Report of the Work Group on Long Term Financial Sustainability

Summary of the Challenges

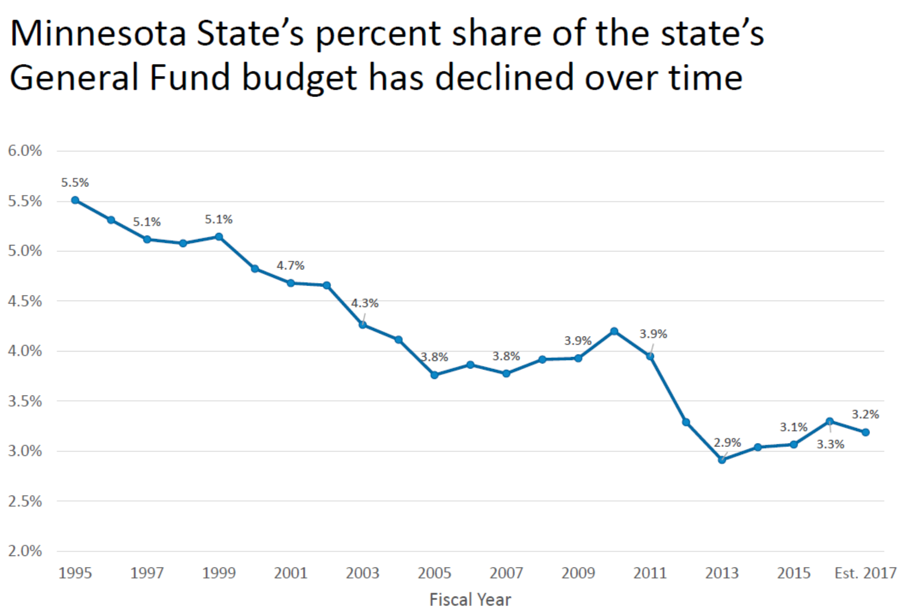
> "The Minnesota State Colleges and Universities face a future that is financially unsustainable. The situation is urgent and demands development of strategies that will enable improved service to students, the state, its citizens and its communities."
>
> – Report of the Work Group on Long Term Financial Sustainability, June 2016

1. Incremental costs have been outpacing incremental revenue.

Revenue bottom line: Between FY2008 and FY2017, state appropriation and tuition revenue *combined* increased an average of 1.17% per year. (State appropriation increased an average of 0.12% per year; tuition increased an average of 2.26% per year.)

<u>Background facts about revenue</u>

- State support per student (in constant dollars) in FY2015 was 23% below FY2002 funding level.
- Higher education's share of the state's budget has dropped from 12.2% in FY1995 to 7.2% in FY2017; Minnesota State Colleges and Universities' share dropped from 5.5% to 3.2%.
- The state's share of campus general fund budgets has dropped from 66% in FY2002 to 44% in FY2015.
- The new state funding appropriated to our colleges and universities over the past four years has mostly offset the lost tuition resulting from the tuition freeze and has not provided new, incremental operating revenue. In other words, the overall size of the funding pie has not increased; rather the sizes of the tuition and appropriation slices have merely shifted.
- Net tuition and fees as a percent of state median income at Minnesota State colleges was 2.6% in 2015 (compared to 3.1% in 2009). Net tuition and fees as a percent of state median income at Minnesota State universities was 4.7% in 2015 (compared to 5.0% in 2009).



Background facts about costs

- **75%** of general fund expenditures are dedicated to faculty and staff compensation. Compensation has been increasing faster than new revenue.

Employee Unit	FY14 – FY17 Average Annual Base Rate Increase[1]	Average Fringe Increase	FY14 – FY17 Average Annual Comp Rate Increase
AFSCME	5.5%	5.0%	5.3%
MAPE, MMA, Comm. and Mgr. Plans	6.3%	5.4%	6.0%
MSUAASF	3.4%	4.1%	3.6%
IFO	3.2%	4.0%	3.4%
MSCF	3.9%	4.4%	4.0%
Administrative Plan	2.4%	3.7%	2.7%

[1]takes into account steps and salary schedule enhancements

- Fully allocated instructional costs (in nominal dollars) have increased 3.4% per year between FY2010 and FY2015.
- Campus academic facilities will require $1.64 billion in asset preservation over the next decade.
- Some of the current 22.4 million square feet of campus academic space is obsolete and/or underutilized, yet still requires utilities and maintenance.
- All of the credit enrollment growth over the past decade can be attributed to the increase in Pell eligible and first generation students and students of color. To succeed, these students have much greater need for academic support services (advisors, tutors, counseling, small classes) than their predecessors.

2. We have made modest progress in increasing revenues.

- Our colleges and universities' share of undergraduate higher education enrollment Minnesota has increased from 63.0% in FY2009 to 65.5% in FY2014
- Private giving has increased from $47.4 million in FY2011 to $76.2 million in FY2015
- Grant revenue has increased from $90.0 million in FY2011 to $99.7 million in FY2015

3. We have made significant progress in reducing costs.

- Our college, university, and system office administrative spending is among the lowest in the country: the system ranks 35th out of 50 states and the District of Columbia in administrative spending per student FYE. Administrative spending is 15% below the national average per FYE and below similar systems in all contiguous states (Iowa, Wisconsin, North Dakota, and South Dakota).
- Institutional support expenses across all campuses have fallen from 12.4% of total expenses in FY2011 to 11.8% in FY2015.
- The system office base budget has dropped from $43.5 million in FY2009 to $33.1 million in FY2016 (from 3.0% of the system-wide budget to 2.1%).
- The total number of employees, systemwide, has been cut by 10.6% (from 18,443 in FY2011 to 16,494 in FY2016) in response to the 14.7% drop in FYE enrollment over those years.
- 3.1% (525) of the systemwide employees are administrators, down 9% since 2009.

4. The consequences of incremental costs outpacing new revenue have put in jeopardy the quality of education we provide students and our ability to serve communities across Minnesota.

- Over the years FY2013 through FY2016, campuses have reallocated $125 million
- Core academic programs have been closed.
- Course sections have been cut.
- Campus services (e.g., library and learning center hours) have been reduced.
- Faculty and staff have been laid off.
- Investment in new technology and equipment has declined.
- Investment in innovation and program development has slowed.
- Maintenance has been deferred.
- Supply and travel budgets have been cut.
- Our ability to improve student success has been slowed.
- 19 of our colleges and universities are operating under financial recovery plans.

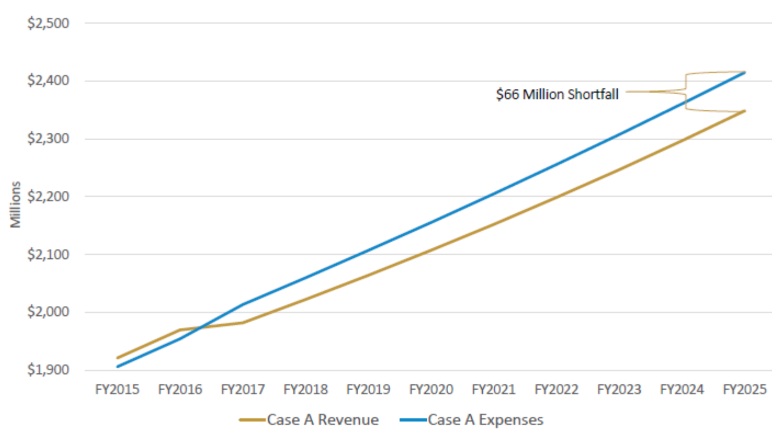
5. Incremental costs will continue to outpace incremental revenue unless there are substantial increases in revenues *and* substantial reductions in costs.

> "Without changes in to the system's operating model, its future is financially unsustainable. The system's annual structural funding gap is estimated to be growing at a rate such that by 2025 it will be between $66 million to as high as $475 million – truly crisis proportions."
>
> – Report of the Work Group on Long Term Financial Sustainability, June 2016

<u>Scenario A (the financially optimistic scenario)</u>

<u>Assumptions (starting in FY2018)</u>

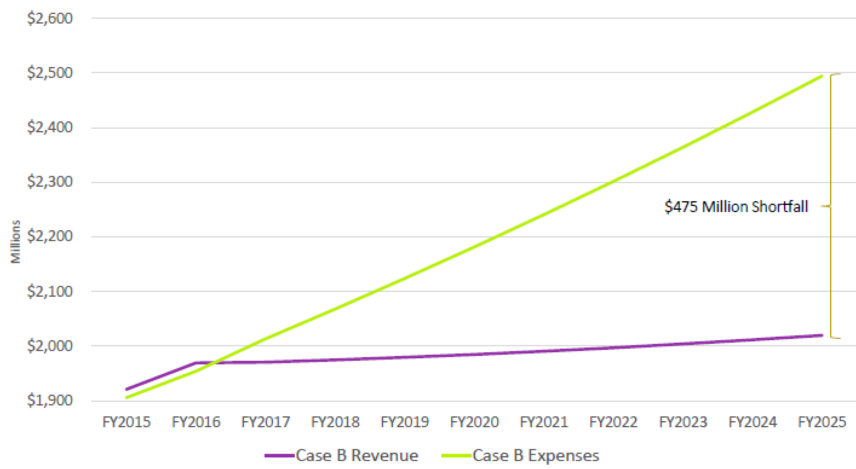
- State appropriation increases above their historic average at 1.1% *each* year
- Salaries, fringe benefits, and other expenses increase below their historic average at 2.3% *each* year
- Enrollment increases above its historic average, at 1.0% *each* year
- Tuition and fees increase above their historic average, at 3.0% *each* year



<u>Scenario B (the financially pessimistic scenario)</u>

<u>Assumptions (starting in FY2018)</u>

- State appropriation remains flat – no increase *each* year
- Salaries and fringe benefits increase below their historic average at 3.0% *each* year
- Other expenses increase at the rate of inflation: 2.3% *each* year
- Enrollment declines 1.0% *each* year
- Tuition and fees remain flat – no increase *each* year



Recommended Strategies

Estimated recurring impact of a 1% increase in revenue

Revenue Strategy	Gross increase in revenue	Cost to generate the new revenue	Net increase in revenue
Expand online education	tbd	tbd	tbd
Expand CT/CE	$297,000	$204,000	$93,000
Increase private fundraising	$762,000	$119,000	$643,000
Increase enrollment market share	$8,256,000	tbd	tbd
Increase retention	$7,947,000	tbd	tbd
Increase tuition rates	$7,586,000	-	$7,586,000
Increase state support	$6,735,000	-	$6,735,000

1. Act as an enterprise

To harness the collective power of the colleges and universities and marshal more effective and efficient campus-based leadership dedicated to improving student success

1.1 The faculty should align and streamline the curriculum to reduce the time to graduation and the cost of the degree. This should be done by continuing the work initiated, in part, under Charting the Future and other efforts to establish guided transfer pathways that:

- provide clear navigation within colleges and universities and across the system so that it is easier for students to persist and complete their programs;
- resolve inconsistencies within the Minnesota Transfer Curriculum; and
- decrease complexity and inefficiencies, while maintaining an appropriate range of student choice and program specialization.

1.2 The colleges and universities should create competency-based credential and degree pathways, allowing students to integrate and individualize their learning and demonstrate competency developed both inside and outside of the classroom.

1.3 The colleges and universities should align online course and program offerings with the emerging systemwide online strategy.

1.4 The chancellor should coordinate the design and delivery of customized training throughout the state and commit to grow the enterprise revenue by five percent per year.

1.5 The chancellor should coordinate marketing efforts for cross-system offerings such as streamlined curriculum, guided transfer pathways, competency-based credential and degree pathways, online offerings, and customized training.

2. Consolidate the delivery of core functions

To create more cost-effective operations where knowledge and services are shared and redundancies are minimized

2.1 The board should establish criteria for campuses to have full, dedicated administrative structures.

2.2 The board should create regional planning, communication and leadership structures to ensure effective coordination of core functions among and between colleges and universities.

2.3 The chancellor should continue to align the leadership structures of colleges in the metropolitan area, such as the efforts underway between Anoka-Ramsey Community College and Anoka Technical College, as well as Dakota County Technical College and Inver Hills Community College.

2.4 The chancellor should create regional and statewide call centers and processing centers that consistently communicate information related to admissions, financial aid, registration, human resources, accounts receivable and other common functions.

3. Build partnerships that prepare students for a successful college or university experience

To help eliminate the opportunity and achievement gaps

3.1 The colleges and universities must work across the system and with K-12 and community partners to eliminate achievement and opportunity gaps to better prepare students and increase their success in college.

★★ 3.2 The colleges and universities must work across the system and within their communities to form service provider partnerships in such areas as social services, housing, transportation, day care, and food support.

★ 3.3 The colleges and universities should increase post-secondary enrollment options and concurrent enrollment.

★★ 3.4 The colleges and universities should strengthen financial literacy training, career advising and other support services that promote persistence and success at the start of a student's academic career, and monitor progress at regular intervals as they proceed through the system.

4. Adopt more creative and flexible labor practices

In response to the changing needs and expectations of students and communities, as well as changing organizational structures and faculty and staff roles and assignments

★★★ 4.1 The chancellor, working with the Metro Alliance, should organize faculty along two new full-time and part-time units, enabling individual members to move seamlessly from campus to campus. Administrative and student service processes and procedures should be developed accordingly. Pilot this initiative in the metropolitan area, where it makes the most immediate sense geographically.

5. Re-calibrate physical plant and space capacity

In order to address regionally disproportionate surpluses, as well as to accommodate new academic and administrative organizational structures

★★★ 5.1 – 5.3 The chancellor should undertake comprehensive facilities planning by region to increase utilization. The colleges and universities also should work to increase use of underutilized physical spaces through tuition and fee incentives or staffing arrangements. The colleges and universities should pursue non-academic revenue-generating uses of surplus physical capacity that complements the mission of the system's campuses, while meeting a community need and conforming to policy/statutory guidance.

<u>Key</u>

★★★ Contribution to financial sustainability of more than $25 million

★★ Contribution to financial sustainability of $5 million to $25 million

★ Contribution to financial sustainability of $1 million to $5 million