

MINNESOTA STATE COLLEGES AND UNIVERSITIES

BOARD OF TRUSTEES

FINANCE AND FACILITIES COMMITTEE

STUDY SESSION MINUTES

April 16, 2013

Finance and Facilities Committee Members Present: Chair Michael Vekich, Trustees Brett Anderson, Dawn Erlandson, Philip Krinkie, Alfredo Oliveira, Davis Paskach, and Thomas Renier

Other Board Members Present: Ann Anaya, Duane Benson, Alexander Cirillo, Cheryl Dickson, Clarence Hightower, Louise Sundin

Leadership Council Representatives Present: Chancellor Steven Rosenstone, Vice Chancellor Laura King, President Joe Opatz, President Richard Hanson

The Minnesota State Colleges and Universities Finance and Facilities Committee held its Allocation Framework 101 Study Session on April 16, 2013 4th Floor, McCormick Room, 30 East 7th Street in St. Paul. Chair Vekich called the session to order at 3:30 p.m. and noted Trustee Paskach was present by phone. Chair Vekich also noted that President Opatz and President Hanson, the Finance Committee President Liaisons, were present to assist with the discussion.

Chair Vekich said this session is a follow up to the Finance 101 study session in November where committee members indicated interest in the design, mechanics and future outlook of the allocation framework. Trustee Vekich said that there is a narrative and a PowerPoint included in the packet. The narrative provides context for the framework, describes the mechanics, and makes observations about the incentives and the effects of the design.

Vice Chancellor King introduced Deb Bednarz and Susan Anderson and began the presentation. Vice Chancellor King stated that the allocation of state appropriation makes up 29% of system revenues, a decline from 40% in 2000. The allocation framework only concerns the state appropriation of 29%. All other system revenue, including tuition, fees, auxiliary income, grants, and private gifts, is earned and retained at the individual colleges and universities, and is not a part of the allocation framework.

The current allocation framework provides the flexibility to fund priority initiatives and systemwide services and provides base funding to the institutions. The state allocation comes as a “block grant” that is distributed throughout the system through the allocation framework. The allocation framework distributed \$441M in FY2013. Vice Chancellor King added that the allocation framework is now under study for possible redesign as part of the Strategic Framework.

Vice Chancellor King said fourteen workgroups from across the system helped to develop the algorithm in the allocation framework. It was approved by Board of Trustees in 2002 and fully implemented in 2006.

In 2013, the Board was allocated \$545M by the legislature which was distributed three ways: \$467M for institutional allocations - the funding that goes directly to colleges and universities as priority funds or as base allocations; \$43M for systemwide set asides - the funding that is used to support systemwide services such as enterprise technology, debt service, and the Attorney General's office, etc.; and \$33M for system office support – a specific line-item appropriation from the legislature supported with state appropriation only, not tuition dollars.

A breakdown of how the state funds are distributed through the rubric was presented. 8% of the total funding is allocated to systemwide set asides to fund services such as enterprise technology and the system audit program that are provided across the system; 3% is allocated to colleges and universities as priority funds for programs such as Access and Opportunity. Priority funding can be determined by the board or the legislature through the budget process. 83% is allocated to the colleges and universities as “base” allocations, which is further broken down to support instruction (56%), administrative and student support (30%), facilities (7%), library (4%), and research and public service (2%). Systemwide set-asides (8%), institutionally priority funds (3%), and system office funding have separate rules.

The allocation framework determines funding levels based on each school's instructional cost, enrollment, and other factors and each school is given a great deal of discretion over how these funds are spent. The algorithm's conclusion through each portion of the allocation framework has been fairly constant over the past ten years with the exception of a 2% drop in facilities and a 2% increase in administrative and student services. The system office allocation percentage has been frozen for the past four years, which poses challenges with the continued decline in state appropriation.

The Technical Advisory Committee (TAC), made up of campus employees, institution research employees, CFOs, and CAOs was formed to address issues in the allocation framework as they arise. The Board has not “reapproved” the allocation framework since it was adopted in 2002, and there has been approximately a 1% shift in the funding between the sectors over the last 10 years. Chancellor Rosenstone emphasized that the considerations that go into the allocation framework help drive how the state allocation is distributed to the campuses, but the presidents make the final decision of how the money is used.

Trustee Hightower asked if the 6% for the system office funding has vacillated. Vice Chancellor King replied that the 6% has gone up because the \$545M has gone down. Six or seven years ago, the state appropriation was \$650M and the system office budget was about \$3M higher, but the percentage was still lower because of the higher state appropriation. Funding at its highest was \$41M when there was a large investment in technology, and, since then, it has shrunk 25%. Chancellor Rosenstone added that

because the system office does not have other revenue resources and there has been a reduction in the state appropriation, the percentage of funding for system office is shrinking as a source of support to the system.

Trustee Anderson Kelliher asked how the 4% library funding compared nationally. Vice Chancellor King said that she did not have that information on hand, but it can be provided. Trustee Anderson Kelliher asked if the system could follow the model of the governor's office, where the executive branch acts as "hub" and various constituencies pay for its functions. Vice Chancellor King said workgroups and the Campus Service Cooperative are studying the work of the system office, how it supports the campuses, and how it is paid for. Chancellor Rosenstone noted that this type of model has already been discussed at Leadership Council, where all allocation money is sent to the campuses and they, in turn, contribute to the shared services provided by the system office. This would provide greater accountability on system office activities as to who is paying for the services. Modifications to the allocation framework would take into account incentives, disincentives, and systemwide sustainability.

Vice Chancellor King said that the instructional cost study is one important component of the allocation framework. The cost of instruction of 300 programs is reviewed annually. The costs include instructional and academic support costs, less the revenue buy-down. Using data from the instructional cost study, state funding is allocated to colleges and universities based on their program mix, their enrollment and the cost of delivering their educational programs. The allocation framework also recognizes that the cost of delivering the same program can differ between institutions and compares high cost programs to other high cost programs and low cost programs to other low cost programs throughout the system. The allocation framework calculates the average cost of delivering a similar program throughout the system and calculates a 10 percent band around that average. The percentage of the state allocation distributed to the institution is then based how they fall within the bands. Vice Chancellor King said that the allocation framework is run on a net basis, allowing presidents to run some programs cost efficiently, and others not and the system office does not direct academic cost control. Campus leadership can decide to spend above or below the band as long as the overall total balances out.

Chancellor Rosenstone added that the allocation framework takes into account that courses at a technical college are more costly than those at a community college. The allocation framework builds in additional funds for inherently more expensive courses. Institutions are also rewarded for operating efficiently and penalized for operating inefficiently. Vice Chancellor King noted that the available funds distributed are based on 50% of the prior year's allocation percentage share and 50%, of the new allocation share, which builds in a slow rate of change for "winners and losers".

Vice Chancellor King called on President Opatz and President Hanson to comment. President Opatz said the allocation framework is enrollment driven. Institutions rely more and more on tuition because even if your institution experiences enrollment growth, there may be zero gain if state appropriation continues to decline. An institution must

also keep up with enrollment growth across the system. President Opatz noted that even though there is incentive for increased enrollment, student success is not factored in.

President Hanson said that he likes the predictability of the allocation framework and also likes that all tuition revenue stays at the school. President Hanson said that he agrees with President Opatz in that the allocation framework focuses on inputs, not outcomes and said that there is not incentive for collaboration. President Hanson added that in cases of funding for multiple institutions, such as Bemidji State University and Northwest Technical College, there is one allocation that needs to be divided between two institutions, and that can be challenging.

Trustee Renier asked President Hanson to elaborate on what is meant by collaboration. President Hanson gave the example of all the northwest Minnesota colleges and universities coming together and forming the Northwest Minnesota Initiative. President Hanson said that there have been roadblocks in the initiative because of the way colleges and universities are set up, but they continue to find ways to work together.

Chancellor Rosenstone said one aspect of the allocation framework is that he respects its objectiveness; it does not allow the chancellor to distribute the funding and play favorites. Chancellor Rosenstone agreed that there is little or no incentive for collaboration amongst the institutions under the current allocation framework and some institutions regard each other as competitors, rather than working collaboratively toward student success. The current allocation framework is also silent concerning the achievement gap and efficient use of square footage. Chancellor Rosenstone said this study session should help identify the strengths and weaknesses of the current allocation framework, and help build the structure for the System of the Future to accomplish the outcomes that the system is trying to achieve.

Trustee Cirillo said that leadership should look to at institutions that are performing well and lead with their practices to rebuild the allocation framework. Vice Chancellor King said that is exactly why the remodel of the allocation framework has been on pause.

Trustee Dickson said that, when funded, the Centers of Excellence were an earnest attempt at collaboration among the institutions. Trustee Dickson asked if there were any barriers that the board could help eliminate so there could be collaboration without the presence of financial incentives. Vice Chancellor King replied that advice and direction will come from the strategic workgroups and preliminary reports and recommendations will be submitted to Chancellor Rosenstone in June and final decisions will be made by the board in October.

Trustee Sundin said the vision of collaboration should be in a broader sense, including partners in businesses and school districts. Trustee Sundin noted that the partners should bring their own funding or in-kind contributions. Vice Chancellor King said that care needs to be given to keep the allocation as a block grant, in order for decisions to continue to be made at the campuses by the presidents.

Trustee Hightower asked if there was anything that the board could do to take the modifications of the allocation framework off pause. Chancellor Rosenstone replied that in order to get answers to the questions that are now before the workgroups, there needs to be clarity in the direction in which to move the system in the future. Once the direction has been identified, more work will be done to accomplish the desired strategic outcomes through modification of the framework to incent the right behaviors. There will be consultation with the system's constituencies; there will be design choices of what the system will look like in 3 – 5 years, including mandates, performance processes, establishment of metrics and goals, incentives for behavior to promote student success, and rules for the distribution of the state allocation.

The study session was adjourned at 4:32 p.m.

Respectfully submitted,

Laury Anderson, Recorder