommendation)		(\$146.0)	(\$146.0)
Tuition		4%	4%
Compensation/other operating inflation		0%	3%
Revenue:			
State appropriation	\$1,364.8	\$1,217.2	\$1,217.2
Tuition	\$1,294.6	\$1,373.3	\$1,373.3
Other	\$216.6	\$216.6	\$216.6
Total	\$2,876.0	\$2,807.1	\$2,807.1
Expenses:			
Compensation	\$2,106.5	\$2,106.5	\$2,204.4
Other operating	\$766.3	\$766.3	\$802.0
Total	\$2,872.8	\$2,872.8	\$3,006.4
Gap	\$3.2	(\$65.7)	(\$199.3)
Gap as % of FY2009 Budget		-2.3%	-6.9%

* The 2009 operating budget was adjusted to exclude \$33 million of one-time resources that were programmed within the operating budget.

If the (\$65.7) million gap in Table 2 above was solved solely with tuition, it would require a 4 percent tuition increase plus an additional 7 percent increase for the first year of the biennium. When inflation is factored into the gap, a 4 percent tuition increase plus an additional 14 percent increase would be needed in the first year of the biennium and a 4 percent plus an additional 2 percent tuition increase in the second year of the biennium.

The system is committed to working diligently to find more efficient and better use of current resources. The system will use innovation and creativity to find new ways of doing things. The Chancellor and presidents will continue and strengthen partnerships and collaborations to increase productivity and aid in student success. The Chancellor and Leadership Council have discussed tools available if faced with drastic budget reductions. The tools come with limitations. 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. Faculty comprise almost 60 percent of the system's total employee full-time equivalent (FTE). Total general fund compensation costs for the system are in excess of 70 percent. Program closures cannot be accomplished

overnight. Under accreditation requirements, colleges and universities must give students options to complete their programs in a reasonable time.

The Leadership Council has had a framework in place for 2009-2011 budget planning since early November 2008. Focused discussions are occurring within each Leadership Council committee on the strategic plan priorities, identifying barriers within law, policy or labor contracts, and generating ideas for system leveraging and creation of regional service centers. Discussions will continue over the next few months with a focus on identifying budget balancing solutions, and the impact on students, the region, and the strategic and action plans. Discussions will also occur around restructuring colleges and universities – rethinking what goes on in a building. Focus will be on advancing the goal of “fast, flexible, and focused” from 2020 planning work, tying the rate of progress on the action plan to declining resources, targeting student populations for service, identifying further efficiencies in student and administrative services for student success, and maintaining/increasing online educational opportunities. The presidents are continuing budget planning discussions/consultation with their campus community. Discussions are also occurring between the Chancellor and Leadership Council regarding the impact of the governor’s budget recommendation.

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. The system will work with lawmakers to make sure they understand the impact of the proposed budget reduction on students, services, and the economic development needs of the state.

The 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 scheduled for February 12 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.

System Reserves

Board Policy 5.10 and Procedure 5.10.1 set requirements for designated cash reserve levels. The policy requires colleges and universities to maintain general fund cash reserves in the range of 5 to 7 percent of general fund cash-basis operating revenues through designation as a special reserve amount. In addition, the policy allows the system to maintain a reserve up to 2 percent of the total state appropriation. 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).

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. Generally, there are three primary uses for reserves: 1) to protect the system and individual

institutions in cases of sudden shortfalls in revenue, (e.g., unforeseen shortfall in enrollment or a reduction in state appropriation within the biennium); 2) to cover unanticipated expenses (e.g., one-time legal fees, major disasters, unanticipated increases in utility costs); and 3) to provide for extraordinary one-time investments.”

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. As colleges and universities move forward in their 2010-2011 budget planning process, it is critical that the Committee provide guidance regarding the spending down of reserves (minimum level of reserves) and the expectation of restoration to the 5 to 7 percent level.

It would be the recommendation of the Vice Chancellor – Chief Financial Officer that the 2010-2011 budget planning framework allow colleges and universities to spend down to a 2 percent reserve level and that restoration to the minimum 5 percent level begin in fiscal year 2012. Spending down the \$70 million of reserves to a 2 percent level would equate to a reduction of \$48 million over the next biennium. Restoring the reserves at 1 percent per year would require \$12 million per year. Table 3 models the spending down and beginning restoration of the required budget reserves.

Table 3

**Minnesota State Colleges and Universities
Impact of Spending Down/Restoration of Reserves**

(\$ in millions)	2008	2009	2010	2011	2012
Budget reserve @ 6% revenue	\$70				
Target:					
@4% revenue in FY2010			(\$24)		
@2% revenue in FY2011				(\$24)	
@3% revenue in FY2012					\$12
Budget Reserve (in months)	0.6	0.6	0.4	0.2	0.3

The Board has also had several discussions concerning the system’s “primary reserve” as defined within the system’s audited financial statements. Unlike the budget reserve measure which is a general fund only cash-based measure, the primary reserve is derived from the system’s full accrual financial statements measured on all funds. There is a limited relationship between the two measures. Staff has modeled the impact on the primary reserve if colleges and universities expend a portion of the budget reserves in the upcoming biennium.

The primary reserve is estimated to change as shown below based on the impact of known and assumed future financial decisions. (Table 4) Using fiscal year 2008 as the base year, certain key revenue and expense assumptions were made for fiscal years 2009 – 2012 including:

- *Tuition, fee and auxiliary revenue* - increase 4.2 percent in 2009 and 4.0 percent in 2010 – 2012
- *Revenue Fund Revenue growth* - increase 7.2 percent each year (average for 2006 – 2008)
- *Appropriation revenue* - \$20 million unallotment in 2009, Governor’s budget recommendation for 2010 and 2011, flat for 2012
- *Compensation expense* - 6.7 percent growth for 2009, flat for 2010 – 2012
- *Other operating expenses* - increase depreciation \$5.0 million per year, increase at 3 year average less \$20 million unallotment for 2009, include estimated impact of Board reserve changes for 2010 – 2012 (operating expenses estimated higher by amount of Board Reserve spend-down in fiscal year 2010 and fiscal year 2011 and no expense impact for 2012).

The system’s Revenue Fund is removed in one of the illustrations in order to isolate the general fund and related resources where the Board has maximum discretion. The primary reserve measure should be viewed as illustrative of the impacts if budget resources are drawn down. Financial decisions in the coming months will likely alter the financial measures.

Table 4

**Minnesota State Colleges and Universities
Primary Reserve Ratio Modeling**

	2008	2009	2010	2011	2012
Primary Reserve Ratio (in months)	2.5	2.2	2.1	2.2	2.4
Primary Reserve Ratio without Revenue Fund (in months)	2.1	1.8	1.7	1.7	2.0

Tuition

Tuition has a role in the budget planning process. The current tuition structure within Board policy includes, but is not limited to, resident/nonresident per credit, programmatic or course per credit, banded, and market-driven rates. Colleges and universities may set and charge market-driven tuition for customized training, continuing education, distance learning, non-credit instruction, and contract post-secondary enrollment options programs. The 2010-2011 biennial operating budget request includes a tuition increase of 2 percent at the colleges and 3 percent at the universities based on receipt of the system’s entire biennial operating budget

request of \$71.7 million. The colleges and universities have been using a 4 percent tuition rate increase in their budget planning.

The System's colleges and universities have been provided institutional autonomy and broad discretion for determining academic program mix (technical fields versus liberal arts/sciences; lower division versus upper division/graduate level instruction) and type and level of support services provided to students. These decisions result in different costs to offer the academic programs and services. These decisions also impact level of resources needed to maintain their standards of quality. Tuition revenue supports a portion of the total educational costs. Colleges and universities must balance the cost of academic programs and services provided to students, available state appropriation, and level of tuition support.

Based on fiscal year 2009 estimated tuition revenue of \$647.3 million, a 1 percent tuition increase yields \$6.5 million of additional revenue. 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. As noted in the tuition study presented to the Board of Trustees in September, 2008, an option for approaching tuition increases would be to identify a maximum dollar amount per full-year equivalent student. A specific dollar amount could be identified for colleges and a different dollar amount for universities.

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. And, the impact to a student would be greater at an institution with a higher than average tuition rate. The maximum dollar increase would 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.

It would be the intent of the Vice Chancellor – Chief Financial Officer to pursue a maximum dollar per undergraduate student tuition increase in the 2010-2011 budget planning process rather than a maximum percentage framework. Taking into consideration the governor and Board's interest in limiting the rate of tuition growth, the eroding state appropriation, a desire for cost containment, and national ranking of the system's tuition at its colleges and universities, the tuition parameter outlined in Table 5 is being offered for discussion.

Table 5

**Minnesota State Colleges and Universities
Fiscal Year 2010 Undergraduate Tuition Rate Increase Parameters**

	Average Colleges	Lowest Tuition College	Highest Tuition College	Average Universities	Lowest Tuition University	Highest Tuition University
Current annual tuition rate	\$4,080	\$3,596	\$4,484	\$5,561	\$5,160	\$6,108
Range of annual tuition increase	\$210-\$285	\$210-\$285	\$210-\$285	\$285-\$390	\$285-\$390	\$285-\$390
Range of per credit tuition increase	\$7.00-\$9.50	\$7.00-\$9.50	\$7.00-\$9.50	\$9.50-\$13.00	\$9.50-\$13.00	\$9.50-\$13.00
Range of percent tuition increase	5%-7%	5.8%-7.9%	4.7%-6.4%	5%-7%	5.5%-7.6%	4.7%-6.4%

The tuition parameters for graduate (master’s and doctoral) tuition would allow universities to set graduate tuition rates based on the market. The graduate tuition rates would be included in the materials requiring Board action in June/July 2009.

NEXT STEPS

The upcoming revenue forecast and the federal stimulus package will influence the system and the college and university planning process. An update will be provided at the March committee meeting. With the committee’s support, the Vice Chancellor – Chief Financial Officer will incorporate the above parameters into the ongoing FY2010-2011 budget planning process for colleges and universities. Feedback from the joint meeting of the Finance, Facilities and Technology committee meeting concerning strategic and action plan impacts will also be communicated to the presidents and incorporated into the planning process..

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