

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
Agenda Item Summary Sheet**

Name: Finance and Facilities Committee

Date: October 21, 2014

Title: System Finances (Finance 101)

Purpose (check one):

- | | | |
|---|---|---|
| <input type="checkbox"/> Proposed
New Policy or
Amendment to
Existing Policy | <input type="checkbox"/> Approvals
Required by
Policy | <input type="checkbox"/> Other
Approvals |
| <input type="checkbox"/> Monitoring /
Compliance | <input checked="" type="checkbox"/> Information | |

Brief Description:

This high level overview of the system's financial profile is presented to the Board of Trustees as part of the orientation process for new members and as a refresher for other members. The presentation will review the Board's duties and responsibilities, illustrate the parameters under which decisions are delegated and summarize the system's financial risk management methodology and assurances. Information is also provided concerning the financial and facilities profile of the system.

Scheduled Presenter(s):

Laura M. King, Vice Chancellor – CFO

Minnesota State Colleges and Universities



Board of Trustees
System Finances (Finance 101)
October 2014

The Minnesota State Colleges and Universities system is an Equal Opportunity employer and educator.

Agenda

- Introduce board policy framework
- Review major trends
- Provide overview of the system's operating budget and capital investment program



Board policy framework



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Board financial responsibilities

- Provide oversight
- Set policy
- Approve certain decisions



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Decisions requiring board approval

- Revenue and expenditure annual operating budget plans - establishment of financial management policies including the reserve policy - acceptance and release of annual audited financial statements
- Biennial budget requests -tuition and fee rates - optional fee maximums - room and board rates - student union facilities fees
- Contracts of three million dollars or more (policy change to \$1M pending) - sale or disposition of real property -retirement program administration and oversight
- Criteria for multi-year capital budgets -prioritized multi-year capital investment program -revenue fund debt management and all bond sales
- System information technology long range strategic plan -approval of finance and IT related policies



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Financial authorities the board has delegated to the chancellor

- Procurement and professional/technical contracts over \$100,000 less than \$3M (change to \$1M under board consideration)
- Master facilities plan for the colleges/universities
- Execution and delivery of all documents regarding the acquisition, disposal, transfer or leasing of real property after Board approval
- Systemwide reserve and institutional reserves per board policy
- Oversight of college/university financial management
- Naming of buildings, sites and common areas
- Master technology plans for colleges/universities
- Development and management of acceptable use procedure for information technology related resources and assets



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Financial authorities the chancellor has delegated to the presidents

- Administrative and financial management
- Budget monitoring
- Composite financial index oversight
- Purchases and professional/technical contracts Up to \$100,000
- Optional fees up to Board-approved maximums
- Individual tuition and fee waivers per policy
- Fundraising for the college/university
- Acceptance of gifts & grants, except for real property
- Leasing real property
- College/university financial reporting



Vice chancellor assurance practices

- Annual financial reviews with campus leadership
- Monthly, quarterly and semiannual monitoring reports
- Watch list and work out protocols
- Regional financial and facilities quarterly management meetings
- Facilities program management reviews
- Strong communication systems



Board financial risk management strategy

- Annual financial statement/audit discipline
- Operating budget reserves maintenance/improvement policy
- Unrestricted net asset improvements
- Composite financial index improvements
- Capital improvements tied to facilities condition index



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Major trends



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Revenue drivers

- State economic outlook
- Public support for public higher education
- Tuition rate and competitive environment
- Overall enrollment
- Federal and state financial aid funding policy



Cost drivers

- Negotiated contracts (salaries and benefits)
- Enrollments
- Health care costs (employer-paid insurance cost)
- Technology (investments in new technology and system maintenance)
- Size of campus physical plants, building operations, maintenance and preservation

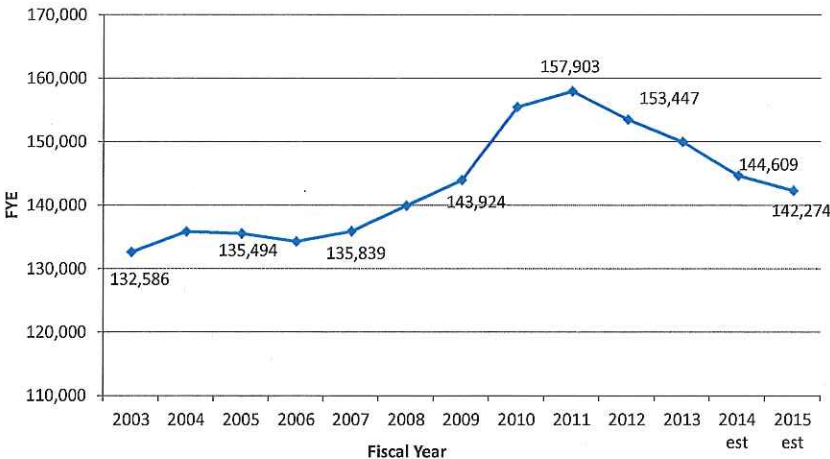


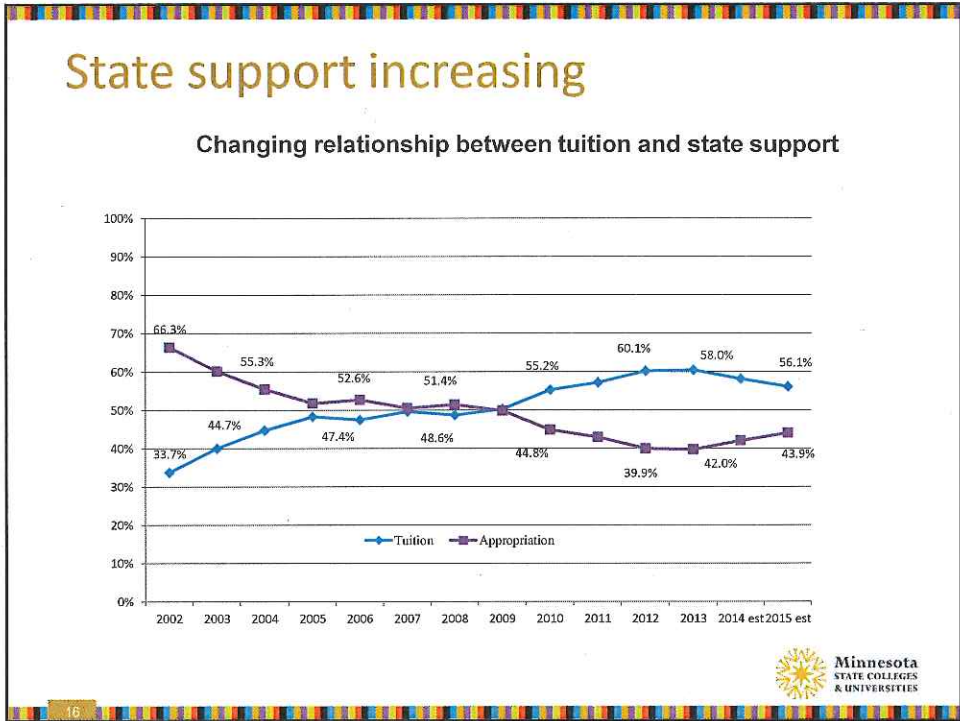
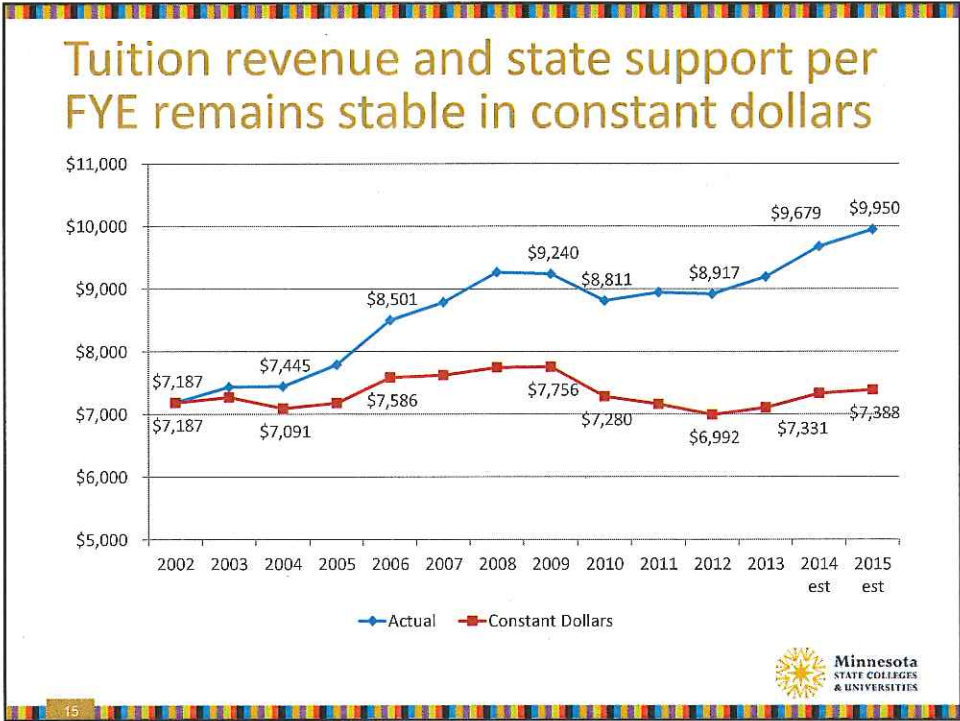
Primary dynamics

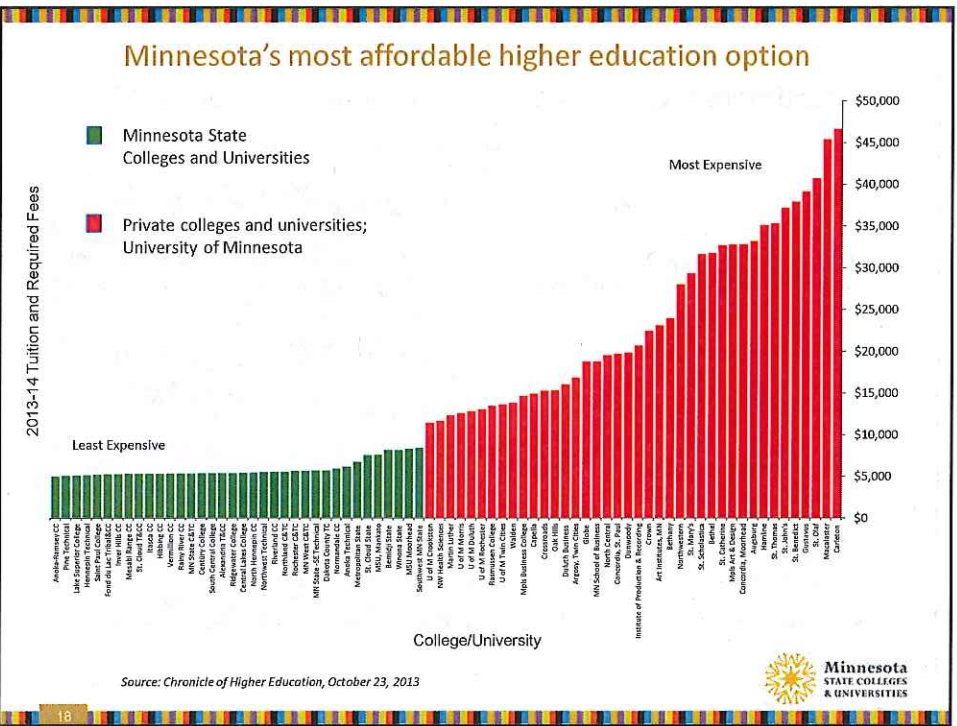
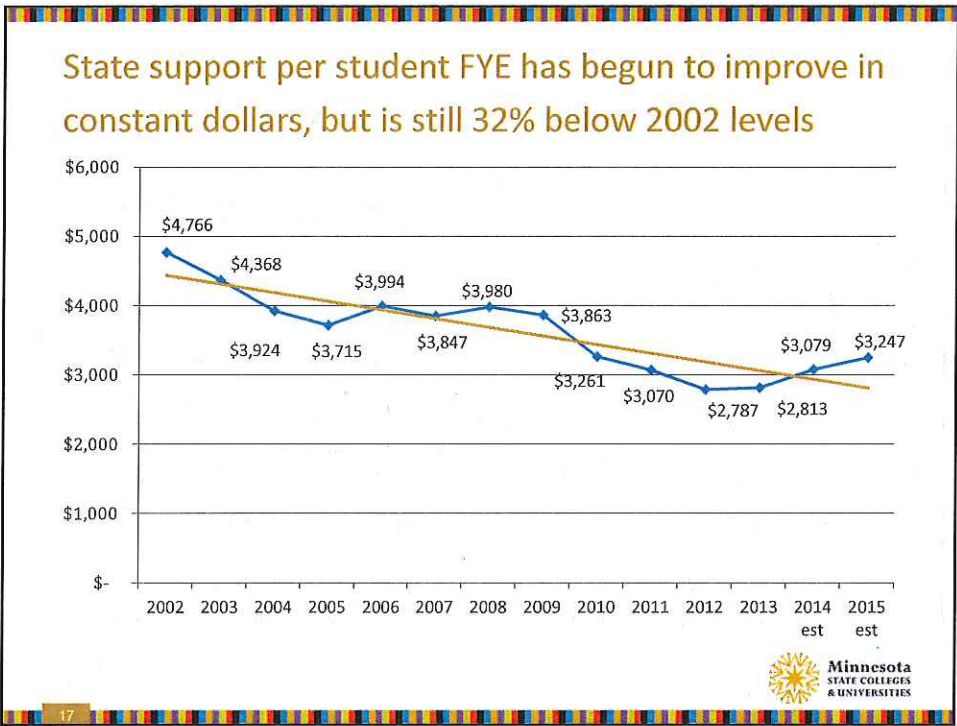
- Enrollment – local management within system strategic framework
- Tuition and revenue – board establishes rates, colleges/universities collect and spend
- Financial aid revenue – state and federal program guidelines
- Gifts and fund raising – colleges/universities solicit and spend
- State support – established by legislature, allocated per board approved method
- Wage and benefit costs – based upon state or board approved systemwide contracts

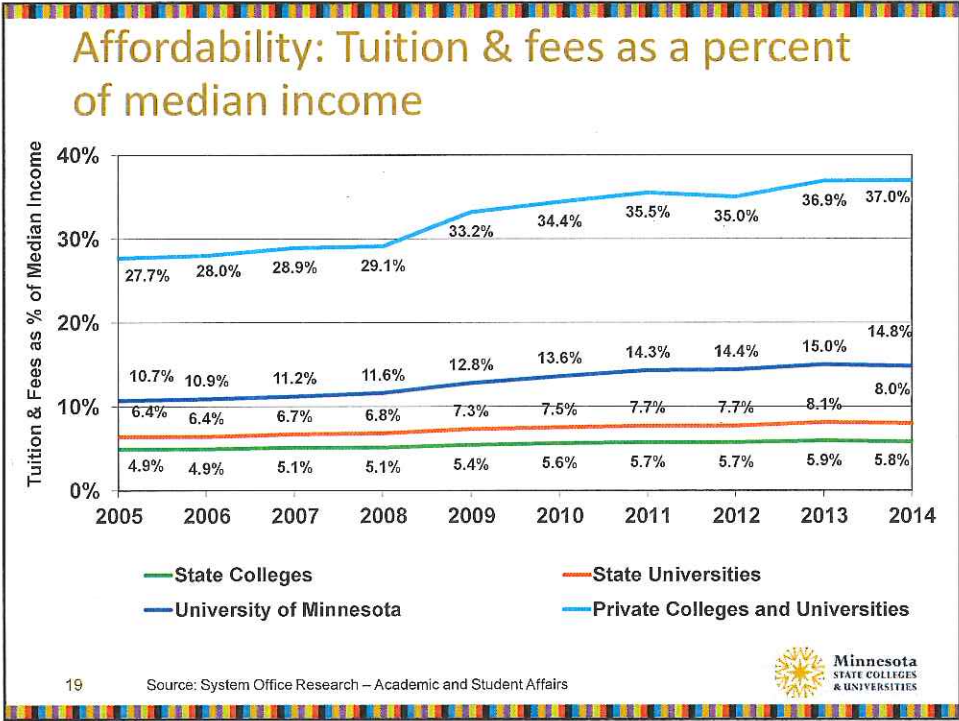


FYE enrollment grew rapidly but has fallen since its peak in 2011





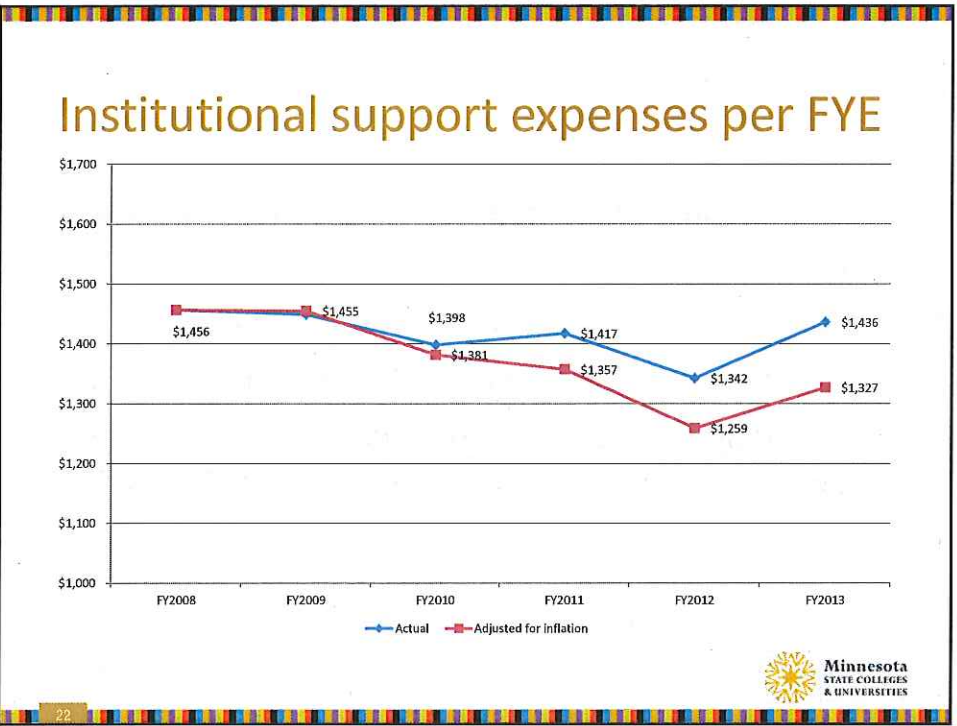
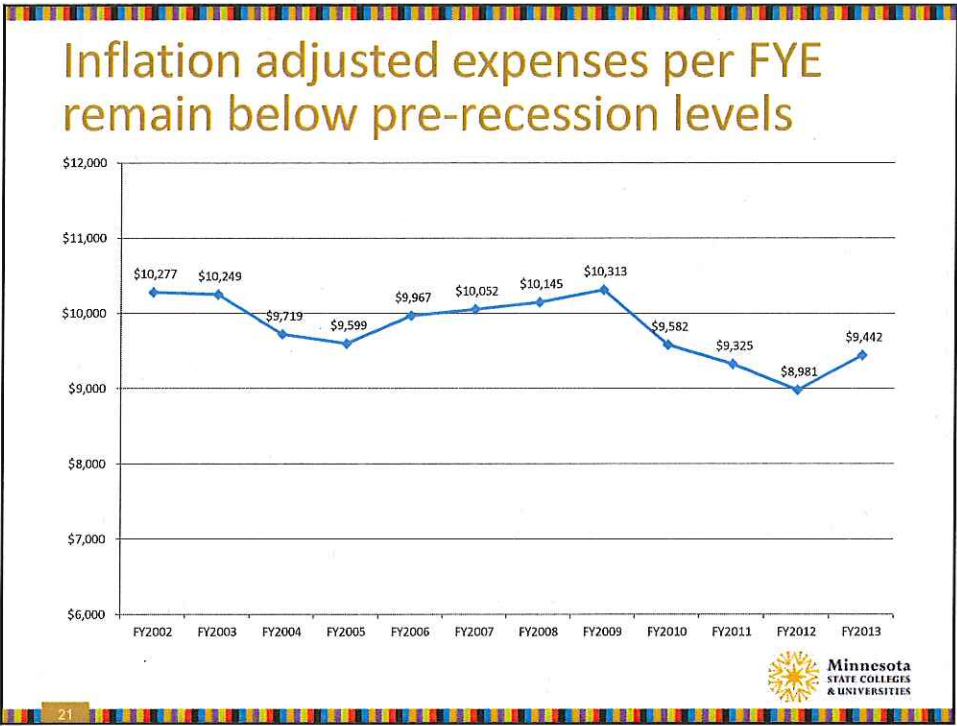




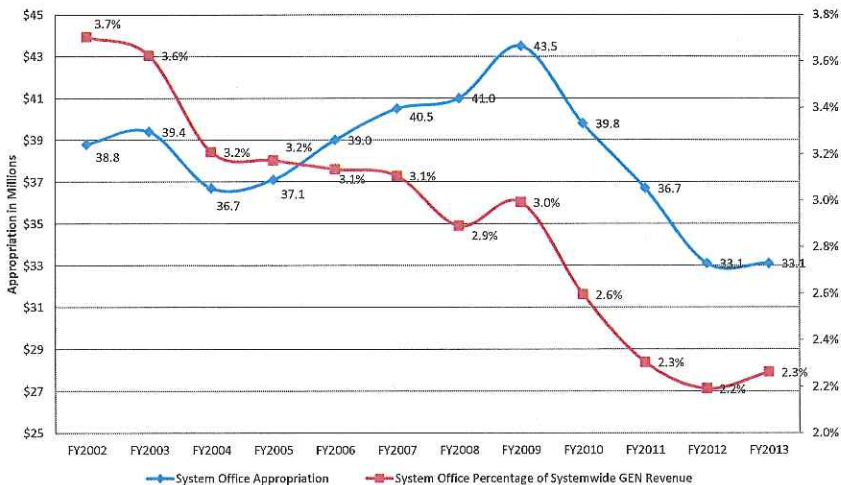
Estimated net student tuition cost in fiscal year 2015

2014-2015 tuition rate for full-time students (30 Credits - 15 per term)
minus estimated state and Pell grants

State Colleges		State Universities	
Income Levels for State Grant Recipients	Average 2014-2015 Student Tuition Cost	Income Levels for State Grant Recipients	Average 2014-2015 Student Tuition Cost
Less than \$20,000	\$626	Less than \$20,000	\$801
\$20,000 to \$39,999	\$1,197	\$20,000 to \$39,999	\$1,254
\$40,000 to \$59,999	\$2,062	\$40,000 to \$59,999	\$2,671
\$60,000 and above	\$3,134	\$60,000 and above	\$4,419
Average for all state grant recipients	\$1,247	Average for all state grant recipients	\$2,022
Non-state grant recipients	\$4,816	Non-state grant recipients	\$6,782



Reduction in the size of the system office



Institutional spending restraint continues

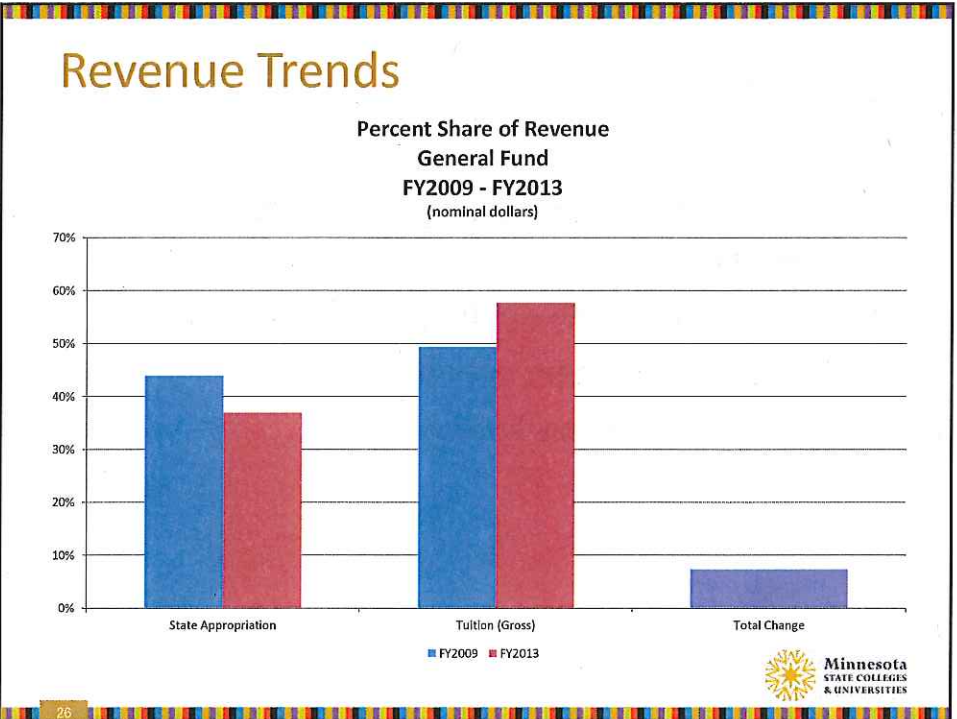
- System ranks 38th out of 51 in institutional spending per FYE
- Rankings have averaged 37th-40th last four years
- Spending is 15% below the national average per FYE
- Spending levels per FYE are below all contiguous neighbors (Iowa, WI, North Dakota, South Dakota)

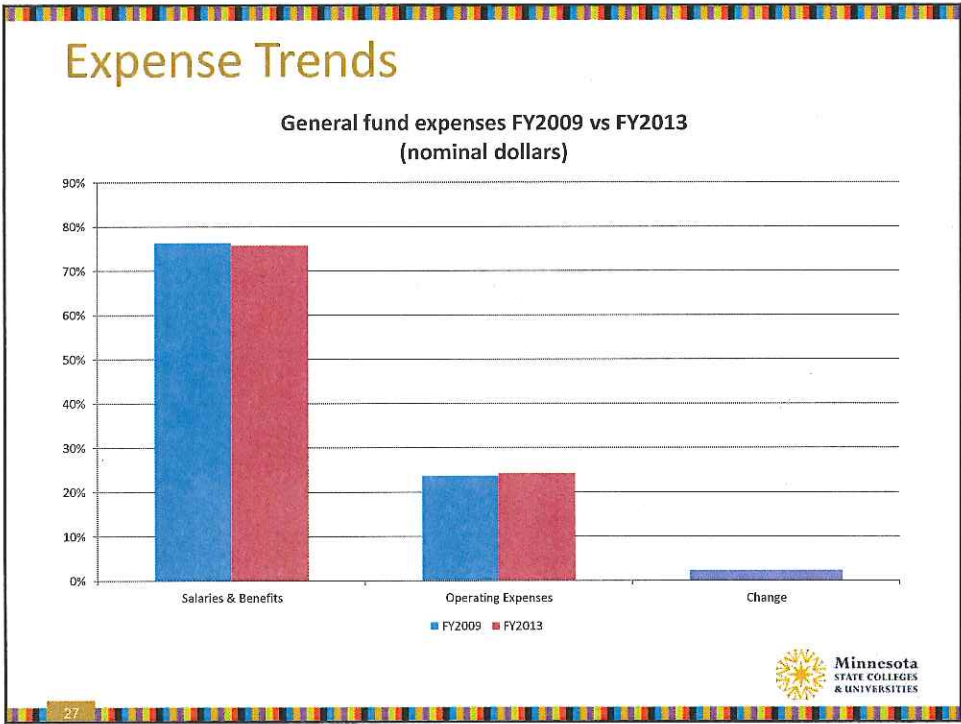


Operating budget



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- ### FY 2016-17 financial outlook
- Improved, but risk of softening state funding environment
 - Continued commitment to affordable tuition
 - Uncertain enrollment outlook
 - Contract settlements known
- Minnesota STATE COLLEGES & UNIVERSITIES
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Pressures from all sides

Investment requirements for quality academic and student support are pressured by:

- Affordability commitment holding down tuition revenue
- Enrollment growth strategies needed to best serve the state
- State investment levels up slightly after years of sharp decline
- Capital investment requirements (buildings and technology) competing for campus operating funds
- Accreditation agencies and Board of Trustees increasing focus on financial sustainability of colleges and universities increasing pressure for net asset and operating margin improvements



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FY2014-2015 all-funds budget

(\$ in millions)	FY2014 Budget	FY2015 Budget	Dollar Change	Percent Change
Revenues	\$1,919.9	\$1,924.7	\$4.8	0.3%
Expenses	\$1,907.3	\$1,919.9	\$12.6	0.7%
Budget balance	\$12.6	\$ 4.8		



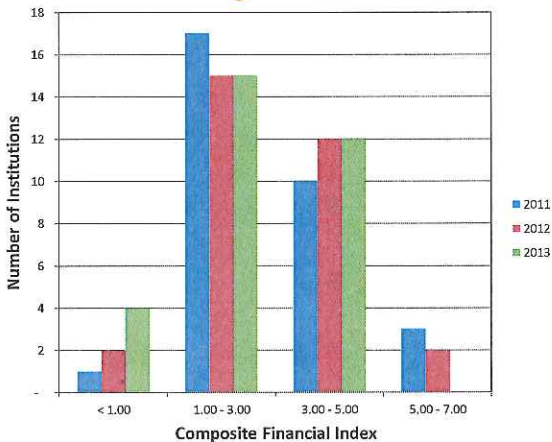
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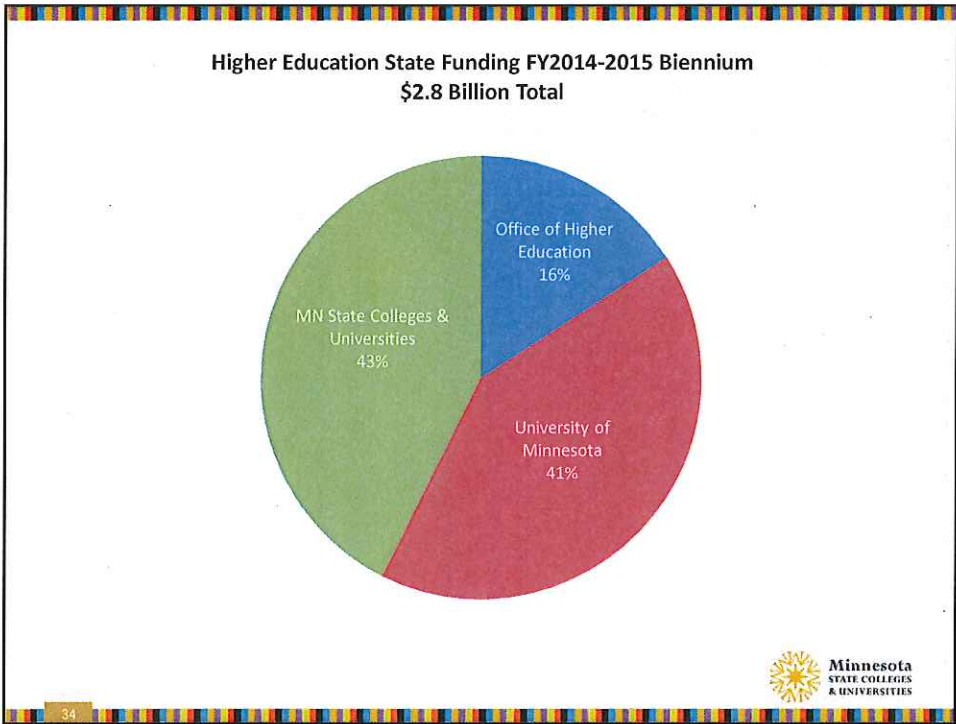
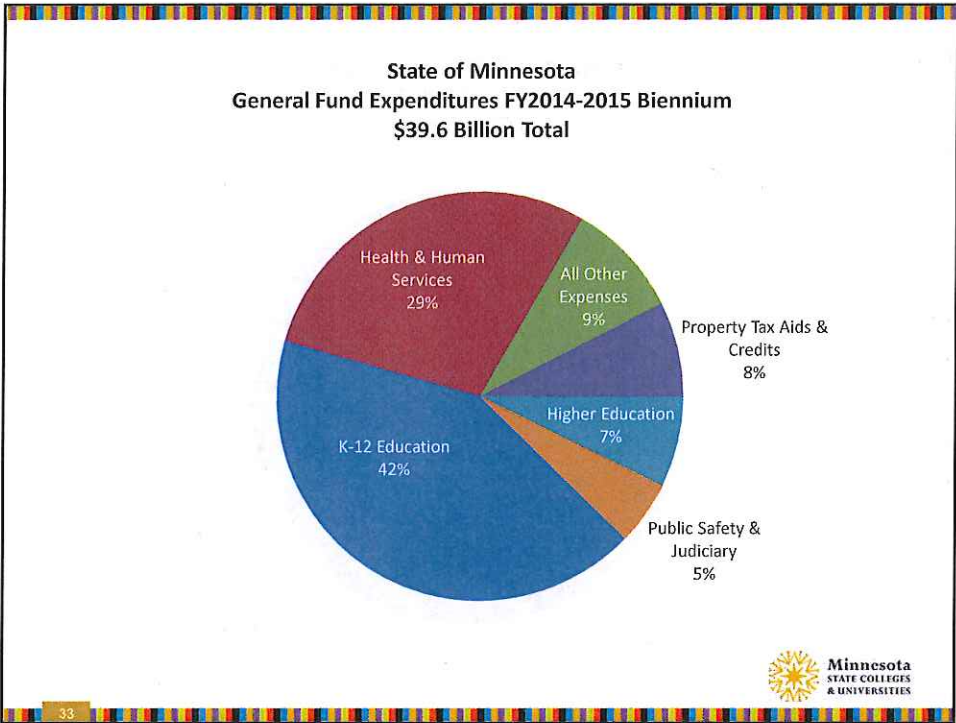
General fund budget

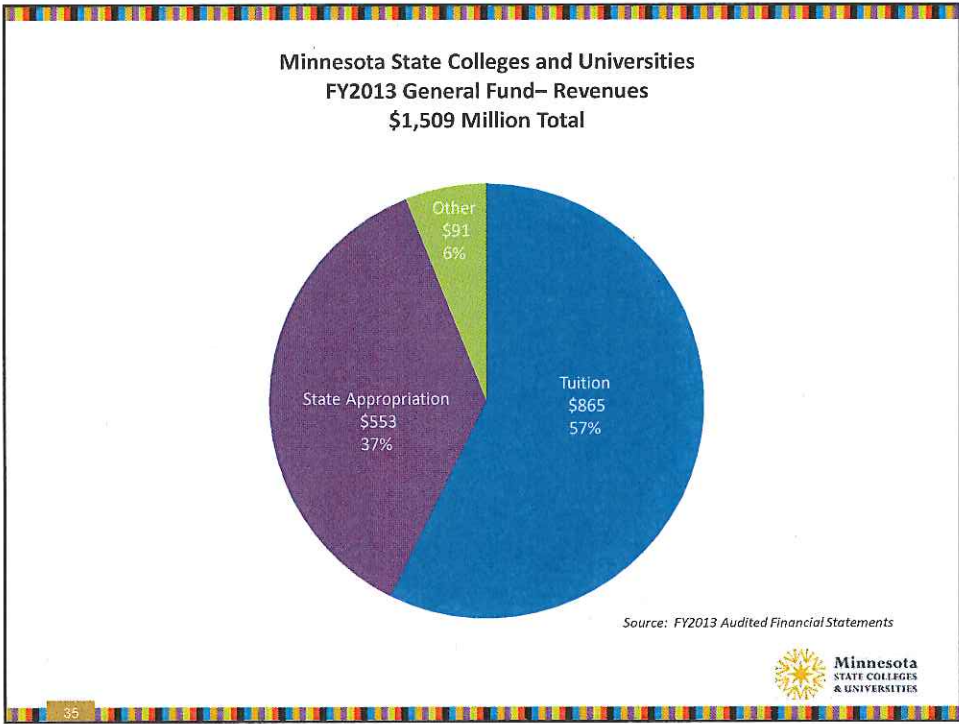
(\$ in millions)	FY2014 Budget	FY2015 Budget	Dollar Change	Percent Change
Revenues				
State appropriation	\$587.9	\$622.1	\$34.2	5.8%
Tuition	\$811.8	\$793.5	(\$18.3)	-2.3%
Other revenues	\$113.4	\$104.8	(\$8.6)	-7.6%
Programmed fund balance	\$14.9	\$15.0	\$0.1	0.3%
Total budgeted revenues	\$1,528.0	\$1,535.4	\$7.4	0.5%
Expenses				
Compensation	\$1,139.9	\$1,156.7	\$16.8	1.5%
Other operating costs	\$379.4	\$376.5	(\$2.9)	-0.8%
	\$1,519.3	\$1,533.2	\$13.9	0.9%
Budget balance	\$8.7	\$2.2		




Composite financial index Trends for college and universities







Allocation process



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Revenue practices

- All tuition and fee revenue is collected and retained by the colleges and universities. These funds are not centrally redistributed
- All grants and gifts controlled by the colleges and universities
- All auxiliary income controlled by the colleges and universities
- All state funds appropriated to the Board and distributed to the colleges and universities in a lump sum



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State support allocation

- Institutional allocations: priority funds and institutional base allocations
- Systemwide set asides: enterprise technology, debt service (system share), attorney general, etc.
- System office support



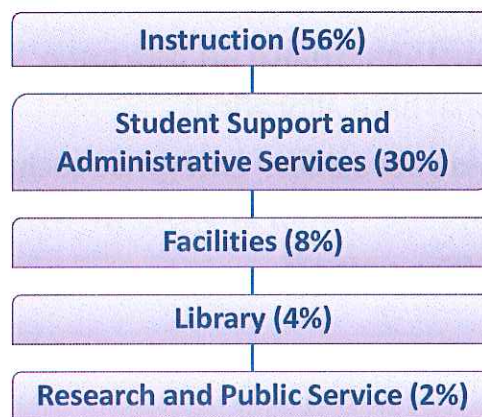
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“Allocation Framework” provides a method for distributing state funds to colleges and universities

- A single model that equitably recognizes the diversity of Minnesota State College and University students' needs and supports the unique educational goals of each institution.
- Allocation of funds are based on a number of factors such as enrollment, cost of instruction, national benchmark data, and other institutional data.
- Allocation framework distributed \$461M in FY2015
- Framework changes now under study by the Charting the Future implementation team on system incentives and rewards



Allocation framework design



Allocation framework design principles

- Methodology used to distribute base funds to colleges and universities:
 - ✓ Rewards cost efficient instruction
 - ✓ State funds follow enrollment changes
 - ✓ Substantially formulaic
- CTF work asking:
 - What does it incent and reward now?
 - What should it incent and reward?



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Capital investment



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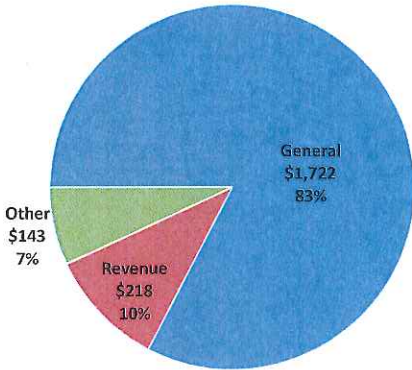
Capital financing

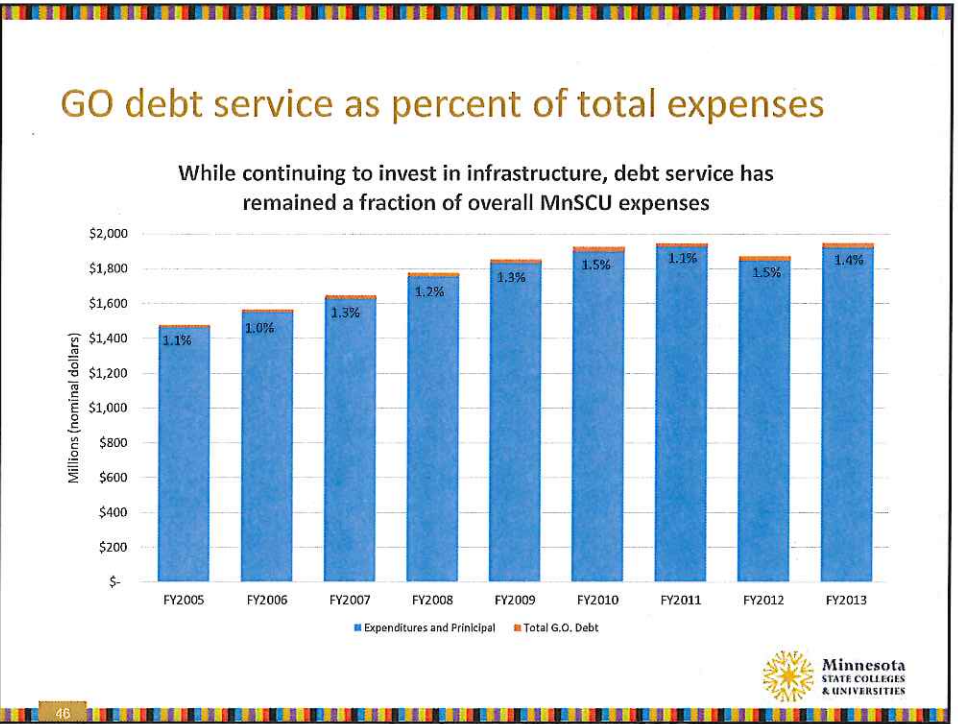
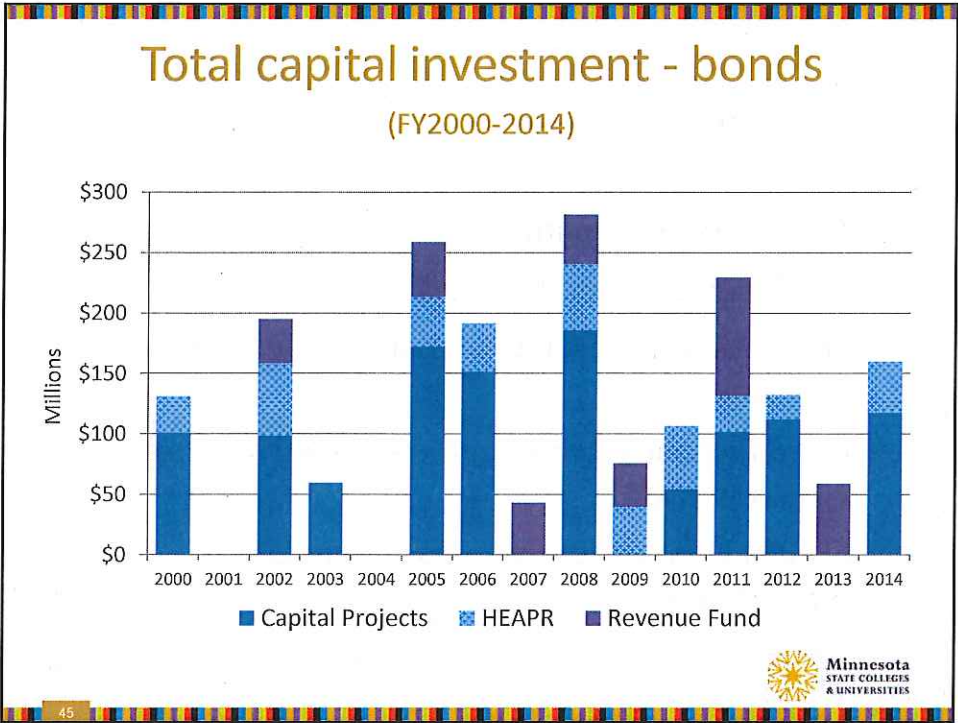
- **Campus resources** from operating budget or gifts
- **General obligation bonds** sold by the state to finance new construction, renovation or demolition of academic and program space to improve learning
- **Revenue bonds** sold by the Board to finance revenue producing facilities such as dormitories, dining halls, student unions, etc.



Net assets by fund type FY2013

(in millions)





Summary

- Affordability commitment
- Enrollment growth strategies
- Capital budget development underway – spring 2015 approval
- Operating budget development underway - spring 2015 approval
- FY2014 audit underway – November 2014 presentation



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End deck



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