BACKGROUND

The allocation framework is the method adopted by the Board of Trustees for allocating state appropriations to the colleges and universities. In December 2000, the allocation framework was approved for implementation by the Board following a two-year development period involving the work of over 100 participants from college and university constituents and the Office of the Chancellor staff.

Legislative actions and external conditions prevented Minnesota State Colleges and Universities from fully implementing the plan following the Board approval. In the session following Board approval, the legislature asked the Minnesota State Colleges and Universities to delay full implementation of the allocation framework. Following Board approval and in accordance with the agreement with the legislature, the FY2002 and FY2003 budgets of the colleges and universities were to be based on the prior year’s funding level, along with marginal adjustments for enrollment and inflation. The remaining portion of the budget -- about 2% -- was distributed through the allocation framework. Full implementation was delayed again in FY2004 and FY2005, with the Board’s concurrence, due to state appropriation reductions. A portion of the institutional allocations in these years were distributed through the allocation framework.

The process for developing the strategies for the full implementation of the allocation framework in FY2006 began in conjunction with preliminary planning for the FY2006-FY2007 biennial budget request. Charged with reviewing and recommending technical changes to the allocation framework, the Technical Advisory Committee (TAC) met in November of 2003 to discuss strategies for full implementation of the framework. In February, the TAC, comprised of college and university chief academic, student, and finance officers, recommended an implementation strategy to the Leadership Council.

In March, the Leadership Council began their deliberations to provide input to the Chancellor as he determined the course of action to recommend to the Board. The TAC proposal was initially reviewed by the Finance and Administration Committee of the Leadership Council. Two special meetings of the Leadership Council were scheduled to address the issue. The first meeting, in April, laid the groundwork for the second more comprehensive discussion in May. Between the first and second meetings alternative methods were submitted by presidents and analyzed by staff. In the second meeting, which was also attended by college and university chief financial officers, the Leadership Council discussed options for partially or fully implementing the allocation framework in FY2006. After a full discussion, the Leadership Council moved toward agreement by recommending that two alternatives be reviewed by a sub-group, consisting of the executive officers, the co-chairs of the Leadership Council committees, and the members of the Finance and Administration Committee of the Leadership Council.
The Technical Advisory committee was asked to discuss the two options at its meeting on May 10th. The discussion was joined by a special consultant engaged for this purpose. Mr Dan Layzell, Deputy Director for Planning and Budgeting, Illinois Board of Higher Education, has broad national experience with allocation methods for higher education systems and individual institutions. His expertise was sought to provide an objective, broad view of the Minnesota effort. The TAC discussion yielded observations concerning both options which were shared with the presidential group the following day.

After reviewing materials provided in advance and participating in two days of discussions, the consultant made the following observations concerning the proposed allocation framework:

- It is conceptually sound.
- It embraces good practice in how state appropriations should be allocated.
- No allocation method meets all the needs of a system, so the system will need to choose which are of the highest priority and address those.
- He had no major concerns about the model – the component parts work together well.
- The system is encouraged to utilize the Priority funds provision in the framework for special initiatives, like quality and collaboration efforts and access support.
- Ongoing communication is extremely important so that there is general agreement on the direction of the allocation method. The process used here with the presidents and CFOs provides an effective structure for ongoing communication.

The presidential group discussed the objectives of the allocation process as well as the options presented at some length. Consensus was reached to recommend to the Chancellor adoption of the option presented here today. The Chancellor participated in much of the discussion in the last weeks. He was impressed with the determination of all of the presidents to work together and to articulate shared objectives. The Chancellor is confident that the key design elements of the framework are sound. He also is satisfied that the implementation method presented here supports the Board’s commitment to a predictable resource stream for all the colleges and universities. The Chancellor shared the broad concerns of the Leadership Council that the allocation process is challenged to address declining state support in the face of rising demands. It is his goal to seek additional state support in the upcoming legislative session.

**General overview of strategy**

The Chancellor recommends that the allocation framework be fully implemented in FY2006 using the following method.

- In FY2006, 50% of institutional allocations will be distributed through the allocation framework and the remaining 50% will be allocated on the historical base.
- In FY2007, the same method will be used with 50% distributed on the FY2006 base and 50% on the framework.
- Implementation will include a “hold harmless” provision, where institutions will maintain at least their FY2005 level of base funding.
- The strategy presumes growing state appropriation levels in FY2006-FY2007.

In addition, Academic Affairs leadership will address the issue of “quality, access and collaboration” and will forward to the Leadership Council suggestions for incorporating measures of quality into the allocation of Priority Fund resources.
The implementation process will be revisited again in 18 months to consider any adjustments that need to be made to this approach for the FY2008/FY2009 institutional allocations. Implementation would occur even with a state enrollment adjustment and a subsequent base reduction. Additional discussions will be required in the spring of 2005 if the current expectations of the FY2006-FY2007 state appropriations to Minnesota State Colleges and Universities change.

**Implementation Plan**

The Board adopted the current allocation framework in December, 2000. Since that time outside factors have allowed distribution of about 10% of the state allocation using the approved framework. The Chancellor is recommending that the allocation framework be fully implemented effective in FY2006. As part of the FY2006–FY2007 biennial operating budget request the Chancellor would seek legislative reinvestment to benefit all institutions. The Chancellor would also consider, as part of the biennial budget, strategies to address priority and set aside funding needs. Particular emphasis will be placed on efforts to improve all forms of access, invest in quality initiatives and encourage collaborative efforts amongst colleges and universities.

It is expected that full implementation will occur, supported by the allocation of new state appropriation received for enrollment growth, in a manner consistent with the strategy outlined above. Full implementation of the model does not imply that the model will be fully funded. It would mean only that colleges/universities will receive their appropriate percent share of the funds that are available for institutional allocations.

**RECOMMENDED COMMITTEE ACTION:** The Facilities/Finance Policy Committee recommends that the Board of Trustees adopt the following motion:

1. The Chancellor will consider reinvestment requirements as part of the FY2006-FY2007 biennial operating budget request.

2. Full implementation of the allocation framework as contained below effective with the FY2006 allocations.
The Chancellor will seek legislative reinvestment to benefit all institutions in the FY2006-FY2007 biennial operating budget request.

Implementation will occur in FY2006. The model is implemented by allocating 50% of the funds on the prior year base and 50% on the framework. A hold harmless provision will be added for the biennium to assure all institutions their FY2005 level of funding.

Any policy changes will be reviewed with the Leadership Council and reported by the Chancellor to the Board at the time colleges and universities present their upcoming budget plans.

Set asides are allocations for which the formula does not apply. It includes such areas as the office of the chancellor, debt service, attorney general, legislative auditor, etc.

Priority funds are incentive and performance funds that are used to drive compelling educational interests. These priorities can be determined by the legislature, Board or the Chancellor. Academic and Student Affairs leadership will recommend quality, collaboration and access initiative strategies.

Programmatic comparisons by level of instruction using Classification of Instructional Program codes at a combination of 2-, 4-, and 6-digit levels. A band of 20% around the MnSCU program average is adjusted by the difference that MnSCU spending is below the national average. The programmatic comparison recognizes state university costs at lower division for departmental research.

Based on national peer spending levels. Allocation gives state universities and colleges a core amount of variable funding per FYE.

Operations includes square footage, three-year rolling average for utilities, recognized leases, student duplicated headcount. It also recognizes multi-campus, residential impact, and steam plant. Repair and replacement is allocated on square footage.

Allocation gives state universities 6% and state colleges 3.5% of the allocated amount for library expenditures

Allocation gives state universities 2.62% and state colleges 1.17% of the allocation amount for research and public service.

Date Presented to the Board of Trustees: June 16, 2004
Date of Implementation: July 1, 2005