

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

**Agenda Item Summary Sheet**

**Committee:** Finance, Facilities and Technology    **Date of Meeting:** March 16, 2010

**Agenda Item:** Minnesota State Colleges and Universities System and Economic Outlook for FY2011-2013

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|----------------------------------------------------|-------------------------------------------------------------|---------------------------------------------|-------------------------------------|
| <input type="checkbox"/> Proposed<br>Policy Change | <input type="checkbox"/> Approvals<br>Required by<br>Policy | <input type="checkbox"/> Other<br>Approvals | <input type="checkbox"/> Monitoring |
| <br>                                               |                                                             |                                             |                                     |
| <input checked="" type="checkbox"/> Information    |                                                             |                                             |                                     |

**Cite policy requirement, or explain why item is on the Board agenda:** The purpose of this report is to continue a discussion with the Finance, Facilities and Technology Committee regarding the budget outlook for fiscal years 2011 as well as the 2012-2013 biennium.

**Scheduled Presenter(s):** Laura M. King, Vice Chancellor - Chief Financial Officer  
Judy Borgen, Associate Vice Chancellor Budget  
Karen Kedrowski, System Budget Director

**Outline of Key Points/Policy Issues:** The impact of the governor's supplemental budget recommendation and highlights of the February 2010 budget forecast will be provided to the Committee. Discussions are occurring with the Leadership Council to target limited state resources to the highest system priorities.

**Background Information:** The system has been engaged in a multi-year budget planning process. The governor has released a supplemental budget request as well as an updated economic forecast for the state of Minnesota.



The governor’s supplemental budget maintains funding for priority areas including military and veterans, core public safety, and K-12 education classrooms and relies on \$387 million from the federal government for the Medicaid program if the health care reform bill is passed. Table 2 shows the impact of the governor’s budget recommendations.

**Table 2**

**Governor’s Supplemental Budget Recommendations  
(\$ in millions)**

	<b>FY2010-2011</b>
Forecast deficit	\$1,203
Budget changes	
Aid to local units of government	\$250
Health and human services	\$347
Extended federal Medicaid match	\$387
Higher education institutions	\$47
State agencies/grants/other	\$181
Subtotal, recommendations	<u>\$1,212</u>
Biennial balance	\$9

On March 2 Minnesota Management and Budget released the state’s February 2010 economic forecast. There was modest improvement in the budget outlook since the November 2009 forecast. Revenues are forecast to increase an additional \$25 million and a reduction in expenses of \$184 million for a positive net change of \$209 million. (Table 3) The \$184 million reduction in expenses was the result of large savings in the health and human services area. Half of the savings are “one-time” and the result of an expansion of the temporary federal medical assistance percentage (FMAP). The deficit for 2010-2011 biennium is now projected at \$994 million, down from \$1.2 billion. The current deficit is about 6 percent of fiscal year 2011 spending.

Table 3

**State of Minnesota  
Fiscal Years 2010-2011 Forecast**

(\$ in millions)	<u>November Forecast</u>	<u>February Forecast</u>	<u>Change</u>
<b>Beginning balance</b>	<b>\$447</b>	<b>\$447</b>	<b>\$0</b>
Revenues	\$29,986	\$30,011	\$25
Expenditures	\$31,286	\$31,102	(\$184)
Cash flow account	<u>\$350</u>	<u>\$350</u>	<u>\$0</u>
<b>Balance</b>	<b>(\$1,203)</b>	<b>(\$994)</b>	<b>\$209</b>

Source: Minnesota Management and Budget, February 2010 Forecast.

As shown in Table 4, the projected deficit of \$994 million is comprised of a reduction in general fund revenues of \$1.131 billion (3.6 percent) and a very small decrease in expenses of \$228 million (0.7 percent). The decline in individual income tax receipts of \$894 million accounts for most of the decline in revenues at 79 percent. Although the forecast for the 2010-2011 biennium shows a modest improvement in the budget outlook, it will not impact the governor's supplemental budget recommendation.

Table 4

**State of Minnesota  
Fiscal Years 2010-2011  
Forecast Compared to End-of-Session**

(\$ in millions)	<u>End-of- Session</u>	<u>February Forecast</u>	<u>\$ Change</u>	<u>% Change</u>
<b>Beginning balance</b>	<b>\$538</b>	<b>\$447</b>	<b>(\$91)</b>	
Revenues	\$31,142	\$30,011	(\$1,131)	-3.6%
Expenditures	\$31,330	\$31,102	(\$228)	-0.7%
Cash flow account	<u>\$350</u>	<u>\$350</u>	<u>\$0</u>	
<b>Balance</b>	<b>\$0</b>	<b>(\$994)</b>	<b>(\$994)</b>	

Source: Minnesota Management and Budget, February 2010 Forecast.

The projected deficit for the 2012-2013 biennium has grown to \$5.789 billion, a \$363 increase over the November 2009 forecast gap of \$5.426 billion. (Table 5)

**Table 5**

**State of Minnesota  
Change in FY2012-2013 Planning Estimates**

(\$ in millions)	November Forecast	February Forecast	Change
Revenues	\$33,218	\$32,906	(\$312)
Expenditures	\$38,644	\$38,695	\$51
<b>Difference</b>	<b>(\$5,426)</b>	<b>(\$5,789)</b>	<b>(\$363)</b>
<i>Inflation estimate</i>		\$1,181	

*Planning estimates assume:*

- Complete repayment of the K-12 aid deferral. Delaying repayment would save \$1.163 billion.
- No repayment of the K-12 property tax recognition shift. Repayment would cost \$564 million.
- No continued GAMC spending. Restoring the program would cost \$928 million.

Source: Minnesota Management and Budget, February 2010 Forecast.

**Budget planning 2010-2011**

The system and the colleges and universities have taken a multi-year approach to budget planning. The planning has been guided by three principles:

- The Chancellor and system leadership will seek to make decisions in a way that best serves students;
- Decisions will strive to take into account the system's mission to serve the economic development needs of the state and its communities; and
- Planning will take a multi-year approach, positioning the system for long-term financial viability.

The Committee was provided with a preliminary planning framework at its January 2010 meeting. The assumptions included in that framework are:

- Include a state support reduction of \$60.5 million as announced by the Governor;
- Assume tuition rate increases not to exceed 5 percent;
- Recognize modest compensation inflationary cost increases (insurance increase and steps for classified employees);
- Expect the continuation of the already approved federal stimulus funds for one-time expenses;
- Maintain/increase fund balances and reserve levels when appropriate; and
- Reach structural balance by the end of fiscal year 2011 targeting governor's planning assumption of \$594.4 million.

The state's economic outlook has a significant influence on the system's financial condition. The governor's supplemental budget recommendation in response to the forecast deficit in the current biennium changes the system's preliminary budget outlook for fiscal year 2011 from a positive budget gap of \$9.7 million to a negative gap of \$50.7 million before any use of fund balance or further budget reductions. (Table 6)

**Table 6**

**Minnesota State Colleges and Universities  
Summary Outlook – Fiscal Year 2011 General Fund**

(\$ in millions)	<b>Fiscal Year 2010 Proposed Budget</b>	<b>Preliminary Fiscal Year 2011 Outlook</b>	<b>Revised Fiscal Year 2011 Outlook</b>
<b>Revenues</b>			
State appropriation	\$614.2	\$666.0	\$605.5
Tuition*	\$708.3	\$740.5	\$740.5
ARRA funds*	\$26.7	\$26.7	\$26.7
Other revenues	\$126.8	\$124.5	\$124.5
<b>Total budgeted revenues</b>	<b>\$1,476.0</b>	<b>\$1,557.7</b>	<b>\$1,497.2</b>
<b>Expenses</b>			
Compensation	\$1,085.9	\$1,103.6	\$1,103.6
Other operating costs	\$404.7	\$444.3	\$444.3
<b>Total budgeted expenses</b>	<b>\$1,490.6</b>	<b>\$1,547.9</b>	<b>\$1,547.9</b>
<b>Gap</b>	<b>(\$14.6)</b>	<b>\$9.7</b>	<b>(\$50.7)</b>
Programmed fund balance	\$16.3	\$5.9	\$5.9
<b>Budget balance</b>	<b>\$1.7</b>	<b>\$15.6</b>	<b>(\$34.4)</b>

\*In fiscal years 2010 and 2011 approximately \$12.9 million of ARRA funds were used to mitigate tuition increases. These resources are included in tuition revenue.

At the time the 2010-2011 biennial operating budget request was being developed, the state was projecting a budget deficit of \$940 million. After consideration of the state's economic outlook, the Board approved a FY 2010-2011 biennial operating budget request of \$71.7 million (a 5.3% increase above forecast base of \$1,372.8 million). The system did not receive its request, but rather its appropriation was reduced by \$92.7 million (a 6.8% decrease). Factoring in the governor's unallotment and supplemental budget recommendation for an additional \$60.5 million reduction, the total reduction to the system in the current biennium will be \$153.2 million (11% below forecast base).

Budget discussions with the campus communities have been ongoing for a number of months and are guided by the principles noted above. Colleges and universities are facing challenging times under challenging conditions. ARRA funds are being used as a one-time bridge transition as decisions are made to reach structural balance by the end of fiscal year 2011. Campus administrators are committed to solving budgetary gaps in ways that minimize the impact on students and preserve the mission and vision of the college or university. Comprehensive processes are being utilized by colleges and universities to review academic programs using criteria such as cost, enrollment, employment needs, and mission. Institutions will need to balance, as best as they can, supporting core functions while maintaining/increasing progress towards the Board of Trustees strategic plan.

Last fall the colleges and universities were projecting a fiscal year 2010 student full-year equivalent (FYE) enrollment of 151,805 – an increase of 5.5 percent over fiscal year 2010. Revised projections for fiscal year 2010 show enrollment at 154,166 FYE, an additional increase of 2,361 FYE over fall projections and an overall increase of 7.1 percent over fiscal year 2010. The colleges are projecting overall growth of 10 percent while the universities are anticipating growth of 2.4 percent. Although tuition revenue comes with the increased enrollment above projections, there is also an increase in demand for academic offerings and student services that may result in added costs. The record enrollment increases in the current year make it extremely difficult to project the out years not knowing if the increases are an anomaly or can be expected for the next few years. The colleges and universities are projecting a modest growth of 0.8 percent in fiscal year 2011.

Tuition has a role in the budget planning process. Tuition planning parameters include the language in the Omnibus Higher Education bill that limits tuition rate increases for Minnesota resident undergraduate students to five percent as well as operating within the current tuition structure in Board policy. Board policy includes programmatic or course per credit, banded and market-driven rates. Board policy allows colleges and universities to set market-driven tuition for customized training, continuing education, distance learning, non-credit instruction, and contract post-secondary enrollment options programs. There are no tuition structural changes proposed for fiscal year 2011. The planning parameters provide for a maximum tuition rate increase for undergraduate students of \$7.15 per credit for colleges and \$9.85 per credit for universities. The colleges and universities are also operating under the current fee structure within Board policy. There are no fee structural changes at this time proposed for fiscal year 2011.

The governor's budget recommendation of \$605.5 million of state resources for fiscal year 2011 requires the system to have a candid discussion about funding priorities. With limited state resources, it is critical that funding be targeted to the highest system priorities. Discussions are occurring with the Leadership Council to identify priorities that can be either eliminated or reduced while keeping focused on moving forward the Board's strategic plan and preserving financial support for base operations.

### **Budget planning 2012-2013**

With the multi-year budget planning approach, the colleges and universities have been also modeling the budget outlook for fiscal years 2012 and 2013. Planning assumptions include the following:

- Assume governor's supplemental budget recommendation of \$594.4 million (as compared to the approved level of \$654.9 million);
- Model further reductions in state appropriation;
- Recognize inflationary cost increases at the CPI referenced in the state's economic outlook (2.1 percent for fiscal year 2012 and 1.9 percent for fiscal year 2013 - modified for local assumptions);
- No cap on tuition rate increases but an expectation of reasonableness; and
- No federal stimulus funds.

With the current forecast budget deficit for the state of Minnesota at \$5.789 billion, the system could see further reductions in state appropriation in the next biennium assuming spending reductions are part of the solution to the deficit. Colleges and universities are modeling reductions in appropriation below the governor's supplemental budget recommendation of \$594.4 million. The system represents 3.9 percent of the state's general operating budget. If half of the remaining deficit was solved through spending reductions, the impact on the system could be at least \$100 million reduction over the next biennium.

The state's economic forecast directly impacts the system's financial outlook. With spending pressures on the state budget being driven by issues of an aging population and health care services, the outlook for the system is more than likely reduced state resources. As part of the 2020 planning effort underway, financial modeling is occurring to better position the system for long-term sustainability. Various assumptions are being modeled in regard to appropriation levels, tuition rate increases, and inflationary cost increases to estimate the annual budget gap. The Board will need to determine what can be sustained with limited resources. The financial model projects that the system could be 63 percent tuition reliant by fiscal year 2015, a complete reserve of legislative intent to fund the cost of instruction at 67 percent.



### **Biennial operating budget development 2012-2013**

Every other year, as part of the state's operating budget process, the system develops a biennial operating budget request. The request for the 2012-2013 biennium is due to the governor and legislature in the fall of this year. With the state projecting a budget deficit for 2012-2013, the Chancellor will be looking for direction from the Committee regarding development of the biennial budget. Additional committee and Board discussions will be scheduled later this spring.

As the Board moves forward with a FY2012-2013 biennial operating budget request, it will wish to consider the state's economic outlook, planning estimates for the next round of labor negotiations, and the role of tuition in the request. Development of the biennial budget request will occur over the next several months with action by the Board scheduled for late fall.

### **Next steps**

The Office of the Chancellor and the colleges and universities are continuing with their multi-year budget planning process and with consultation with their campus communities. The Chancellor is continuing discussions with Leadership Council in identifying activities that could either be eliminated or funding reduced. Action on the fiscal year 2011 operating budget is scheduled for April and May 2010 meetings of the Board of Trustees. In all likelihood the action will be moved to May and June 2010 to allow for the legislature and governor to complete their work. Development of the biennial budget request will occur over the next several months.

*Date Presented to the Board: March 17, 2010*