



MINNESOTA STATE

November 14, 2016

Memo: Trustees

From: Steven Rosenstone, Chancellor

Re: Long Term Financial Sustainability

I am writing to offer my counsel on how we can best ensure the long term financial sustainability of Minnesota State colleges and universities. As reported to the board last June, **“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.”**

Over a year ago at the board’s September 2015 retreat, we discussed the idea of a workgroup that would assess the financial challenges facing Minnesota State colleges and universities and offer recommendations on how best to address those challenges. The following month, I chartered just such a group and asked it to identify new revenue and expenditure strategies, as well as new models for how we might organize ourselves, educate students, serve communities across the state, and advance excellence, access, and affordability. Students, faculty, and staff (from every bargaining unit), both student associations, chief financial officers, former state finance commissioners, presidents, vice chancellors, and the chair of the board’s finance and facilities committee all contributed to this effort which included monthly meetings to review and candidly discuss demographic trends, academic and student affairs programming, campus and systemwide financial data, and preliminary drafts of the report.

At the board’s initial discussion of the workgroup’s report last June, I said that I would be consulting on the recommendations as well as inviting additional suggestions for how to address the financial challenges we face. I pledged to bring to the board in the fall my best judgement on the steps we might take – hence the enclosed strategy roadmap.

### **Consultation**

Over the summer, Vice Chancellors Ron Anderson and Mark Carlson and I consulted with each bargaining group. Associate Vice Chancellor Toyia Younger, Vice Chancellor Ron Anderson, and I met with both student associations. We consulted with our presidents and again in the fall with both student associations and each bargaining unit at state-level meet and confers.

I also emailed all faculty and staff across the state to ask for their assessment of the workgroup's recommendations as well as any additional ideas that would ensure our colleges and universities have the resources needed to protect the quality of education we provide students and our service to communities across Minnesota.

As you know, long term financial sustainability also was a focus of the board's fall 2016 retreat which included discussion with the state-level leaders of the bargaining units and student associations, the chancellor's cabinet, and the four presidents who serve on the Leadership Council executive committee. Discussion focused on the strengths and weaknesses of the workgroup's five recommendations as well as on additional strategies that would materially raise recurring revenue or reduce recurring costs.

I received over 700 letters and emails commenting on the workgroup's recommendations and offering additional ideas for how to address our financial challenges, and I am grateful to the many students, faculty, and staff who took the time to write and offer their advice.

I've spent a good deal of time over the past four months reflecting on the workgroup's recommendations, on all the suggestions that arose in the consultative meetings, on the many ideas that came in from colleagues across the state, and on the discussions that both the board and Leadership Council led.

## **A Strategy Roadmap**

What follows is my best judgement – my counsel to you, the Board of Trustees, and to all who care deeply about our students and the communities we serve across Minnesota – on the most promising steps we should take to address the long term financial challenges facing our colleges and universities. The ideas I am sharing with you represent my sense of the best thinking that has surfaced from across the state. I have identified the ideas that are most promising because they will have both *material* and *recurring* impacts on campus finances and because they are ideas that honor our core values and the commitments we have made to the people of Minnesota. I have not included suggestions that would have minimal and/or a one-time impact. In offering this counsel, I not only draw upon our collective deliberations over the past year, but on my experience as chancellor of Minnesota State colleges and universities, as well as my forty years of experience in higher education, thirty-three of which have been spent wrestling with the challenges facing public higher education.

As you will see, some of the strategies build upon recommendations that the workgroup surfaced last June. Nearly an equal number of the ideas come from suggestions that emerged from the discussions, consultation meetings, and the many emails and letters I received.

The strategy roadmap begins with a brief statement of the challenge we must address and the principles that should guide our strategies. Succinctly put: **incremental costs have been outpacing incremental resources and will continue to do so unless there are substantial increases in revenues and substantial reductions in costs.**

The steps we take to ensure the long term financial sustainability of our colleges and universities must respect our core values and the commitments we have made to our students and the people

of Minnesota. This includes protecting access, affordability, and educational excellence; improving student success and reducing disparities; strengthening collaboration among our colleges and universities in ways that better serve students, improve service, and reduce costs; protecting academic freedom; strengthening community partnerships; and fueling innovation.

The roadmap includes (1) strategies to grow our resources; (2) strategies to further reduce costs; and (3) the steps the State of Minnesota should take to restore its investment in higher education, and in particular, its investment in our colleges and universities:

#### Revenue Strategies

1. Increase student persistence and completion
2. Increase the likelihood that students with associate degrees will transfer to baccalaureate programs in our state universities
3. Increase the number of high school graduates prepared for and on track to postsecondary education
4. Increase undergraduate and graduate enrollments
5. Increase customized training and continuing education enrollments
6. Increase private giving to provide scholarships and resources to support research, academic programs, faculty, and the cost of new facilities

#### Cost Savings Strategies

1. Improve the efficiency by which we manage the curriculum and academic programs while protecting an appropriate range of student choice and program specialization
2. Reduce facilities costs
3. Reduce administrative costs
4. Hold compensation increases to the increases in new recurring revenue

#### State of Minnesota Responsibilities

1. Restore state investment in higher education to the national average, at least
2. Fully fund the recurring cost of compensation increases negotiated by the state
3. Provide the HEAPR resources needed to maintain our college and university academic facilities
4. Provide the funds and leadership needed to decommission and demolish facilities that are obsolete, no longer needed to meet academic program needs, that cannot be effectively repurposed, and that community organizations do not want to use
5. Fully fund the direct costs of the Postsecondary Educational Opportunities (PSEO) program
6. Partner with Minnesota State colleges and universities to identify additional sources of public revenue beyond the general fund.

After describing these strategies, the roadmap identifies the work that is already underway as well as the new recurring revenue and cost savings our colleges and universities would realize by fully implementing the strategy. The good news is that a great deal of this work has already begun, most notably under the auspices of Charting the Future. Other ideas suggest new initiatives that should be pursued.

We need to act and we need to act now to address our financial challenges. We will only compound the challenge if we wait. Business as usual means the financial challenges will only increase in intensity. I am confident that if we act, in partnership with the State of Minnesota, we can ensure the long term financial sustainability of our colleges and universities and their ability to serve students and communities across Minnesota.



MINNESOTA STATE



# Strategy Roadmap for Long Term Financial Sustainability for Minnesota State Colleges and Universities

November 2016



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**“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 Workgroup on Long Term Financial Sustainability, June 2016

## Incremental costs have been outpacing incremental revenue

Between FY2008 and FY2017, state appropriation and tuition revenue *combined* increased an average of 1.17% per year.<sup>1</sup> Incremental recurring costs have been outpacing this incremental recurring revenue, and this has put in jeopardy the quality of education we provide students and our ability to serve communities across Minnesota. To address this imbalance:

- Our colleges and universities have reduced and reallocated budgets by an average of \$33 million a year in *every* year for the past ten years. Over the past four years alone, our 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.

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<sup>1</sup> State appropriation increased an average of 0.12% per year; tuition increased an average of 2.26% per year.

- Investment in new technology and equipment has waned; 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.
- Nineteen of our colleges and universities are operating under financial recovery plans.

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

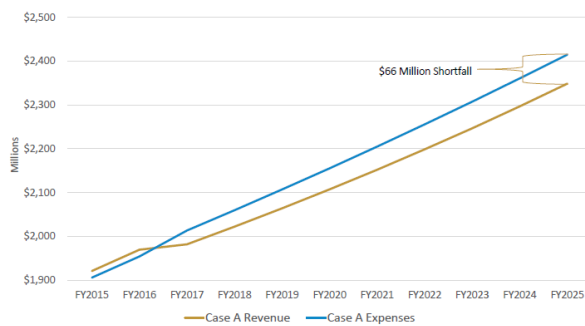
As the workgroup noted, **“Without changes to the system’s operating model, its future is financially unsustainable.”** Under an extremely optimistic scenario,<sup>2</sup> the *annual*

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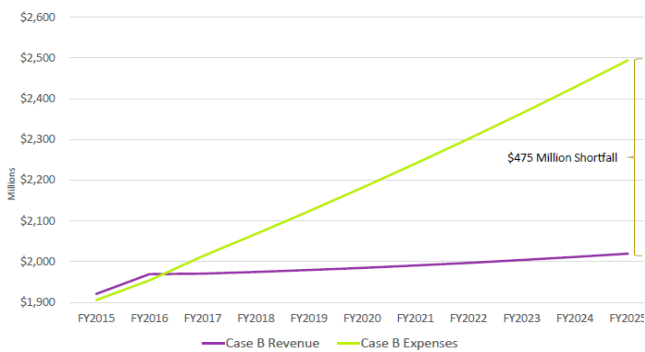
<sup>2</sup> Assumptions (starting in FY2018): State appropriation increases above their historic average at 1.1% *each* year; salaries, fringe benefits, and other expenses increase below their historic average at 2.3% *each* year; enrollment increases above its historic average, at 1.0% *each* year; tuition and fees increase above their historic average, at 3.0% *each* year.

structural budget shortfall will grow to \$66 million over the next decade. Under a more pessimistic scenario,<sup>3</sup> the *annual* budget shortfall will grow to \$475 million – a gap of truly crisis proportions. If we do nothing, a total of between \$461 million and \$2.282 billion in budget cuts will need to be made over the decade ahead to balance annual budgets.

### Scenario A (the financially optimistic scenario)



### Scenario B (the financially pessimistic scenario)



<sup>3</sup> Assumptions (starting in FY2018): 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.

Without major changes, the future of our colleges and universities and their ability to serve students and communities across Minnesota is at risk. Over the past decade our colleges and universities have coped with this situation by cutting core programs and services. The annual ritual of cutting expenditures to close the gap between state revenue and tuition and operating costs is simply not a viable long term solution.

## Principles that should guide our long term financial strategies

The steps to ensure the long term financial sustainability of Minnesota State colleges and universities must respect our core values and the commitments we have made to our students and the people of Minnesota to provide an opportunity for all Minnesotans to create a better future for themselves, for their families, and for their communities:

- ensure access to an extraordinary education for all Minnesotans;
- be the partner of choice to meet Minnesota’s workforce and community needs; and
- deliver to students, employers, communities and taxpayers the highest value/most affordable higher education option.

Our financial strategies should:

- improve student success;
- reduce the disparities that exist in educational outcomes;
- improve educational quality; and
- increase access and affordability.



Our financial strategies should also:

- deepen collaborations among our colleges and universities to maximize our collective strengths, resources, and the talents of our faculty and staff in ways that harness the collective power of our colleges and universities;
- respect our commitment to academic freedom and the role that the faculty play in curriculum development and teaching;
- strengthen the partnerships between our campuses and the communities they serve; and
- honor the unique contributions and approaches of our colleges and universities.

Our financial challenges should be a catalyst for innovation and improvement. Rarely are solutions to problems found in doing more of what has already been done. Many of the world's greatest innovations emerged in response to great challenges. Judging from the ideas that the workgroup and hundreds of students, faculty, and staff from around the state have surfaced, our efforts to meet our financial challenges have already stimulated (not stifled) creative thinking – and the work ahead should continue to invite and celebrate innovative solutions. Creative solutions should not only solve our financial puzzle, but do so in a way that improves student outcomes and uses our limited resources more wisely. As the workgroup stated in its report, student success is the key to financial sustainability. Students, faculty and staff who offered suggestions, many of which are incorporated into this strategic road map, agree.

So, in the pages that follow, you will see many new ideas, beyond those that the workgroup shared with the board in June. Ideas, for example, about how to attract and better

serve more students, especially students of color and American Indian students and how to reduce educational disparities; ideas about how we can further improve transfer among our colleges and universities; ideas about how to improve our marketing efforts; ideas about how the State of Minnesota should help; and much, much more.

If we pursue the ideas that follow, we will not only address our financial challenges, but will do so in ways that will improve access and affordability, improve educational quality and student success, reduce educational disparities, and honor our core values and commitments to students and communities across Minnesota.

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## Revenue strategies

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Minnesota State has made modest progress increasing revenue, and there are opportunities we can pursue to significantly grow revenue over the years ahead. Although Minnesota State's share of undergraduate higher education enrollment in Minnesota, level of private giving, and grant revenue have all increased, enrollment has fallen. Much of the enrollment dip is due to the strong economy, which has drawn people from college to jobs, as well as the dip in the number of high school graduates and 18-34 year-olds – the prime constituencies for our colleges and universities. That being said, there are steps our colleges and universities can and should take to increase enrollments over the years ahead.

### 1. Increase student persistence and completion

*Goal: Increase student persistence by 5 percentage points over the next five years.*

Our colleges and universities can and should increase rates of student persistence and completion. Our current curriculum models, pedagogical practices and support services are not producing the level of persistence and degree or certificate completion that our students need. This is especially true for students of color and American Indian students, who will continue to grow in number.

Only three-quarters of Minnesota State's college and university freshmen continue their education into the fall of their second year. Persistence rates among students of color and American Indian students, though improving, are nine points lower than that of white non-Hispanic students at our colleges and five points lower at our universities. The six-year completion rate for the system's white non-Hispanic university students is 54%, compared to 43% for students of color and American Indian students. The three-year completion rate for white non-Hispanic college students is 54%, while the rate for students of color and American Indian students is 38%.

Our commitment to student success requires that we improve student persistence and completion. Doing so will both serve students and communities across Minnesota as well as improve the financial health of our colleges and universities. Tactics include:

- a. **Developmental education.** Our colleges and universities should continue to build upon the progress they have made over the past few years to improve the effectiveness of developmental education and the pace by which students achieve college readiness. This work will further improve student persistence, completion, and affordability as well as reduce racial disparities in student outcomes.
- b. **Curriculum.** Where there are opportunities to do so, our colleges and universities should strengthen their curriculum (while maintaining an appropriate range of student choice and program specialization) by reducing complexity, and clarifying degree pathways in ways that will improve persistence, as well as reduce costs and the time to graduation.
- c. **Retention efforts.** Our colleges and universities must improve the efficacy of the investments they have made in efforts to retain students. There are large differences among our colleges and among our universities in their student persistence and completion rates. Some of these differences are due to differences in the kinds of students they serve, but part of the differences are due to differences in the effectiveness of their retention and completion efforts. Our colleges and universities spend more than their peers nationally on student support services per FYE. The highly effective retention and completion practices that are in use (within Minnesota and nationally, such as predictive analytics) must be adopted by all of our colleges and universities. Focus should also be on strengthening financial literacy training, career advising and other staff support services that promote persistence and success at the start of a student's academic career, and monitoring progress at regular intervals as students proceed through their education.
- d. **Diversity plans.** Increasing the success of our 63,000 students of color and American Indian students requires that our colleges and universities implement their strategic diversity and inclusion plans. The steps needed here include: strengthening relationships with diverse

and traditionally underrepresented communities; increasing faculty and staff diversity; ensuring a portfolio of academic programs that serves diverse students and attracts diverse faculty; improving campus climate; and providing the necessary student support services.

- e. **Financial incentives.** Provide financial incentives to students to improve persistence and completion, improve affordability, and reduce economic and racial disparities in student success. The program that the board has included in its FY2018 – FY2019 biennial legislative request will help accomplish this.
- f. **Wrap-around service partnerships.** With 84,000 of our students coming from families with very modest financial means, our colleges and universities need to work across the system and within their communities to form wrap-around service partnerships to meet the housing, transportation, day care, food and other social service needs of students – needs that if met will improve student persistence and completion.
- g. **Scholarships.** Colleges and universities must work with their foundations to continue the statewide efforts to increase private fundraising for need-based scholarships. In 2013, our college and university foundations launched an ambitious statewide campaign to raise \$20 million to provide 16,000 scholarships to our students. At the end of the two-year campaign, we had virtually doubled our original goal, raising \$39 million for 28,000 scholarships. Last July, we launched a second campaign – this time aimed at raising \$50 million for 36,000 scholarships.

## 2. Increase the likelihood that students with associate degrees will transfer to baccalaureate programs in our state universities

*Goal:* Increase the number of associate degree recipients who go on to one of our universities to complete their baccalaureate degrees by 10 percentage points over the next five years.

Too many students who complete their associate degrees at a Minnesota State college do not continue on to their baccalaureate education at one of our Minnesota State universities.<sup>4</sup>

- a. **Seamless transfer.** Colleges and universities must work together to provide seamless transfer from associate degree to baccalaureate programs with enhanced transfer pathways by continuing the work initiated, in part, under Charting the Future. Fully 30 transfer pathways will be completed by September 2017 – covering two-thirds of all baccalaureate degrees granted. Additional guided transfer pathways should be created to provide clear navigation across our colleges and universities so that it is easier for students to persist and complete their programs.
- b. **Navigation tools.** In the implementation of ISRS Next Generation, the design team should work with our colleges and universities to create technology tools that make navigation across the system easier for students and that alert students to the baccalaureate programs available in our state universities that align with their educational goals.

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<sup>4</sup> Fully 53% of those students who complete their associate degrees at a Minnesota State college leave the system to complete their baccalaureate degrees.

- c. **Access to baccalaureate programs.** Minnesota State universities should further increase the availability of baccalaureate courses and degree programs on Minnesota State college campuses.
- d. **Dual admission.** Minnesota State universities should offer dual admission to associate and baccalaureate programs with baccalaureate academic advising beginning earlier.
- e. **Marketing.** Minnesota State universities should collaborate in direct marketing to Minnesota State college students heading towards completion of their associate degrees to make more visible the excellent, affordable baccalaureate degree options available at our state universities.
- f. **Guaranteed admission.** Minnesota State universities should guarantee admission to any state university for any student who has completed his or her associate of arts degree at a Minnesota State college with at least a 2.0 GPA.
- g. **AAS to baccalaureate.** Minnesota State colleges and universities should collaborate to build a more robust associate of applied science to baccalaureate framework.

### 3. Increase the number of students who graduate high school, are prepared for, and on track to postsecondary education

*Goal: Increase the number of high school graduates who go on to postsecondary education by 5 percentage points over the next five years.*

In 2015, 16% of Minnesota's white non-Hispanic students did not graduate high

school on time. However, fully 44% American Indians, 31% of Hispanics, and 32% of African American students did not graduate high school on time.

Of those who do graduate from high school, 28% of white, non-Hispanic high school graduates do *not* go on to enroll in postsecondary education the following fall, compared to 40% of students of color and American Indian students and 47% of high school graduates from families of very modest financial means (i.e., on free or reduced lunch).

In addition, too many Minnesota high school graduates are not prepared for college-level work: more than 40% of high school graduates who take the ACT do not meet the college readiness benchmarks in math, reading, or science. African American, Hispanic, American Indian, and Asian students are all less likely to meet the college readiness benchmarks than are white non-Hispanic students.

Unless the number of high school graduates prepared for and on track to postsecondary education increases, many Minnesotans will be left behind – particularly people from diverse communities; Minnesota will not have the talent it needs for businesses and communities across the state to grow; and our colleges and universities will not have the students they need to ensure their financial viability over the years ahead.

- a. **Partner to eliminate achievement and opportunity gaps.** Our colleges and universities should continue to work with their K-12 and community partners to eliminate achievement and opportunity gaps and better prepare all students for postsecondary education – preparation that will expand their pathway to higher education and increase their likelihood of

success in college. Specific steps should include aligning secondary school measures of achievement with measures of college readiness; and engaging our developmental education faculty to provide earlier intervention for high school students who are not on track to being college ready.

- b. **Deepen K-12 partnerships.** Minnesota State colleges and universities should expand partnerships with the public schools and private funders to increase the number of summer enrichment programs for high school students hosted on our college and university campuses and increase the number of students and their parents who visit our campuses. Students, faculty, and staff should be more deeply involved as volunteers, tutors, and mentors to help guide high school students on their postsecondary education journey.

#### 4. Increase undergraduate and graduate enrollments

Of the 69% of Minnesota's 2014 public high school graduating class who attended a postsecondary institution the following fall, 19% enrolled out of state. Of those who enrolled in a Minnesota postsecondary institution, 61% enrolled in a Minnesota State college or university. We need to increase the number of students who enroll in one of our colleges or universities rather than leave the state or attend a for-profit college.

*Goal: Increase by 5% over the next five years the number of new students enrolled in our colleges and universities.*

- a. **Collaborative marketing.** Minnesota State colleges and universities should

partner with the system office to develop and implement collaborative, rather than competitive, marketing that stresses the excellence of our academic programs, access to our colleges and universities, affordability and value, preparation for careers, and the transfer pathways that enable students to move among our schools without loss of credit. This effort should include targeted marketing to students who would otherwise leave the state for college or who would attend for-profit institutions, emphasizing our substantially higher quality, affordability and value, and job placement rates of our graduates. These points should also be part of what admissions and counseling staff, faculty, and campus marketing materials communicate to prospective students. Our first statewide marketing effort was undertaken in October 2016 and yielded an 8.2% increase in applications to our colleges and universities compared to October 2015. Together we need to build upon this initial effort.

- b. **Business and industry partnerships.** College and universities should partner with business and industry to recruit high school graduates to our state colleges and universities and provide scholarships and internships to create the pathways to student success and employment.
- c. **Seamless transition from high school.** Colleges and universities should work with their public school partners to foster seamless student transitions from high school to a Minnesota State college or university.
- d. **Recruitment of PSEO and concurrent enrollment students.** Only 47% of Minnesota high school students who participate in concurrent enrollment or

postsecondary education options (PSEO) courses through one of our colleges and universities end up as matriculated, degree seeking students following high school graduation. Colleges and universities should increase this number.

- e. **Scholarships.** Colleges and universities should work with their foundations to raise the funds needed for more need-based scholarships for students.
- f. **Redirect students declined admission.** Rather than a student being rejected by one of our universities, Minnesota State universities should redirect the student to a community or technical college, explaining to the student the steps needed to take to enter the university at a later date (e.g., raising the student's grade point average or completing developmental education courses). This communication should include the contact information for an academic advisor at both the university and the college to which the student is being directed, and this information should be shared with the college to which the student is being redirected. Universities should offer conditional admittance upon completion of the prescribed steps.
- g. **High demand fields.** Our colleges and universities should increase undergraduate and graduate course offerings and programs in high-demand fields that will show high-growth potential in the future.
- h. **Competency-based credentials and degree programs.** Our colleges and universities should create competency-based credentials and degree pathways, allowing students to integrate and individualize their learning and demonstrate competency developed

both inside and outside of the classroom. We lead the nation in providing competency-based credit to veterans and this has led to a 45% increase over eight years in the number of veterans our colleges and universities serve. Expanding competency-based credit will further increase the number of students our colleges and universities serve.

- i. **Online strategy.** Minnesota State colleges and universities must work together to create a systemwide online strategy that will enable us to grow the online enrollment of students who otherwise would not attend one of our colleges and universities. This strategy must be aligned with other course and program offerings, reduce curricular duplication, improve the quality of online courses, reduce costs, and improve marketing.

## 5. Increase customized training and continuing education enrollments

*Goal: Increase enrollments in customized training and continuing education courses by 10% over the next five years without increasing fixed costs.*

Between FY2009 and FY2015, enrollment in continuing education and customized training courses fell 8.5%; revenue fell 14.8%. We are missing opportunities to serve business and industry across the state to help their employees stay at the leading edge of their professions. Our colleges and universities should create a coordinated, statewide collaborative design for the delivery of customized training and continuing education to serve more students, reduce costs, eliminate the need for cross-subsidies, and grow the enterprise. Doing so will not only reverse the decline in customized training and continuing

education enrollments and revenue, but will enable our colleges and universities to serve more employers, more proactively, more comprehensively, and in ways that will draw upon the broad portfolio of expertise across our colleges and universities. As more and more people head into retirement, there are also opportunities to grow our continuing education programs in ways that will provide the life-long learning experiences that many people yearn for.

**6. Increase private giving to provide scholarships, and resources to support research, academic programs, faculty, and the cost of new facilities**

*Goal: Increase private giving by 50% over the next five years.*

The goal of a 50% increase might seem ambitious, but it is realistic and attainable. Between FY2011 and FY2015, private fundraising by our college and university foundations increased 61% from \$47.4 million to \$76.2 million. Nearly all of that gain was due *not* to greater investment in fundraising efforts, but to the greater effectiveness of our fundraising efforts. We can continue to increase the effectiveness of those efforts over the next five years.

That being said, we need to keep in mind that the gifts that our foundations receive *cannot* be used to replace state support or tuition revenue. Donors earmark their gifts for scholarships or activities that provide the margin of excellence for our students, faculty, and academic programs. Many of

these gifts are also placed in endowments (in which less than 4% of the principle can be spent annually) to ensure that the donor’s goals are protected in perpetuity.

<b>Estimated net annual new revenue after full implementation</b>	
<b>Revenue Strategies</b>	<b>\$ millions</b>
1. Increase student persistence and completion <sup>1</sup>	\$18.2
2. Increase associate degree to baccalaureate program transfer <sup>2</sup>	\$2.9
3. Increase the number of high school graduates on track to higher education <sup>3</sup>	\$1.2 – \$2.0
4. Increase undergraduate and graduate enrollments <sup>4</sup>	\$9.5
5. Increase customized training and continuing education enrollments <sup>5</sup>	\$ .9
6. Increase private giving <sup>6</sup>	\$32.2 – \$38.1

<sup>1</sup>Includes additional instructional costs and implementation costs of the Predictive Analytics Reporting framework at all colleges and universities.

<sup>2</sup>Includes additional instructional cost at a 50% marginal cost rate.

<sup>3</sup>Based on Minnesota high school graduates from 2014. Estimates range from Minnesota State colleges and universities capturing their current share of the additional high school graduates to Minnesota State colleges and universities capturing all the increase in high school graduates.

<sup>4</sup>Includes additional instructional costs and an additional \$2 million for incremental collaborative marketing and recruitment costs.

<sup>5</sup>Based on additional revenue generated by experienced customized training representatives.

<sup>6</sup>Estimates range from no gain in fundraising effectiveness to all the gain realized from increased gift productivity.

It will take several years to fully meet the goals set for the six revenue strategies. When fully implemented these strategies will together yield between \$32.7 million and \$34.7 million in new base revenue per year – that is revenue over and above the incremental instructional, marketing, and data analytics investments needed to boost retention and grow enrollments. Fully one-half of this new revenue will come from increasing student persistence and completion; the other half from serving new students.

In addition, when our campus foundations reach the fundraising goal, our colleges and universities will have an incremental \$32.2 to \$38.1 million per year to add to their endowments, award as scholarships or research grants, or to support the funding of activities that would provide the margin of excellence not achievable from state support or tuition revenue alone.

The table on the following page identifies the work that is currently underway – and that will continue – as well as the places where new work should begin. Success will depend on the continued intentionality of our collective efforts.



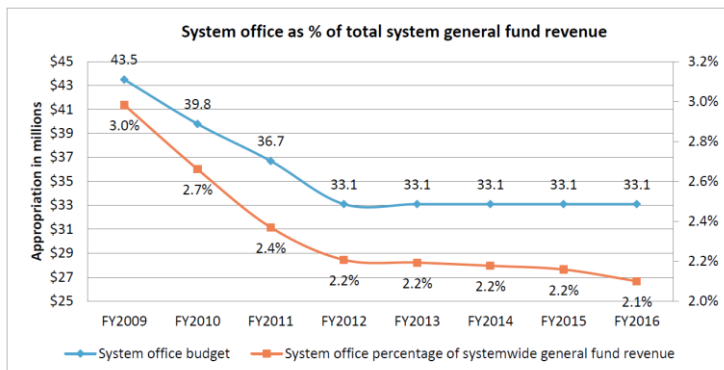
## Summary of revenue strategies

1. Increase student persistence and completion		Work currently underway?	
a. Developmental education	✓	Ongoing campus work	
b. Curriculum			
c. Retention efforts	✓	Ongoing campus work	
d. Diversity plans	✓	Charting the Future	
e. Financial incentives	✓	Legislative Request	
f. Wrap-around partnerships	✓	Ongoing campus work	
g. Scholarships	✓	Scholarship Campaign	
2. Increase associate degree to baccalaureate program transfer			
a. Seamless transfer pathways	✓	Charting the Future	
b. Navigation tools	✓	ISRS Next Gen	
c. Access to baccalaureate programs	✓	Metro Baccalaureate	
d. Dual admission			
e. Marketing			
f. Guaranteed university	✓	University presidents	
g. AAS to baccalaureate			
3. Increase the number of high school graduates on track to higher education			
a. Partner with eliminate achievement and opportunity gaps			
b. Deepen K-12 partnerships			
4. Increase undergraduate and graduate enrollments			
a. Collaborative marketing	✓	Branding	
b. Business and industry partnerships	✓	Ongoing campus work	
c. Seamless transition from high school			
d. Recruitment of PSEO and concurrent enrollment students			
e. Scholarships	✓	Scholarship campaign	
f. Redirect students declined admission			
g. High demand fields	✓	Ongoing campus work	
h. Create competency-based credentials and degrees programs	✓	Charting the Future	
i. Online strategy	✓	Charting the Future	
5. Increase customized training and continuing education enrollments		✓	Charting the Future
6. Increase private giving		✓	Scholarship campaign

## Cost savings strategies

Over the past five years, we have significantly reduced costs. Administrative spending by our colleges, universities, and system office is among the lowest in the nation: we rank 35<sup>th</sup> out of 50 states and the District of Columbia in spending per student FYE. Administrative spending is 15% below the national average and below similar systems in all states that border Minnesota.

The system office base budget has been cut 24% – from \$43.5 million in FY2009 to \$33.1 million in FY2016 – from 3.0% of the system-wide budget to 2.1%. Half of the system office expenditures are dedicated to the information technology infrastructure that supports the student, financial, and human resources transactions on our 54 campuses across the state.



At the campus level, institutional support expenses also have fallen from 12.4% of total expenses in FY2011 to 11.8% in FY2015 – a savings of \$1.3 million. And the total number of employees, systemwide, has been cut by 10.6% (from 18,443 in FY2011 to 16,494 in FY2016). Only 3.1% (525) of the employees across the state are administrators, down 9% since 2009.

As significant as these efforts have been, there are additional steps we can and must take to reduce costs over the years ahead.

### 1. Improve the efficiency by which we manage the curriculum and academic programs while protecting an appropriate range of student choice and program specialization

With 63% of our general fund expenditures dedicated to the delivery and support of our academic programs, we must identify savings in how our colleges and universities manage their curriculum if we are going to be able to align costs and revenues.

Over the past five years, fully allocated instructional expenditures per student FYE at our colleges and universities have increased 3.4% per year – far exceeding new revenue. Many of our colleges and universities manage their curriculum in a cost-effective manner, but eleven schools have FYE instructional expenditures that are more than 10% greater than the average college or university expenditures. There is room for improvement on everyone's part.

***Goal:** Reduce the instructional expenditures per student FYE by 3% over the next five years.*

- a. **Streamline degree pathways.** Wherever possible, colleges and universities should streamline degree pathways to reduce the time to graduation and the cost of a degree without reducing quality. This should be done by building upon the work initiated, in part, under Charting the Future as well as other efforts to establish clearer guided transfer pathways and reduce complexity in the curriculum.

- b. **Course and program collaboration.** Our colleges and universities, working in collaboration with Academic and Student Affairs and the ISRS Next Gen design team, should create a platform (both through coordination and technology) that more easily enables colleges and universities to share courses and programs and makes it easier for students to take courses at multiple institutions either face-to-face, online, or through telepresence.
- c. **Online alignment.** To reduce curricular duplication our colleges and universities should align online course and program offerings with the emerging systemwide online strategy.
- d. **Regional academic plans.** Academic and Student Affairs should work with our colleges and universities to create regional academic plans that increase collaboration in academic programming and protect access to courses and programs.
- e. **Faculty and staff serving students at multiple colleges and universities.** In response to the changing needs of our students and our desire to increase enrollments and improve student retention, Minnesota State should negotiate more creative and flexible labor practices aimed at enabling teaching faculty and academic advisors to seamlessly serve multiple colleges and universities simultaneously. This would include campus-to-campus assignment flexibility with shared assignment options that adhere to a faculty-designed, cohesive curriculum. If these changes cannot be negotiated during the FY17-FY2018 bargaining sessions, Minnesota State should consider alternative approaches by which to achieve the labor flexibility necessary to meet student needs and maximize its stewardship of tuition and public funds.

## 2. Reduce facilities costs

Our colleges and universities spend \$150 million each year on facilities, yet our campus academic space utilization rates<sup>5</sup> are a low 39%.

*Goal: Reduce facilities costs by 5% over the next five years.*

- a. **Temper the appetite for new buildings and focus on deferred maintenance.** Colleges and universities need to temper their appetite for new buildings and shift their focus to deferred maintenance. The proposed changes to the internal financial model will increase campus responsibility, reward thoughtful facilities planning and spending, as well as temper the appetite for new facilities and additional academic space. It will reward both campus decisions to reduce unneeded space and their decisions to invest to reduce energy consumption and maintenance costs.
- b. **Increase facilities utilization.** In collaboration with the system office, our colleges and universities should take additional steps to increase facilities utilization including improved instructional scheduling, comprehensive regional facilities planning, and the use of tuition, fee and staff assignment incentives. When facilities are obsolete and cannot be used to meet a campus's academic needs or a community need, those facilities should be taken off line to reduce maintenance, deferred maintenance, and utilities costs.

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<sup>5</sup> Utilization rates are calculated on a 32-hour week and nine months a year. There is great variance across our campuses in their space utilization rates ranging from a low of 21% to a high of 58%.

### 3. Reduce administrative costs

Although administrative costs have been significantly cut and we are among the most administratively efficient systems of higher education in the nation, there are additional opportunities for improvement. Increased efficiencies will not only reduce costs, but will improve student services, reduce risk, and better leverage technology. Although our colleges and universities have reduced their institutional support expenses over the past four years, 11 of our colleges and universities have expenses that are 10% higher than the average.

*Goal: Further reduce institutional support expenses by an additional 5% over the next five years.*

Colleges and universities, with assistance from the system office, should:

- a. **Consolidate the delivery of core functions** to create more cost-effective operations where knowledge and services are shared and redundancies are minimized.
- b. **Establish criteria for campuses to have full, dedicated administrative structures.**
- c. **Create regional planning, communication, and leadership structures** to ensure effective coordination of core functions among and between colleges and universities.
- d. **Create regional and statewide call and processing centers** that consistently communicate information and handle transactions related to admissions, financial aid, course registration, human resources, accounts receivable, surveys of students, and other common functions. These centers would handle transactional

work; student-facing academic and student services are best provided by our campuses.

### 4. Hold compensation increases to the increases in new recurring revenue

With 75% of all of Minnesota State's expenditures going to cover compensation, particular attention should be paid to these costs. Over the past *four* years, although total new base revenue has increased 2% per year, annual compensation<sup>6</sup> increased by over 5% for the classified units; between 3.4% and 4.0% for the faculty; and 2.7% for those covered by the administrative plan. Every percent increase in compensation above available new recurring revenue adds \$12 million in additional budget cuts to academic programs, student services, and personnel.

When fully implemented the curricular, facilities, and administrative efficiencies together will reduce recurring costs by about \$39.7 million for our colleges and universities. About half of these savings will come from increased efficiency in management of the curriculum; the rest from administrative efficiencies and savings in facilities costs. In addition, avoiding compensation costs for which we do not have base funding, will avoid an additional \$12 million in costs per percentage point of compensation.

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<sup>6</sup> Includes steps, salary schedule enhancements, and fringe benefits.

**Estimated net cost savings after full implementation**

Cost savings strategies	\$ in millions
1. Improve curricular efficiency	\$21.2
2. Reduce facilities costs	\$ 7.5
3. Reduce administrative costs	\$11.0
4. Hold compensation increases to the increases in new recurring revenue <sup>1</sup>	\$12.0 – \$24.0

<sup>1</sup>Estimates range from avoiding compensation exceeding available recurring resources by 1% to avoiding compensation exceeding available recurring resources by 2%.

A great deal of work is already under way – and will continue – to deliver these cost savings; additional work needs to be initiated over the years ahead as can be seen in the following table. Success will depend on the continued intentionality of our collective efforts.

**Summary of cost saving strategies**

Work currently underway?		
<b>1. Improve curricular efficiency</b>		
a. Streamline degree pathways	✓	Charting the Future
b. Course and program collaboration		
c. Online alignment		
d. Regional academic plans	✓	Charting the Future
e. Faculty and staff serving students at multiple colleges and universities.		
<b>2. Reduce facilities costs</b>		
a. Temper the appetite for new buildings and focus on deferred maintenance	✓	New allocation frame work
b. Increase facilities utilization		
<b>3. Reduce administrative costs</b>		
a. Consolidate the delivery of core functions		
b. Establish criteria for campuses to have full, dedicated administrative structures		
c. Create regional planning, leadership, and administrative structures		
d. Create regional and statewide call and processing centers	✓	Charting the Future
<b>4. Hold compensation increases to the increases in new recurring revenue</b>		

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## State of Minnesota responsibilities

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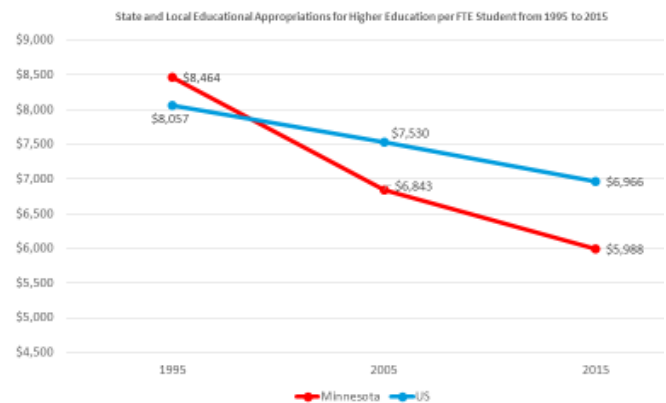
Although we have both the opportunity and responsibility to further increase revenue and reduce costs, our colleges and universities will not be financially sustainable without the State of Minnesota being a full partner in this effort.

The risk to the State of Minnesota is profound. Our colleges and universities are key to our state's success. Our 54 campuses in 47 communities are critical to providing access to an affordable education in a state that has more need for an educated workforce than any other state in the nation,<sup>7</sup> yet is confronting a shortage of people with postsecondary credentials. This situation will be exacerbated over the next decade with the dip in population growth and the retirement of the baby boom cohort. Our 40,000 graduates are critical to the growth of businesses and communities across Minnesota which depend on a talented workforce for their growth and prosperity. The success of our 63,400 students of color and American Indian students and 84,000 students from families of modest financial means are critical to reducing Minnesota's racial and economic disparities.

Minnesota garnered the well-deserved reputation of being the nation's brainpower state because previous generations of Minnesotans made the investments in higher education that were needed to produce one of the most educated and talented workforces in the world. Over the past two decades, however, those investments have tumbled.

**State spending on higher education has dropped 29% between 1995 and 2015, adjusted for inflation** (falling from \$8,464 per student FYE in 2002 to \$5,988 per student FYE in 2015). Back in 1995, Minnesota invested 5% more than the average state in higher education. Today, we trail the nation – investing 14% *less* than the national average. The great irony here is that Minnesota, which has the greatest need of any state in the nation for a well-educated workforce, has more deeply disinvested in the engine that creates that workforce.

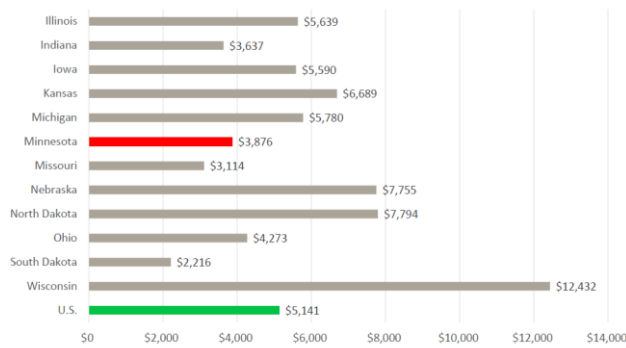
### Minnesota's funding of higher education has plummeted and significantly trails the U.S. average



Source: SHEEO (2015). Estimates adjusted for inflation.

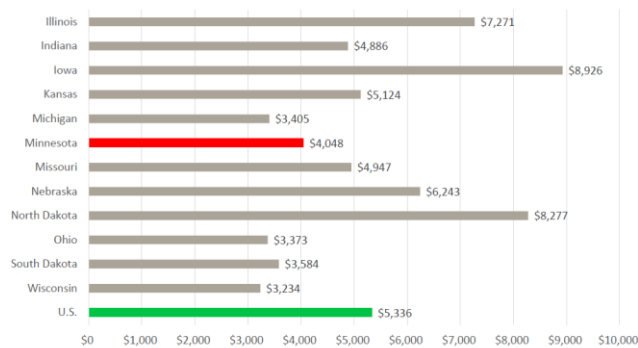
**Minnesota spends 25% less than the national average on its thirty community and technical colleges and 24% less than the national average on its seven state universities.**

Public Associates Colleges - State and Local Appropriations per FTE Student during 2013-14



Source: NCES IPEDS. (2014). Finance Files ; f1314\_f1a, f1314\_f2. As reprinted in *Higher Education In Focus, Selected Performance Indicators for Minnesota. (2014-2015)*, Midwestern Higher Education Compact, p. 27.

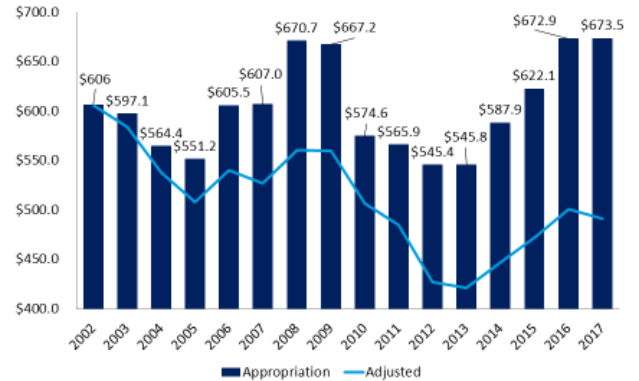
Public Master’s Universities -State and Local Appropriations per FTE Student during 2013-14



Source: NCES IPEDS. (2014). Finance Files ; f1314\_f1a, f1314\_f2. As reprinted in *Higher Education In Focus, Selected Performance Indicators for Minnesota. (2014-2015)*, Midwestern Higher Education Compact, p. 26.

The state’s disinvestment in higher education has had a severe effect on the ability of our colleges and universities to serve students, businesses, and communities across Minnesota. State support for Minnesota State college and university students (in constant dollars) was 23% lower in FY2015 than it was in FY2002, and over those years the state’s share of campus general fund budgets dropped from 66% to 44%.

Minnesota State Colleges and Universities State appropriation (in millions) and adjusted for inflation



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 amount of resources has not significantly increased; rather the sizes of the tuition and appropriation slices have merely shifted.

- The State of Minnesota should restore its investment in higher education to the national average, at least.**

If our colleges and universities were funded at the national per full-time student average in FY2014 our total appropriation would have been \$184 million higher in that year. The state should work to restore its historical funding support to enable us to hold down tuition, protect critical programs needed to meet the state’s workforce needs, and serve students across Minnesota.

**2. The State of Minnesota should fully fund the recurring cost of compensation increases negotiated by the state.**

Fully one-third of our employees are members of statewide bargaining units whose contracts are negotiated by the executive branch. Over the past four years, total compensation increases<sup>7</sup> have substantially exceeded new revenues by over two-fold. The settlements that the executive branch reaches also affect the agreements that the Board of Trustees can achieve in its negotiations with its faculty units. This underfunding of compensation by the state has led to college and university unfunded budget pressures of over \$20 million per year. The state should fund with new base dollars the costs of labor contracts that it negotiates and that are out of the hands of the Board of Trustees.

**3. The State of Minnesota should provide the HEAPR resources needed to maintain our college and university academic facilities.**

Minnesota State has stewardship of one-third of the state's facilities, representing \$9.3 billion in replacement value. We are facing \$1.2 billion in renewal costs over the next ten years with \$909 million of current deferred maintenance. Every capital program request over the past 20 years has included as the board's number one priority a request for asset preservation investment support. It is critical that the state invest in these facilities before the deferred maintenance

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<sup>7</sup> Salary schedule increases, step increases, and fringe benefit increases.

is irreversible and the assets are lost. In addition, application of Minnesota Statutes § 135A.046, Asset Preservation and Replacement (HEAPR), should be expanded to exclude from the assignment of debt service major building or infrastructure repair capital projects necessary to preserve the interior and exterior of existing buildings, or renewal to support the existing programmatic mission of the campuses.

**4. The State of Minnesota should provide the funds and leadership needed to decommission and demolish facilities that are obsolete, that are no longer needed to meet academic program needs, that cannot be effectively repurposed, and that community organizations do not want to use.**

Minnesota State has more than 800 buildings spread across nearly 7,000 acres on 54 campuses around the state. Some of the buildings are entirely vacant and would require capital spending to separate them from the campus facilities. Much of the property is located in non-metropolitan areas of the state and at times support community athletic fields or help address watershed/storm water management. By some measures, Minnesota State could shrink its physical footprint by 20% and still have the space needed to meet current and projected future program needs. Substantial state resources are needed to accomplish this long term realignment of the system's physical plant in ways that will greatly enhance the long term financial sustainability of our colleges and universities, and protect the academic facilities needed to ensure access to educational opportunities across the state.



## 5. The State of Minnesota should fully fund the direct costs of PSEO.

Minnesota State colleges and universities are the single largest provider of PSEO educational access in Minnesota. We are committed to this work and our partnership with school districts across the state to provide affordable access to college and university courses for students while they are still in high school. Our colleges and universities cannot continue to subsidize the unfunded costs of student participation in this program – costs that run \$4 million a year to cover the cost of textbooks and materials that our colleges and universities currently have to absorb.

## 6. The State of Minnesota should partner with Minnesota State colleges and universities to identify additional sources of public revenue beyond the general fund (e.g., dedicated lottery funds; local sales or property tax options; other dedicated state or local revenue streams) that could support our colleges and universities across the state.

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## Conclusion

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As the workgroup concluded in its June 2016 report, “The situation is urgent and demands development of strategies that will enable improved service to students, the state, its citizens and its communities.” This roadmap identifies the strategies that honor our core values and the commitments we have made to the people of Minnesota and that will have both a *material* and *recurring* impact on campus finances.

The good news is that nearly two-thirds of the steps to be taken are already underway. If we fully implement the strategies, we will not only address our financial challenges, but will do so in ways that will improve access and affordability, improve educational quality and student success, reduce educational disparities, and better serve students and communities throughout Minnesota.

It will take a great deal of intentionality to meet the goals set out in this strategy roadmap. Individual campuses will, of course, have their own approach for how best to implement the tactics – one size does not fit all. Individual campuses will also undoubtedly identify additional revenue opportunities that are unique to their school (e.g., commercialization of intellectual property or creation of new services). Nothing in this roadmap should constrain the ongoing creativity that our faculty and staff will continue to bring to the table.

But local variance on how best to do this work cannot undermine the statewide commitment to the necessity of doing this work. Key to our success will be the discipline that the presidents and their leadership teams as well as the chancellor, cabinet, and Board of Trustees show over the years ahead. Success will also require continued creativity and innovation and will demand that we continue to work together in more powerful ways.

Although we have the responsibility to further increase revenue and reduce costs, our colleges and universities will not be financially sustainable without the State of Minnesota being a full partner in this effort. The State of Minnesota must restore its historical funding of our colleges and universities. State support is critical to enabling us to hold down tuition, protect

programs vital to the state's workforce needs, and serve students across Minnesota.

The stakes are incredibly high. Minnesota is counting on our colleges and universities to address the two greatest challenges our state is facing: developing the talent Minnesota businesses need to drive the state's continued economic prosperity; and eliminating the racial and economic disparities that keep too many Minnesotans from having the opportunity to become that talent.

Eliminating disparities and providing talent – that is exactly what our colleges and universities do, and that is exactly why Minnesota needs Minnesota State more than ever. Funding our colleges and universities is an essential investment: it serves all Minnesotans and creates a stronger Minnesota.



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Strategy Roadmap for  
Long Term Financial Sustainability for  
Minnesota State Colleges and Universities  
November 2016