

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

Agenda Item Summary Sheet

Committee: Finance and Facilities

Date of Meeting: November 16, 2010

Agenda Item: FY 2012-2013 Biennial Operating Budget Request

- 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.

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 asked to consider a budget request recommended by the Chancellor in the amount of \$630.35 million each year of the 2012-2013 biennium for a total of \$1,260.7 million. The \$1,260.7 million is the funding level the Legislature set at the close of the 2010 session and is in current law. This request would represent an increase of \$49.7 million (\$24.85 million each year) above the current fiscal year 2011 base funding (doubled).

The biennial operating budget request is built on the assumption that inflationary cost increases for both compensation and other operating costs will be covered through college and university reallocations and tuition revenue generated by a rate increase.

Background Information: The Chancellor has carefully considered input and advice from the Board of Trustees, the Leadership Council and system constituent groups. The difficult financial position of the state of Minnesota with its projected \$5.8 billion deficit and the spending pressures on the state budget being driven by an aging population and health care services have also been considered in developing the budget request. Most importantly the Chancellor has considered the compelling needs of the system.

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

ACTION ITEM
FY 2012-2013 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 Board approved request for the 2012-2013 biennium will be submitted to Minnesota Management and Budget and the Governor. The following proposal was presented to the Finance and Facilities Committee at its September 2010 meeting. Constituents will have the opportunity to provide testimony about the proposal at the committee meeting on November 16, 2010. The Committee and the Board of Trustees will be asked to adopt a final proposal on November 16-17, 2010.

STRATEGIC OUTLOOK

The system’s activities are guided by the strategic plan, *Designing the Future*, and the plan’s five strategic directions:

1. Increase access, opportunity and success;
2. Achieve high-quality learning through a commitment to academic excellence and accountability;
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; and
5. Sustain financial viability during changing economic and market conditions.

An annual action plan approved by the Board of Trustees is aligned with the strategic plan and guides the system and college and university planning. The annual action plan identifies areas of focus within the system strategic plan including the following examples from the fiscal year 2011 action plan:

- ◆ Reaching underrepresented student populations;
- ◆ Implementing Smart Transfer plan;
- ◆ Supporting student engagement and enrollments in science, technology, engineering, and mathematics;

- ◆ Improving outreach and responsiveness to business industry;
- ◆ Increasing access and student success through online learning;
- ◆ Implementing projects to provide seamless and shared services;
- ◆ Expanding outreach and enhanced educational services to Minnesota businesses;
- ◆ Advancing collaborative efficiencies across system institutions; and
- ◆ Ensuring energy conservation sustainability.

The annual action plan provides the framework for each college and university to develop an institutional work plan. Each college and university develops strategies or identifies current practices that align with the system strategic and action plan priorities.

The system develops initiatives to support the strategic and action plan priorities and provides appropriate measures to assess capacity and progress in advancing those priorities among system colleges and universities. The following is a summary of activities organized by the system's strategic directions:

- ◆ Increase access and opportunity – The system provides geographic access to programs and services across the diversity of communities and students across the state. This includes partnerships with Minnesota communities not served by a system campus and outreach to a diversity of student populations, particularly those underrepresented in higher education. Additional efforts focus on closing the achievement gap among underrepresented students.
- ◆ Achieve high-quality learning through a commitment to academic excellence and accountability – The system has a range of missions among colleges and universities in support of diversity of programs and program awards from certificate to applied doctorate as well as a variety of credit and program lengths to meet the diversity of student needs.
- ◆ Provide programs and services that enhance the economic competitiveness of the state and its regions – The system engages and responds to the needs of industry through local program advisory boards, customized training for industry needs, and statewide efforts in that include biosciences, farm and small business management, and the Centers of Excellence serving healthcare, information technology, manufacturing and engineering.
- ◆ Innovate to meet current and future educational needs – The system advances innovation through new modes of learning including expanded online and blended course offerings, new collaborative efforts among system colleges and universities and with external industry and higher education providers, and integration of new technologies to improve the effectiveness and efficiency of system operations and programs. Funding mechanisms are being explored to reward innovation and high performance.
- ◆ Sustain financial viability during changing economic and market conditions – The most recently added strategic direction on financial viability is a direct response to the state fiscal climate. The system is committed to finding more efficiencies and sustaining its core mission, including shared services, energy conservation, and continuously assessing the value of its programs and services for the state.

SYSTEM ROLE AND ECONOMIC IMPACT

The system's colleges and universities offer more than 3,800 programs resulting in a certificate, diploma or degree. More than 440 programs and 10,000 course sections are offered completely or predominately online, and more than 78,500 students take online courses. The 34,700 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:

- ◆ 49 percent of the state's new teaching graduates;
- ◆ 83 percent of the state's new nursing graduates;
- ◆ 85 percent of the state's new law enforcement graduates;
- ◆ 84 percent of new graduates in the construction trades;
- ◆ 90 percent of new mechanics graduates; and
- ◆ 9,000 firefighters and emergency first responders each year.

The system's state colleges and universities play a major role in meeting the higher education objectives of the state of Minnesota. The system is the largest single provider of higher education in Minnesota. The seven universities and 25 colleges located on 54 campuses in 47 Minnesota communities serve more than 430,000 students each year in credit and noncredit courses. Employers in every region of the state depend on the Minnesota state colleges and universities to prepare and maintain a skilled work force, increase employee productivity and support new business growth. The colleges and universities provide career education to 6,000 employers and 179,500 employees each year. The colleges and universities work closely with business and industry to develop and deliver skill-based instruction 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.

Employment in the Minnesota State Colleges and Universities system is spread over 54 campuses in 47 communities across the state. The system employs approximately 15,550 full-time equivalent faculty and staff. Sixty-five (65) 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 59 percent of the 15,500 full-time equivalent employees. Staff makes up 37 percent of the total and administrators 4 percent.

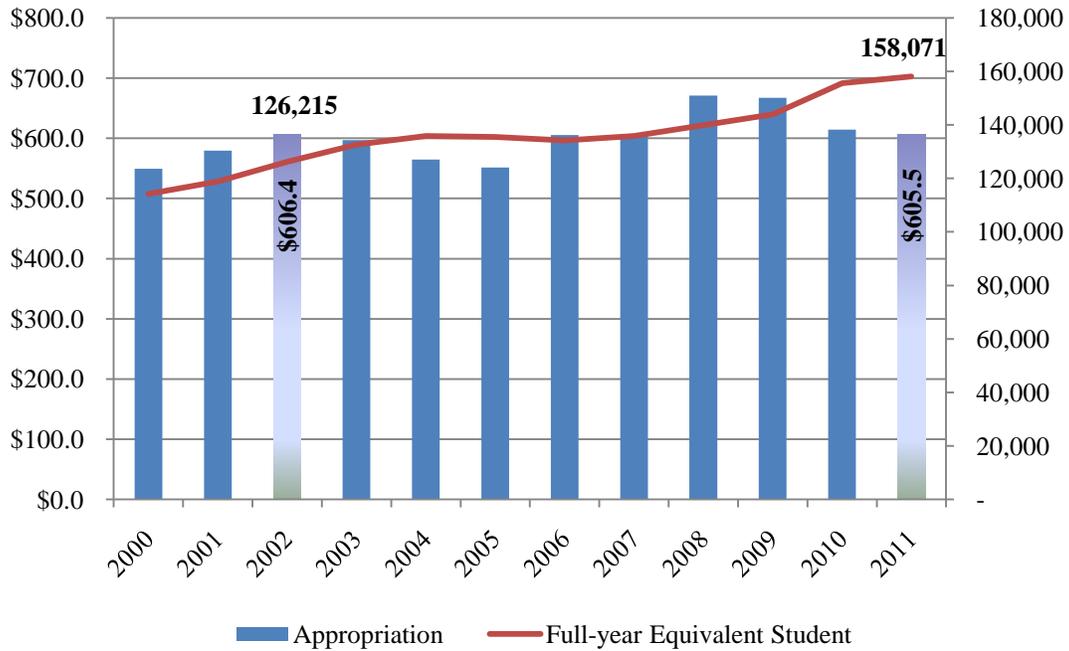
The system's physical assets encompass more than 26 million square feet of academic, residential and auxiliary space located on 54 campuses. The system represents about 31 percent of the real estate owned by the state of Minnesota. The system has 858 buildings with 325 acres of roofs.

STATE FUNDING TRENDS

State funding is one of two primary sources of revenue in the general operating fund for the system with the other being tuition. The modest gain in funding during the 2008-2009 biennium has been erased. Economic recessions tend to result in decreased state support for higher education. This has occurred during the years of 2003-2005 and again in the current 2010-2011 biennium. The fiscal year 2011 state funding level of \$605.5 million returns the system slightly below its fiscal year 2002 funding level. (Graph A) The current state funding level of \$605.5 million is serving an additional 31,850 FYE students (25 percent increase) above fiscal year 2002. The system is serving more students with less state support.

Graph A

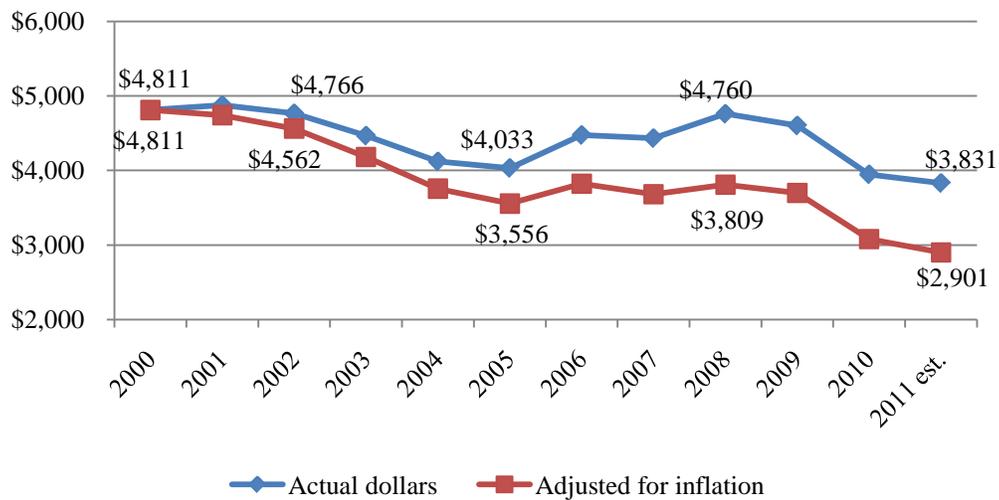
**Minnesota State Colleges and Universities
Appropriation Funding and Student Enrollment Level
Fiscal Years 2000-2011
(\$ in millions; enrollment in thousands)**



On a full-year equivalent (FYE) student basis, the system has \$3,831 of state appropriation in fiscal year 2011. (Graph B) This represents a decrease of \$980 (20 percent) per FYE student since fiscal year 2000. When adjusted for inflation, the system has \$2,901 per FYE student which is a decrease of \$1,910 (40 percent) per student since fiscal year 2000. This level of state support is well below the policy goal of Minnesota Statutes 135A.01 of providing at least 67 percent of funding for the cost of public postsecondary education

Graph B

**Minnesota State Colleges and Universities
State Appropriation Per Full-Year Equivalent Student
Fiscal Years 2000-2011**



2012-2013 BIENNIAL OPERATING BUDGET REQUEST PROPOSAL

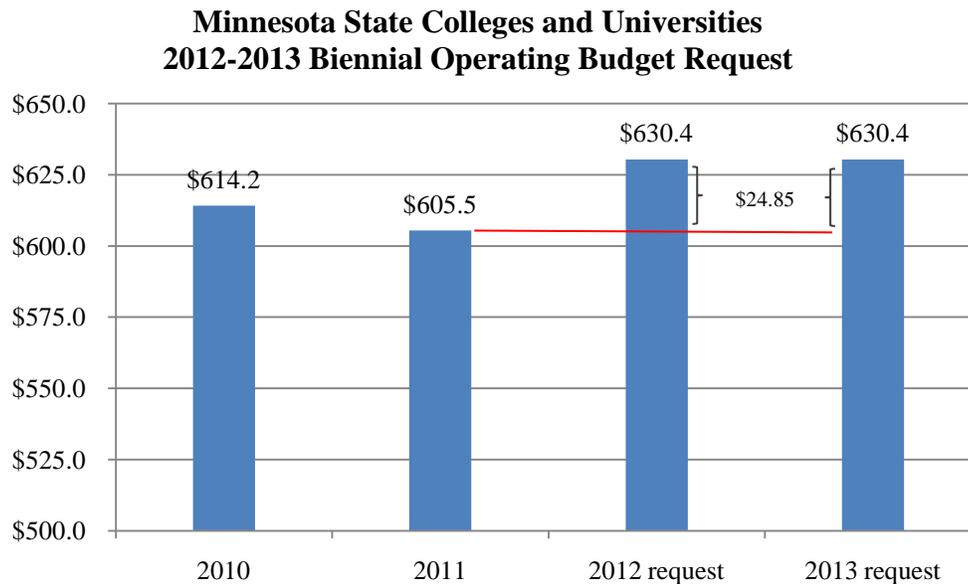
The Chancellor has carefully considered input and advice from the Board of Trustees, the Leadership Council and system constituent groups. The difficult financial position of the state of Minnesota with its projected \$5.8 billion deficit and the spending pressures on the state budget being driven by an aging population and health care services have also been considered in developing the budget request.

Most importantly the Chancellor has considered the compelling needs of the system. The Minnesota State Colleges and Universities system is a large, complex organization experiencing record level enrollment growth. The system has a solid strategic plan that the Board is moving forward. Instructional quality is a priority investment for the system and the state. Access to higher education opportunities and high quality public postsecondary education is essential to the economic health of the state. The system has a large infrastructure to maintain and its core operating costs must be met in order to fulfill its mission of offering higher education that meets the personal and career goals of a wide range of individual learners, enhancing the quality of life for all Minnesotans, and

sustaining vibrant economies through the state. The increase in the number of students brings challenges at a time when state resources are declining. The Board remains committed to minimizing the impact on students by limiting tuition rate increases.

The Board is asked to consider a budget request recommended by the Chancellor in the amount of \$630.35 million each year of the 2012-2013 biennium for a total of \$1,260.7 million. The \$1,260.7 million is the funding level the Legislature set at the close of the 2010 session and is in current law. This request would represent an increase of \$49.7 million (\$24.85 million each year) above the current fiscal year 2011 base funding (doubled). (Graph C)

Graph C



The \$49.7 million in additional funding would provide the Minnesota State Colleges and Universities with a source of funding to be programmed for following transformational initiatives:

- ◆ **Preserve quality in instruction and student support services:** While significant progress has been made improving access to higher education for all Minnesotans, there remains a success gap between students from traditionally underrepresented groups and their peers. These disparities limit workforce participation opportunities and quality of life, especially for underrepresented and underserved students from underprivileged, unprepared or first generation backgrounds. Investment is needed to meet the growing demand for advising, financial aid, tutoring and other such services that have demonstrated effectiveness to move students to completion with the skills necessary to succeed in careers and life. [Strategic Directions 1, 2, 4]
- ◆ **Instructional equipment:** It is critical that colleges and universities maintain quality programs and acquire, update and use 21st century equipment in the

classrooms and laboratories. Investment in equipment is needed to meet the needs of employers and the changing workforce and that advances career and technical education programs at the two-year colleges and science, technology, engineering and math (STEM) careers at the two- and four-year colleges and universities is needed. The program would require the college or university to provide a one-to-one dollar match. [Strategic Directions 2, 3, 4]

- ◆ **Innovative program development:** There is a need for innovative program development in high wage, high skilled industries to offer cutting edge training for the incumbent and future workforce. It can be very costly to start-up new academic programs. The college or university's capacity to provide adequate resources for start-up is diminishing as budget reductions have been and will continue to be made. It is a challenge to sustain new programs until such time enrollment is at a level that supports the program. The program would be designed as a revolving loan program, requiring a college/university to provide a one-to-one dollar match. [Strategic Directions 2, 3]

- ◆ **Investments in efficiency improvements:** The system has an ongoing commitment to efficient and effective delivery of services. There are opportunities for efficiency and effectiveness through multi-campus (or centralized) delivery of administrative services, energy improvements and demolitions and right sizing initiatives. Investment is needed to build and implement a shared services model. Investment in this area has the potential for substantial cost savings when implemented. Funding for energy efficiency directly relates to most aspects of the system's Strategic Plan. Spaces that are warm, safe and dry contribute to the academic success and financial stability of a campus. Opportunities for additional substantial cost savings are present and available with one-time equipment and operating system changes. Demolition and rightsizing has a direct impact on improving obsolete and energy inefficient spaces. By modestly improving existing spaces to be more multipurpose, many colleges and universities can have portions demolished to reduce their footprint, and increase savings on energy, operations and long term repair and replacement needs. [Strategic Direction 5]

The biennial operating budget request is built on the assumption that inflationary cost increases for both compensation and other operating costs will be covered through college and university reallocations and tuition revenue generated by a rate increase. The system's 2012-2013 budget planning framework has no cap on tuition rate increases but an expectation of reasonableness. The system's planning framework, reviewed and discussed with the Committee on a number of occasions, assumes a five percent tuition rate increase each year of the 2012-2013 biennium. The system and the colleges and universities will continue to plan for the 2012-2013 biennium using the tuition parameter of the planning framework.

RECOMMENDED COMMITTEE MOTION:

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

The Board of Trustees is committed to providing quality and competitive education to the learners of today. The Board of Trustees approves the 2012-2013 biennial operating budget request in the amount of \$1,260.7 million. The Board strongly urges the state of Minnesota to support the Minnesota State Colleges and Universities 2012-2013 biennial operating budget request.

RECOMMENDED BOARD OF TRUSTEES MOTION:

The Board of Trustees is committed to providing quality and competitive education to the learners of today. The Board of Trustees approves the 2012-2013 biennial operating budget request in the amount of \$1,260.7 million. The Board strongly urges the state of Minnesota to support the Minnesota State Colleges and Universities 2012-2013 biennial operating budget request.

Date Presented to the Board: November 17, 2010