

MINNESOTA STATE COLLEGES AND UNIVERSITIES

BOARD OF TRUSTEES MEETING MINUTES WEDNESDAY, SEPTEMBER 21, 2005 WELLS FARGO PLACE ST. PAUL, MINNESOTA

Trustees Present: Robert Hoffman, Chair, Will Antell, Duane Benson, Michael Boulton, Cheryl Dickson, Ivan Dusek, Ruth Grendahl, Clarence Hightower, Carol Ley, Lew Moran, David Paskach, Ann Curme Shaw and Christopher Schultz

Trustees Absent: David Olson and Thomas Renier

1. **Call to Order**

Finance/Facilities Committee Chair Clarence Hightower called the meeting to order at 10:16 a.m.

a. **Board of Trustees Major Topic Discussion**

Revenue Models Discussion: National Center for Higher Education Management *Dennis Jones, President*

Committee Chair Hightower stated that the system's finances over the past few years have been troublesome. Tuition has increased and less support has been received from the state. As a result, the Finance/Facilities committee began to look at other revenue models. Committee Chair Hightower added that the project began in March of 2005, with an expected conclusion by March of 2006.

Vice Chancellor Laura King introduced Dr. Dennis Jones, president of the National Center for Higher Education Management Systems. She remarked that Dr. Jones is a nationally recognized expert in the area of higher education finance, measurement systems, accountability and trends, and patterns in public higher education across the country.

Dr. Jones stated that the flow of funds to a public system comes from several areas and that there are several pieces to the financial flow of an institution. He noted that it mainly comes from two areas; the state appropriations and the tuition of the students. He added that financial aid is a third element. He commented that there will likely continue to be state dollars available but added that the system should not look to the state for increased funding. He commented that the largest issue affecting higher education financing across the country has nothing to do with education; Medicaid is the single largest looming problem for state budgets.

He continued that each state is operating with a structural deficit in their budget and the current tax structure cannot pay for current services. Higher education in Minnesota is comparative to other states in the funding it receives. It is unusual that the dependence on tuition revenue in Minnesota is higher than most other states. He added that a large part of the funding equation in Minnesota is due to the state grants going to the private institutions.

Trustee Will Antell questioned the disproportion between the two and four year institutions and asked Dr. Jones to comment on the increases being the same for all institutions. Dr. Jones stated that the problem is that the same tuition regardless of location places a burden on the students whose per capita income may vary by 300 percent county to county. The richest county may be three times as wealthy as the poorest county in the state.

Trustee Lew Moran noted that thirty years ago the state contribution to public education was substantially higher than today and he asked Dr. Jones for insight as to whether it is cyclical or if there is an irretrievable downtrend. Dr. Jones stated that the economic realities are that the public institutions will continue to slide toward more student support. He added that interestingly, the state support for students on a national average has remained consistent; education has become much more expensive and the students have picked up the difference. He further added that the state will continue to pick up a smaller proportion of the bill.

Trustee Cheryl Dickson noted that Minnesota's financial aid program is large and well managed, but commented that fifty-three percent goes to seventeen percent of the students based on tuition costs. Dr. Jones replied that to do anything with the student financial system, a mechanism needs to be created at the system level rather than at the institution level or the need will not be addressed evenly.

Trustee Duane Benson commented on the two sources noted by Dr. Jones, state appropriations and student tuition, and remarked that it could even be tracked back further to one source, the taxpayer. Dr. Jones replied that it is not just individuals that pay the state adding that regardless, as an individual or as a society, the people do pay. He continued that unless the economy expands, it is unlikely there will be more money. He remarked that the more that can be done to expand the state's economy will result in more money generated without changing taxes.

Vice Chair Ann Curme Shaw inquired if there will come a time when the system will need to choose between access and affordability. Dr. Jones replied that an example in one state was that students would find that there were no courses to take and the state did not specifically say they were cutting off access but in a sense it had, as tuition was collected for classes that did not add up for a degree and thus resulted in declining access.

Trustee Hightower asked Dr. Jones to comment on alternative approaches beginning with differential tuition. Dr. Jones stated that students in different programs pay different rates; students at different levels pay different rates. If done by the program one of two things happens. Student will declare a cheap program and then in the end declare an expensive program. He used nursing programs as an example stating that if there are additional fees, financial aid must be available to not keep out those at financial risk. He commented that high cost programs should not be a detractor and that students see sticker price rather than net price. He added that the price on the label drives the choice.

Trustee Boulton inquired about the consequences of setting different prices on tuition per credit. Dr. Jones stated that when it has been done, it showed the highest price went to the part time students per unit. Equity is found more at the per credit than if banded. He added that the motivating factor of banding does not overcome the cost differential service.

Trustee Hightower inquired about the need-based tuition grants. Dr. Jones replied that if tuition is continuously raised, then how the need based grants are done becomes important. He added that the more discounting, the less net revenue there will be. He commented that need is not equitably distributed across the state. Trustee Hightower inquired about the Colorado model. Dr. Jones stated that Colorado gives the institution \$80 for every undergraduate student credit hour delivered to a Colorado student. He remarked that the student never sees the money and added that it is an accounting gimmick more than an education policy.

Vice Chair Curme Shaw inquired if the need-based tuition grant funding is separate from the state student financial aid. Dr. Jones replied that the proposal under consideration would have the system further discount, separate from the state program. He added that it would be considered a system or institution grant out of existing revenues, adding that there is no new revenue stream for it and it shows as less money to the institutions. Vice Chair Shaw inquired if the system should look at the student financial aid program and the allocation of money to the system as an alternative approach and as another source for the students rather than to the system. Dr. Jones replied that as the system moves from low tuition, low aid to high tuition and high aid, it truly becomes high tuition with low financial aid.

Trustee Hightower inquired if there are other trends that the Board should be aware of. Dr. Jones replied that there are some trends and that in Illinois tuition was specified and held for four years, meaning the price at the freshman year would be the price for each consecutive year. He commented that it creates a higher level of certainty but that the cost is higher than it would have been otherwise at the end of four years. He noted another trend is Miami of Ohio, which basically charges as if a private institution.

The use of state dollars pays a scholarship and whatever is left the student will pay for and be managed similar to what a private institution does with price discounting. He commented that it only works if demand exceeds supply and a system cannot be run with that set of circumstances.

President Judith Ramaley stated that there are several patterns of institutions working together on collaborative models and she inquired if there are examples of different cost structures that allow for that kind of mixing of patterns of instruction. Dr. Jones replied that the third leg is the institution and he added that there are ways to use technology and other models. He noted that across the country one half of all student credit hours are taught in twenty five courses. He added that to save money there needs to be a more effective and efficient means of management.

Trustee Will Antell commented on the limits that affect lower income students. He noted that the assumption to continue putting resources into existing models needs to be re-examined and inquired of Dr. Jones his opinion on containing the costs rather than obtaining more money. Dr. Jones replied that an important piece is the support to the students and a connection needs to be made between the student and the content. There are better and cheaper ways to improve education. He added that the most expensive students are also the best students as they choose to select the best programs offered.

Trustee Moran stated that the system is an open access institution and added that the two sources of funding will not change. He commented that the cost of education needs to be driven down or held as effectively as possible, whether it means re-evaluating courses, increasing access or other changes. He added that there needs to be a change as there is no other solution and the system cannot continue to burden the students. Dr. Jones agreed, adding that the problem is at the state level not just the board level and the conflict is intergenerational. He added that seventy percent of Medicaid funds for low income citizens goes to those over sixty-five. Fundamentally the cost is between education and Medicaid and higher education will continue to be in a vise.

Hal Kimball, State Chair, Minnesota State University Student Association, commented that the sticker shock students experience when first learning the cost of higher education is especially difficult for the underrepresented and first generation students. He asked Dr. Jones how the system should address the issue. Dr. Jones replied that the alternative is to return to a low tuition model. He added that he is in favor of a public policy that would allow one institution to become a low tuition alternative. He added that there is much to be said on holding down tuition at the two year institutions.

Vice Chancellor King stated that the observation of the spread between the two year and four year institutions is narrower than ideal and holding tuition down at the two year colleges is a vehicle for addressing the access goal.

She inquired if there might be other reasons to strive for a spread between the two and added that it seems that that device in some respects goes against earlier remarks about not using price to track course taking patterns. Dr. Jones replied that only if the system can manage reallocation within the system, and there must be a way to manage or put in a differential institution allocation. As a system some portion must go from one to the other. He noted that one of the most difficult things to do is to take tuition dollars away from an institution.

Chancellor McCormick commented on the idea of dividing financial aid into the three systems. He noted that at the last two legislative sessions there was interest in that idea and the University of Minnesota was strongly supportive and the private colleges were opposed. He stated that if each sector could control and manage their financial aid along with the tuition and institutional appropriation, it may be a better way to manage. Dr. Jones replied that appropriations, tuition and student financial aid are the three legs that need be synchronized.

President Joseph Sertich commented on the tuition differential and asked what the dangers are of course price differentials and he also inquired about the supply and demand dangers, asking how to shift students to maximize productivity or efficiency. Dr. Jones replied that from the system perspective the question would be if they add up to the right bottom line number. He added that differential tuition in the same institution would be hard to manage. He noted that the strength of a system should be that there is the ability to manage in some other way to use the delivery points to respond to local need in a cost effective way that should be the hallmark of a system.

Trustee Hightower thanked Dr. Jones and asked him for closing comments relative to the system. Dr. Jones replied that his advice is to not borrow alternatives from elsewhere and that there is always the tendency to follow another model. However, what is good for one state is not necessarily good for Minnesota and he added that the Board should look for what is appropriate for the system.

Vice Chancellor King stated that preliminary options from the revenue project will be presented at the October meeting. She thanked Dr. Jones for his time.

2. Adjournment

Committee Chair Hightower adjourned the meeting by consensus at 11:48 a.m.