1. **FY2010-2011 Operating Budget including Tuition and Fees** (first reading)

Vice Chancellor King noted that the feedback from the study session held in May has been incorporated into the proposal before the Board at this time (allocation method for ARRA/stimulus, green sheet discussion, tuition setting for one year at a time). In FY2010, the total reduction in state resources is $92.7 million, and the net reduction is $13.5 million (after ARRA funding is applied).

The tuition recommendation and fee outlook for FY2010 and FY2011 included in the request are before the unallotment announced on June 16, 2009. Recommendations will be presented for FY2011 that include the unallotment at a future meeting. At this time, modification of the FY2010 recommendation is not foreseen as a result; however, flexibility is requested on this issue.

Trustee Hightower questioned what could be learned between now and July that might change the FY2010 operating budget. Ms. King noted that the Commissioner of Finance actually makes the unallotment recommendation, which then goes forward for review by the Legislative Advisory Committee. The recommendation then goes to the Governor for approval. Because it is possible that there could be modifications at any of these steps, we must wait for all of this to happen before we solidify our planning.

Legislative language guides the planning regarding tuition (a 5 percent cap bought down with ARRA money to 3 percent). Use of ARRA funds in FY2010 is recommended at $13 million for tuition mitigation and $26 million for campus needs that fit the federal ARRA use guidelines. System wide enrollment is forecasted to increase 1 percent in 2010.

Colleges and universities have used a widely varied combination of strategies to solve FY2010 budget gaps, with workforce reductions playing a significant role. FY2011
budget consultation is slated to begin in late summer. College and university presidents look to the board to provide guidance as they realign their budgets to meet strategic plan priorities—there may be some slippage in progress toward goals. Technology investments have assisted in preserving resources that serve and/or are available to students.

This is the first reading of these materials, and approval of the proposed motions will be requested at the Board’s July meeting. Please keep in mind the 3 guiding principles Chancellor McCormick and System leadership have used throughout the budget setting process: to seek to make decisions in a way that best serves students; that decisions will strive to take into account the System’s mission to serve the economic development needs of the state and its communities; and that planning will take a multi-year approach, positioning the System for long-term financial viability.

Trustee Hightower inquired if enrollment projections are factored into the budget numbers and also, if there a way to capture costs of the ‘slippage’ in progress toward strategic goals. Vice Chancellor King responded that enrollment projections have been factored in all budgets. Campuses are very good at projecting their enrollment each year, and tend to be conservative in forecasts. The one percent noted is a system wide average. In responding to the second question Ms King noted the answer is still up stream on that—after the budget is approved, the Chancellor, Vice Chancellor Baer and staff will develop metrics. Chancellor McCormick commented that it is also worth noting that there are no longer system level dedicated funds for advancing Board initiatives, and perhaps that is a conversation to revisit.

Trustee VanHouten asked if there is a need to be aggressive in planning reductions in FY2011 in order to maintain reserves. Vice Chancellor King noted that during the reserves discussions held a few months ago, campuses were advised to hold reserves steady during FY2010 and FY2011 as much as possible to prepare for FY2012 when vulnerability is the greatest. ARRA funds will continue in FY2011. The report shows colleges and universities followed our advice and preserved flexibility for FY2012.

**Public Testimony:**

1. **Edna Szymanski, President, Minnesota State University Moorhead**
   **Jean Hollaar, University Business and Planning Officer, MSU Moorhead**
   - MSU Moorhead’s current budget challenge is comprised of two parts: a growing campus structural deficit (currently at $4.95 million) and the recession-caused state revenue shortfall and subsequent appropriation decrease of $4.1-$4.6 million.
   - The university has undergone a year-long planning process for stabilization and recovery that has engaged bargaining unit leadership, students and administration as partners in developing strategies and solutions to the existing structural problems.
   - The solution developed involves budget reductions, improved fiscal processes, and improved revenue generation.

   In response to Trustee Thiss’ question about “structural deficit” Vice Chancellor King commented that a structural balance exists when current period revenues
equal current period expenses—if this is not the case, then a structural deficit exists. President Szymanki noted that in the case of MSU Moorhead, most expenses are ongoing, and expenses do not decrease as enrollment (revenue) decreases which leaves a structural problem. The University has spent the entire year working to make sure that FY2010 begins with a balanced budget.

2. Rod Henry, President, Inter Faculty Organization  
   Russ Stanton, Director of Government Relations, IFO
   • An IFO analysis of the Master Green Sheet concludes that there is a trend toward more “central control” of resources and less resources to the campuses to support the core teaching mission.
   • The IFO recommends that cuts resulting from the pending unallotment be minimized in relation to base allocations to campuses.

   It was clarified that there are larger items (like the tuition buy down, legislative technology dollars) that are driving the percentages in the analysis provided by the IFO. Trustee VanHouten noted that if tuition and appropriation revenue has increased at 3 percent (compounded) per year, without seeing the faculty numbers it is difficult to see if the faculty has been treated fairly. IFO President Henry responded that it is not only about the compensation—other factors including working conditions, the ability to produce the highest quality possible, and the ability to have input on how allocations are made on the campuses. Mr. Stanton also noted there are class size implications and quality is impacted when salaries don’t keep up with marketplace.

3. Jacob Littler, President, Minnesota State College Student Association (MSCSA)
   • The MSCSA has concerns that students may be confused by the tuition discussion and the impact of the ARRA funds mitigating the tuition paid. The student association has worked with the Office of the Chancellor to make sure that the conversation about tuition and tuition mitigation continues throughout the summer with student leaders on campus.
   • MSCSA provided the percentage increase of tuition information (handout) for review because they believe this is an important part of the discussion.
   • This Board has recognized the burden of tuition increases on students—and the students appreciate that. At a time when the economy is in a downturn, students will pay only an inflationary increase. However, students are greatly concerned about the cliff that will happen in FY2012.
   • According to a study released by The Chronicle of Higher Education, Minnesota college students are paying 216% of the national average—and there are 13 states with university tuition lower that Minnesota’s college tuition.

Tyler Smith, President, Normandale College/President-elect, MSCSA
   • Fees are rising in FY2010 at the same rate as tuition, and will greatly impact the cost of attendance.
   • MSCSA is concerned that the Revenue Fund fees are not included in the list of fees.
• Students understand the importance of local control regarding all fees, and students have been supportive of this. However, students believe that the broad use of fees as a means to increase revenue will create problems in the future. Students appreciate the Board’s oversight and the existing caps.

• MSCSA is concerned about the practice of allowing a single school to request an increase to a fee cap—should the need of a single school have that much impact? Also, in this particular case, MSCSA also is concerned about a breakdown in the consultation process at the association level.

Trustee Grendahl questioned if we comparing institution rates correctly. It is known that technical colleges cost more to provide their education, and are way above the average which distorts the comparison. Vice Chancellor King responded that national survey data are the result of various policy decisions made within individual states. Add to that, our local dynamic of stand-alone technical colleges (which is unique in this country), so it is difficult to compare.

Trustee VanHouten commented that there is a need to remember the cost vs. price discussion we have had before. The System is competitive and efficient with respect to cost, so there isn’t much more that can structurally be done in that area. The questions are who pays the price, and what are students willing to do without in order to reduce the costs? Mr. Littler responded that those kinds of decisions should be under local control—and students are ready and willing to have that conversation both locally and at the system level. Students are seeking further encouragement from the Board to the college and university presidents to begin these conversations at the local levels now, rather than continuing to seek additional revenue through tuition.

4. Christopher Frederick, President, Minnesota State University Student Association (MSUSA)

• Differential tuition is an issue that is coming up more and more at the universities—students have been a part of these conversations, and that is outstanding. What are, however, the long term implications of the use of differential tuition? At the undergraduate level, we are going to have to make these various levels of tuition more apparent to the students and to better consult so that students understand their costs are higher if they choose certain fields of study over others.

• Where are some other ways we can use shared services to alleviate costs to campuses so they can focus on academic quality? MSUSA now has a better understanding of the kinds of centralized services that the System office can provide, and students really want to see areas where we can centralize more services and reduce costs at the campus level.

• Access, affordability, and academic quality are very important, and students understand that they have to carry some of the costs. However, not all of the costs should be borne by students through higher tuition.

• These are extremely difficult financial times for everyone. We need to continue advocating for increased support for higher education at the state and federal levels. There are some revolutionary ideas being implemented on our campuses to cut costs and preserve quality.

9
Chancellor McCormick thanked Mr. Frederick for taking the time to understand the shared services portion of what we do. He asked Mr. Frederick to say a little more about differential tuition? Mr. Frederick responded that this is a difficult discussion—there are many variables to deciding what factors indicate a need for differential tuition. We need to look outside the box and be creative with ways to fund more expensive programs—need to tap into the expertise on our campuses to structure best practices.

President Wynia questioned whether the tuition buy down dollars be put up into the base allocation to campuses rather than institutional priorities. Mr. Frederick commented that the institutional priorities are good for students, but what is the top priority right now? President Wynia then questioned if the tuition buy down should be eliminated and tuition increased so that a student pays in order to send that money directly to the campuses. Mr. Frederick agreed that the money is going to the campuses, but perhaps we need to think about how we are categorizing it.

The Trustees acknowledged the outgoing student association presidents for their wonderful work this year.

5. Sue Collins, President, Northeast Higher Education District (NHED)
   - NHED’s situation is characterized by declining allocation, flat revenue generation, and rising fixed costs resulting in a structural deficit and diminished reserves.
   - NHED has created a business plan focused on right-sizing the organization and preparing for reductions. Employees and students were included in this conversation from the beginning.
   - Assessments have been conducted of information technology and residential life, and will make adjustments in these areas as a result. Assessments are planned for other areas in the coming year.
   - NHED has balanced their budget and initiated efforts to address their structural deficit. They have established fiscal controls and accountability measures to position them for the future.
   - Finally, NHED will embark on a strategic planning process to create a new reality for the District that takes into account the economic landscape of the region and the educational needs of the community and business/industry partners.

Trustee Benson asked about NHED’s total budget and how many professors were employed. President Collins responded that there are about 200 professors (FTE) and headcount is about 30% higher with a $67 million budget. Trustee Benson commented that it seems unfortunate that there are so many sabbaticals at a time with such financial difficulties—this is one of the barriers that the trustees tried to identify earlier in the process.

Vice Chancellor King noted that Board policy requires that the Board be advised when system reserves are being used. There are a couple of items to
draw your attention to, one of which is a loan to the District as part of their recovery plan.

6. **Ann Wynia, President, North Hennepin Community College (NHCC)**
   
   - I would like to recognize the contribution of all NHCC employed bargaining units to help with our budget decisions. They have recognized the importance of contributing to the solution. Also, we have served 8 percent more students this year with the same number of staff due to their hard work and diligence.
   
   - At NHCC, we consider reserves to be sacrosanct, and we do not plan to reduce our reserves in FY2010 or FY2011.
   
   - We have used a variety of strategies to balance our budget—some are easier decisions than others: don't fill vacancies, suspend travel, keep computers for another year, cancel low enrollment classes, etc. Other decisions are more difficult: we have invested in infrastructure, but may have to scale back in some areas. We have re-instated and built back our security department, and intend to maintain that. We have invested in student success—keeping students enrolled. We have invested in access, and are proud that 30 percent of the students are from under represented populations. We will be using FY2010 and FY2011 to make the decisions for FY2012, and work toward solving shortfalls through greater productivity.
   
   - As we move forward, our solutions will be different than they’ve been in the past—we will seek to serve more students by increasing productivity rather than increasing personnel.

   Trustee Benson thanked President Wynia and commented that it is helpful to hear from a president focused on productivity and gaining market share.

   Trustee Englund inquired about the process for specific programs obtaining differential tuition status and how do we ensure that those dollars go to that program and not to supplement all tuition? Vice Chancellor King noted there is a new procedure that establishes criteria to be used for establishing differential tuitions. However, there is no hard line connecting price and revenue. Demand can be a reason for differential tuition so it is not always cost driven.

   Chair Renier opened the floor for additional discussion/reaction from the Trustees and asked if the motion should be altered before being presented in July for approval. Members did not express any concerns about the pending recommendation. Chair Renier offered thanks to all who testified.

The hearing adjourned at 3:00 pm.

Respectfully submitted,
Kathy Hanon, Recorder