

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

Name: Finance and Facilities Committee

Date: June 17, 2015

Title: FY2016 Operating Budget (Second Reading)

Purpose (check one):

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

Brief Description:

The Board of Trustees is being asked to approve the fiscal year 2016 annual operating budget for Minnesota State Colleges and Universities, including the tuition rates and fee structure that will be in place from July 1, 2015 to June 30, 2016. Information presented in this report reflect the actions of the recently concluded 2015 legislative session.

The Board report includes summary and detailed college and university FY2016 financial information, an analysis of the net cost of education for college and university students, reallocation information, and an update on the student consultation process.

Additional financial and budget information is included in the supplemental packet.

Presenters: Laura M. King – Vice Chancellor and CFO
Deb Bednarz – Sr System Director for Financial Planning

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

ACTION ITEM

Fiscal Year 2016 Operating Budget (Second Reading)

BACKGROUND

The Board of Trustees is being asked to approve the fiscal year 2016 annual operating budget for Minnesota State Colleges and Universities, including the tuition rates and fee structure that will be in place from July 1, 2015 to June 30, 2016.

The fiscal year 2016 operating budget is designed both to advance the three elements of the system's strategic framework:

1. Ensure access to an extraordinary education for all Minnesotans
2. Be the partner of choice to meet Minnesota's workforce and community needs
3. Deliver the highest value / most affordable higher education option, and implement the priorities that the Board of Trustees set in its 2016-2017 biennial legislative request:
 1. Protect programs in demand so our colleges and universities can meet the workforce needs of Minnesota
 2. Provide the faculty and staff needed to deliver these programs and ensure student success
 3. Protect affordability to ensure access for all Minnesotans.

The requirement that the board approve the system's all funds operating budget is established in policy (5.9 *Biennial and Annual Operating Budget Planning and Approval*). The board's ability to set tuition and fees is authorized in statute (*Minnesota Statutes 136F.06 and 136F.70*) and board policy (5.11 *Tuition and Fees*).

Information presented in this report reflect the actions of the recently concluded 2015 legislative session.

The report includes:

- Fiscal year 2016 operating budget overview
- Net cost of education analysis
- Proposed all funds and general fund budgets
- Revenue fund overview
- Reallocation information
- Financial recovery plan status update

- Updated student consultation process and summary
- Detailed tuition and fee charges, including revenue fund fees

The proposed board motion approving the budget and fee rates is found at the end of the report. Additional financial and budget information is included in the supplemental packet.

EXECUTIVE SUMMARY

- College tuition rates will remain frozen at the rates charged during the 2012-13 academic year, and university tuition rates will increase modestly by an average of \$233. This will be the first increase in undergraduate university rates tuition since the 2012-13 academic year. For most university students receiving a state grant, the proposed tuition increase will be substantially offset by increases to the Pell and state grant program awards.
- Prior to recommending tuition rates for fiscal year 2016, university presidents and their leadership teams consulted with campus student leaders and campus union leadership. Students generally expressed support for the proposed tuition increase and were satisfied with the consultation process that occurred over the past few weeks and throughout the past year. Letters documenting the student consultative process are posted on the system's website.
- The proposed fiscal year 2016 all funds operating budget totals \$1.93 billion and the general fund budget totals \$1.56 billion. The operating budget includes \$672.9 million in state appropriation, \$50.8 million more than in fiscal year 2015, an 8.2 percent increase. The all funds budget increased one percent and the general fund budget 1.7 percent over last year.
- The proposed operating budget allocates \$23.865 million of state appropriation for institutional priorities, including \$9.752 million for access and opportunity activities, \$7.278 million for leveraged equipment purchases, and \$5.112 million for workforce education.
- Full-year equivalent (FYE) enrollment is projected to decline 1.8 percent (2,467 FYE) from prior year levels in fiscal year 2016. College enrollment is projected to fall 2.5 percent (2,103 FYE) and university enrollment is expected to drop 0.7 percent (364 FYE.) Enrollment in fiscal year 2016 is projected to be slightly higher than fiscal year 2007 levels.
- The average annual tuition cost for students attending a state college will be \$4,816, the same as it was during the 2012-13 academic year. The average annual tuition cost for students attending a state universities is projected to be \$7,016, or \$233 more than it was last year.
- Increases in state and Pell grant awards will partially offset the cost of education, resulting in a net decrease in tuition cost for eligible students. For college students

receiving state and Pell grants, the estimated average annual tuition cost is \$1,017. For undergraduate university grant recipients, the estimated average annual tuition cost is \$2,153.

- Colleges and universities are projecting reserve levels totaling \$97.3 million at the end of fiscal year 2016, which represents approximately 6.6 percent of general fund revenues.
- Average room and board rates will increase by 5.5 percent or \$406 over last year, due to lower occupancy rates and increased costs, but also as campuses respond to student interest in dining contracts with a greater number of meals as a base package when compared to last year. Student union and wellness facility fees are remaining stable this year with very minor increases of 0.7 percent to \$248.47 and 1.66 percent to \$125.60, respectively.
- The legislature appropriated slightly less money in fiscal year 2017 (\$672.7 million) than in fiscal year 2016 (\$672.9 million) to Minnesota State Colleges and Universities, which is expected to create a structural funding problem beginning in fiscal year 2017.

FISCAL YEAR 2016 OPERATING BUDGET OVERVIEW

The fiscal year 2016 operating budget balances the need to keep tuition affordable and provide a high-quality educational experience for students. Its goal is to ensure all students—whether they attend a college or university, enroll in a technical or liberal arts program, or live in Greater Minnesota or the metropolitan area—have access to an affordable, high-quality education.

Key Budget Assumptions

The proposed fiscal year 2016 all funds operating budget totals \$1.93 billion, one percent higher than in fiscal year 2015. The proposed \$1.56 billion general fund budget is 1.7 percent more than last year. The key budget assumptions are described below.

- *Increased state funding:* Based on the actions of the 2015 legislature, \$672.9 million in state appropriation is budgeted, an increase of \$50.8 million or 8.2 percent over fiscal year 2015 funding levels.
- *Tuition rates frozen at college:* College tuition rates will remain frozen for the third consecutive year; college students will continue to pay the rates that were in effect during the 2012-13 academic year.
- *Tuition rates at universities increased slightly:* The fiscal year 2016 operating budget includes an average annual \$233 (3.4 percent) increase in university tuition rates for a full-time student; tuition increases at the seven state universities will range from \$215 to \$237 for a full-time student. Graduate tuition rates will increase an average 3.7 percent or \$265 per year for a full-time student.

- *Lower enrollment projected:* Systemwide FYE enrollment is projected to decrease by 1.8 percent to 136,439, down 2.5 percent (2,103 FYE) at colleges and 0.7 percent (364 FYE) at universities.
- *Slightly declining tuition revenue:* \$778.1 million in tuition revenue is budgeted, down slightly (-0.5 percent) from last year. The projected tuition revenue reflects the enrollment and tuition rate assumptions noted above.
- *Operating expenses up slightly:* All funds expenditures are projected to increase 1.0 percent over prior year levels; general fund expenditures are projected to increase 1.7 percent. Total compensation, including salary and fringe benefits, is assumed to increase three percent in fiscal year 2016.

Budget Risks

The system operating budget is built on the assumptions described above; its successful implementation depends on the accuracy of those assumptions. System office finance staff and college and university chief financial officers have identified three primary risk areas for the fiscal year 2016 operating budget.

- *Enrollment risk:* Accurately predicting enrollment and responding quickly to enrollment changes is critical for a successful fiscal year 2016 financial outcome. To mitigate this risk, colleges and universities are undertaking recruitment and retention strategies, carefully monitoring enrollment activity, and preparing contingency plans if enrollment projections are not met.
- *Compensation cost risk:* The system operating budget assumes a three percent increase in employee compensation. As shown in Table 1, current revenue estimates do not support a three percent compensation increase in both fiscal years 2016 and 2017.
- *Structural risk:* The legislature appropriated almost \$200,000 less in fiscal year 2017 than it did in fiscal year 2016. At the same time, the legislature froze university tuition and mandated a one percent reduction in college tuition in fiscal year 2017. This funding structure, combined with tuition constraints, is expected to create a structural imbalance in fiscal year 2017 and beyond. The imbalance exists because expenses, such as compensation, typically increase each year and compound over time.

For example, if employee compensation increases three percent each year of a biennium, the cost in the second year is double the cost in the first year, assuming the same level of staffing. That is because the increased cost from the first year carries forward into the second year and then is increased again. In past years, the legislature has recognized these expense dynamics and appropriated more funding in the second year of the biennium than in the first year. That was not the case this year.

Table 1

**Minnesota State Colleges and Universities
2016-2017 Structural Funding Gap
(\$ in millions)**

	FY2016	FY2017	Total
State Appropriation and Tuition Support			
State Appropriation and Tuition Support	50.0	50.0	100.0
University (Tuition Revenue)	12.7	12.7	25.4
College (Tuition Revenue)		(4.3)	(4.3)
Total State Appropriation and Tuition Support	62.7	58.4	121.1
Estimated Expenses			
Compensation (@ 3%)	36.0	72.0	108.0
Other Operating Costs (@ 3%)	11.0	23.0	34.0
Total Estimated Expenses	47.0	95.0	142.0
Revenues over/(under) estimated expenses	15.7	(36.6)	(20.9)
Gap as a Percent of Revenue	25%	-63%	-17%

Revenue Trends

State appropriation and tuition are the two primary revenue sources for Minnesota State Colleges and Universities, accounting for 93 percent of general fund revenues. The level of state funding for the system is driven by the state’s economic and budget outlook as well as public support for public higher education in general and support for Minnesota State Colleges and Universities in particular. Tuition revenue is driven by enrollment and tuition rates. This section of the report examines key revenue trends over the past fifteen years.

The relationship between state funding and tuition moves closer to 50:50 goal

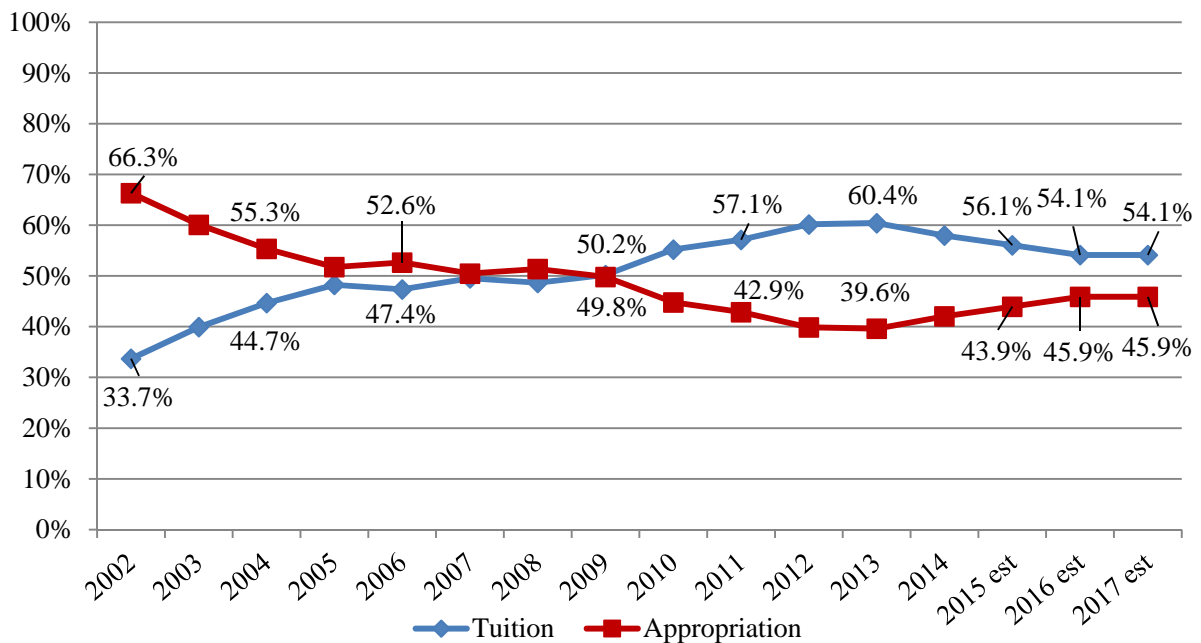
The relationship between state appropriation and tuition revenue is a key budget metric. As Graph 1 illustrates, that relationship has fluctuated significantly over the past 15 years. During the recessionary years, state funding was cut, tuition rates were increased to partially offset the cuts, and enrollment increased, resulting in a shift from state support to tuition. Recent state investments in higher education have reversed that trend, but the relationship is far from the two-thirds state support/one-third tuition relationship experienced when the system was first formed and continuing through the early 2000s.

The system’s biennial budget request was designed to move that relationship closer to 50:50, with equal parts of revenue provided by state appropriation and tuition.

- While not achieving the 50:50 goal, the gap between the state appropriation and tuition sources has narrowed to 46:54.
- In fiscal year 2016, state appropriation is projected to account for 45.9 percent of total state appropriation and tuition revenue, up from 39.6 percent in fiscal year 2013. Tuition revenue is expected to fall from 60.4 percent to 54.1 percent over the same period.

Graph 1

**Minnesota State Colleges and Universities
State Appropriation Tuition Relationship
Fiscal Years 2002-2017**



State appropriation and tuition per FYE student increasing, but at a slower rate

Another key budget metric is state appropriation and tuition revenue per student, adjusted for inflation. This measure allows the per student revenue to be compared over time.

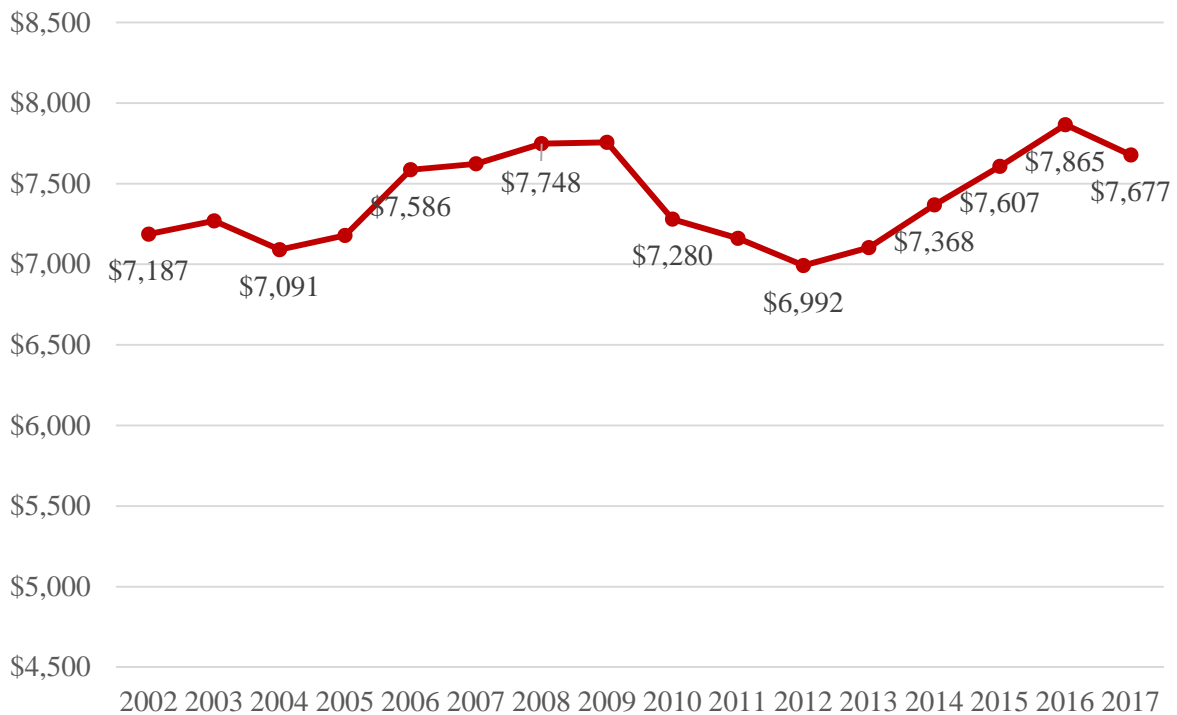
- Per student state appropriation and tuition revenue is expected to increase for the fourth consecutive year.
- Revenue per FYE has increased from \$6,992 in fiscal year 2012 to a projected \$7,865 in fiscal year 2016, an increase of 12.5 percent. Per FYE revenue is slightly higher (1.4 percent) than it was in fiscal year 2009.

- Per student tuition and state appropriation revenue has increased in inflation-adjusted dollars, but at a slower rate than per student state funding, reflecting efforts to minimize tuition rate increases while increasing state support.

Graph 2 shows the changes in per FYE state appropriation and tuition revenue since 2002.

Graph 2

**Minnesota State Colleges and Universities
State Appropriation and Tuition Revenue per FYE
Inflation-Adjusted Dollars*
Fiscal Years 2002-2017**



**Adjusted per CPI-U*

FYE enrollment expected to decline but at a slower rate

Full year equivalent enrollment is one of the system’s most closely monitored budget measures. FYE enrollment drives tuition revenue, and relatively small changes in enrollment can have significant budget implications.

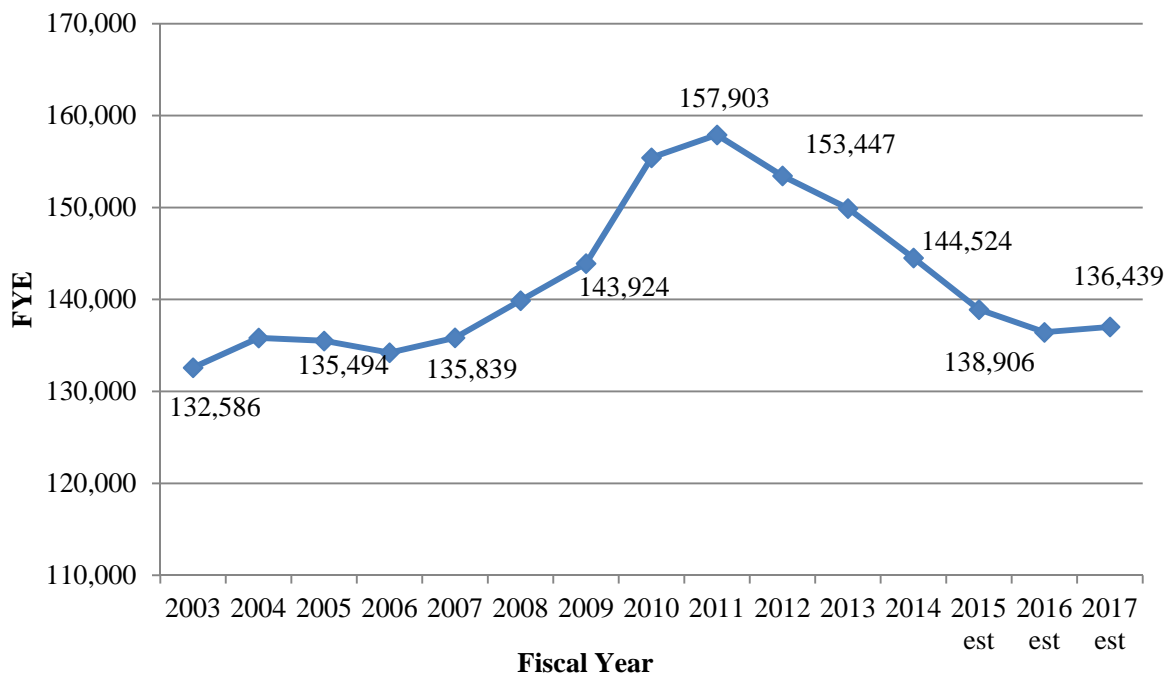
- FYE enrollment is expected to decline by 1.8 percent in fiscal year 2016 from prior year levels, 2.5 percent at colleges and 0.7 percent at universities. In fiscal year 2015 FYE enrollment is expected to fall by 3.9 percent, 4.7 percent in colleges and 2.5 percent at universities from fiscal year 2014 levels.

- FYE enrollment is returning to pre-recession levels; fiscal year 2016 enrollment is projected to be slightly higher than fiscal year 2007 enrollment.
- Improving enrollment forecasts is a priority for the entire system. Improvements in modeling and reporting are being made to better understand and anticipate enrollment changes.

Graph 3 shows the actual and projected FYE from fiscal year 2003 to fiscal year 2017.

Graph 3

**Minnesota State Colleges and Universities
FYE Enrollment Returning to Pre-Recession Levels
Fiscal Years 2003-2017**



NET COST OF EDUCATION ANALYSIS

A student’s total cost of attending a MnSCU college or university includes tuition, fees, room and board, books, supplies, transportation, and miscellaneous expenses. The net cost of attendance is the amount a student pays after financial aid grants are subtracted from the total cost of attendance. The net cost varies depending on a student’s full- or part-time status, college or university of attendance, academic program choice, and financial aid award.

Financial Aid Analysis

Need-based financial aid programs help bridge the gap between the cost of attendance and the expected family contribution, a calculation based upon family income and circumstances.

Financial Aid Highlights:

- In fiscal year 2014, the most recent year financial data is available, undergraduate students enrolled in Minnesota State Colleges and Universities received \$1.26 billion in financial aid. The majority of the financial aid was provided in the form of grants (\$435 million or 35 percent) and loans (\$760 million or 60 percent).
- Federally-funded financial aid accounts for 81 percent of the aid received by students; state-funded financial aid accounts for 11 percent.
- Almost two-thirds of the undergraduate students attending Minnesota State Colleges and Universities receive some form of financial aid. In fiscal year 2014, 61 percent of undergraduate students enrolled at state colleges and 65 percent of undergraduate students enrolled at state universities received one or more financial aid awards, including loans that were accounted for in the system's financial aid module.
- Of those undergraduate students who received financial aid, the average award was \$7,024 for college students and \$9,951 for university students.

Change in State and Federal Grant Programs

There were two notable changes in state and federal grant programs that will impact grant aid for MnSCU students in fiscal year 2016.

- *Increase in the living and miscellaneous expense allowance for state grant recipients:* Students' cost of attendance in the state grant program includes tuition, fees and a living and miscellaneous expense allowance (LME). The LME allowance will increase from \$8,490 to \$8,828. The net impact of this change will be to increase the average size of state grants for recipients, with a maximum increase of \$169.
- *Increase in Pell grants:* The maximum federal Pell grant will increase by \$45 from \$5,730 to \$5,775 in fiscal year 2016. The net impact of this change will be to increase the average size of Pell grants for recipients.

Estimated Change in Student Tuition Cost

The estimated net impact of the proposed tuition rates and changes in state and federal Pell grants for undergraduate students are reported by income category in Table 2 for colleges and universities.

Table 2

**Minnesota State Colleges and Universities
Estimated Change in Student Tuition Cost by Income
Degree-Seeking Undergraduate Students
Fiscal Year 2016**

State Colleges

<i>All Recipients</i>	<i>State Grant Recipients (% Change)</i>	<i>Change in Student Tuition Cost</i>
Less Than \$20,000	20,062 (10%)	-\$282
\$20,000 to \$39,999	12,582 (9%)	-\$250
\$40,000 to \$59,999	5,492 (16%)	-\$185
\$60,000 and Above	2,744 (24%)	-\$110
All Recipients	40,881 (12%)	-\$231
Non-State Grant Recipients	88,095	\$0

State Universities

<i>All Recipients</i>	<i>State Grant Recipients (% Change)</i>	<i>Change in Student Tuition Cost</i>
Less Than \$20,000	4,800 (4%)	-\$129
\$20,000 to \$39,999	4,132 (2%)	-\$160
\$40,000 to \$59,999	3,005 (3%)	-\$145
\$60,000 and Above	2,886 (15%)	\$54
All Recipients	14,823 (5%)	-\$58
Non-State Grant Recipients	43,148	\$233

The estimates of changes in state and Pell grants are based on simulations that were prepared by staff of the Minnesota Office of Higher Education.

- Change in student tuition cost equals the change in full-time tuition (no change at state colleges and 3.3 percent increase at state universities) and the projected increase in average state and Pell grants.
- The change in average state and Pell grants is based on projections of fiscal year 2016 awards that incorporate all changes in the state and federal programs compared to projections of fiscal year 2016 awards prior to those changes.

Key findings:

- More college students (4,247) and university (738) students are projected to receive state grants in fiscal year 2016 as a result of the changes in the state grant program.

- State grant recipients in all income categories at the colleges and in all except the top income category at the universities are projected to experience net decreases in student tuition cost in fiscal year 2016.
- The net decreases in student tuition cost range from \$110 for college recipients in the \$60,000 and above income category to \$282 for college recipients in the less than \$20,000 income category. State university students in the \$60,000 and above income category are projected to have an increase in student tuition of \$54.

Estimated Net Student Tuition Cost

Tuition charges paid by the student are lower when state and Pell grants are taken into account. Table 3 shows the estimated net tuition rate for full-time college and university students based on their income and average projected state and federal grant award. For purposes of this analysis, the average state and Pell grants for each income category were applied against the proposed full-time tuition costs to arrive at the estimated net student tuition cost.

Table 3

**Minnesota State Colleges and Universities
Estimated Net Student Tuition Cost in Fiscal Year 2016
2015-16 Tuition Rate for Full-Time Students
Less Estimated State and Pell Grants**

State Colleges

<i>Income Levels for State Grant Recipients</i>	<i>Average 2015-2016 Student Tuition Cost</i>
Less than \$20,000	\$525
\$20,000 to \$39,999	\$1,075
\$40,000 to \$59,999	\$1,742
\$60,000 and above	\$2,903
Average for all state grant recipients	\$1,017
Non-state grant recipients	\$4,816

State Universities

<i>Income Levels for State Grant Recipients</i>	<i>Average 2015-2016 Student Tuition Cost</i>
Less than \$20,000	\$841
\$20,000 to \$39,999	\$1,409
\$40,000 to \$59,999	\$2,869
\$60,000 and above	\$4,653
Average for all state grant recipients	\$2,153
Non-state grant recipients	\$7,016

Key findings:

- For undergraduate students receiving state and Pell grants and attending a state college, the estimated average annual tuition cost is \$1,017.
- For undergraduate students receiving state and Pell grants and attending a state university, the estimated average annual tuition cost is \$2,153.

PROPOSED FISCAL YEAR 2016 OPERATING BUDGET

Fiscal Year 2016 Proposed All Funds Operating Budget

The system’s operating budget is composed of the individual operating budgets of the colleges, universities, and system office. The all funds budget encompasses all aspects of the educational enterprise: instruction, student life, technology, research, community service, administration, physical plant and residential life programs.

Tuition and state appropriation are the system’s two primary sources of revenue. Other revenue sources include fees, auxiliary/enterprise income and grants. The largest expense category is compensation which accounts for approximately two-thirds of the all funds expenditure budget. The proposed fiscal year 2016 all funds operating budget is shown in Table 4.

Table 4

**Minnesota State Colleges and Universities
Fiscal Year 2016 All-Funds Proposed Budget
(Net of Scholarship Allowance)
(\$ in millions)**

	FY2015 Current Budget	FY2016 Proposed Budget	\$ Change	% Change
Revenues	\$1,914.5	\$1,933.5	\$19.0	1.0%
Expenses	\$1,903.5	\$1,922.6	\$19.1	1.0%
Budget balance	\$11.0	\$ 10.9		

Fiscal Year 2016 All Funds Operating Budget Highlights:

- The proposed fiscal year 2016 all funds budget includes \$1.9 billion in projected revenues and expenditures. An increase of \$10.9 million to the budgetary fund balance is projected.
- Fiscal year 2016 revenues are projected to increase by \$19 million (1.0 percent) to \$1.9 billion, compared to prior year revenues.
- Expenses in fiscal year 2016 are projected to increase by \$19.1 million (1.0 percent) over the prior year expenditures.

- A small increase to the all funds budgetary fund balance of \$10.9 million is projected for fiscal year 2016, accounting for 0.6 percent of total revenue.
- Colleges and universities plan to use \$6.3 million of fund balance in fiscal year 2016, equivalent to 0.3 percent of total revenue and consistent with the use of \$24.2 million in fund balance in fiscal year 2015.

The all funds budget is shown net of the scholarship allowance. Approximately 90 percent (\$351 million) of an estimated \$389 million of financial aid revenue is recognized as revenue used to pay student obligations (tuition, fees, room and board, and sales and services) with the balance (\$38 million) reflecting the net financial aid payments to students for living expenses.

Overall, the updated fiscal year 2015 operating budget is \$10 million less than the budget approved by the board a year ago. The most significant difference is the nearly \$30 million reduction in tuition revenue as a result of lower than projected enrollment. The shortfall created by declining tuition revenue was made up by \$15 million in expenditure reductions, \$11 million of additional use of carryforward, and increases in other revenues. The \$10 million difference overall represents 0.5 percent of total revenue.

Fiscal Year 2016 Proposed General Fund Budget

The largest component of the all funds budget is the general fund. General fund revenues and expenses account for approximately 80 percent of the all funds budget. The proposed general fund budget is shown in Table 5.

Table 5

**Minnesota State Colleges and Universities
Fiscal Year 2016 General Fund Proposed Budget
(\$ in millions)**

	FY 2015 Current Budget	FY2016 Proposed Budget	\$ Change	% Change
Revenues				
State appropriation	\$622.1	\$672.9	\$50.8	8.2%
Tuition	\$781.7	\$778.1	(\$3.6)	-0.5%
Other revenues	\$113.3	\$109.8	(\$3.5)	-3.1%
Programmed fund balance	\$21.1	\$4.1	(\$17.0)	-80.4%
Total budgeted revenues	\$1,538.2	\$1,564.9	\$26.7	1.7%
Expenses				
Compensation	\$1,150.4	\$1,166.9	\$16.5	1.4%
Other operating costs	\$380.9	\$391.0	\$10.1	2.7%
Total budgeted expenses	\$1,531.3	\$1,557.9	\$26.6	1.7%
Budget balance	\$6.9	\$7.0		

Fiscal Year 2016 General Fund Operating Budget Highlights:

- The proposed fiscal year 2016 general fund budget includes \$1.56 billion in projected revenues and expenditures.
- General fund revenues are projected to grow by \$26.7 million or 1.7 percent. The tuition freeze combined with anticipated enrollment declines accounts for the loss of tuition revenue.
- General fund expenses are projected to grow by \$26.6 million or 1.7 percent in fiscal year 2016. Compensation is expected to increase by \$16.5 million or 1.4 percent. This change reflects anticipated compensation increases of three percent and staff reductions due to the change in enrollment. Other operating expenses are expected to increase by 2.7 percent in fiscal year 2016.
- The changes in the forecasted general fund revenues compared to expenses results in a slight budgetary balance of \$7 million after the use of \$4.1 million in programmed fund balance.
- Information about the distribution of state appropriation was included in the May 2015 board materials. That information has been included in the supplemental materials (SP-5) for your reference.

Student Fee Increases Limited

Mandatory and optional fees are charged to students pursuant to Board Policy 5.11. Each year, the Board of Trustees is asked to review and approve the overall tuition and fee structure. Individual fees are not subject to annual Board approval; rather, the Board of Trustees sets maximum fee rates that colleges and universities cannot exceed when charging students. Board action is not required unless colleges and universities want to adjust the maximum rates.

In fiscal year 2015, at the request of State Cloud State University students and campus leadership, the board approved a student life fee rate of \$117.36 for the university. The chancellor is recommending continuation of this rate in fiscal year 2016.

To further constrain fee increases, colleges and universities were asked to limit their fee increases to no more than three percent in aggregate, with limited exceptions for new and/or required fees. This restriction gives colleges and universities the ability to cover increased costs and enrollment-driven funding shortfalls, while holding down the overall cost of education for students. Additional information on proposed fees is found in the supplemental budget (SP-2).

Health Services Funding

State statute 136F.20 requires universities and colleges that charge a health services fee to report annually to the board on the health service fees. Currently, six universities and nine

colleges offer some form of health services to students. Metropolitan State University and North Hennepin Community College have proposed offering these services beginning in fiscal year 2016. The detail reporting of this information by college and university is found in the supplemental materials (SP-9).

REVENUE FUND OUTLOOK

The Board of Trustees maintains statutory oversight of the revenue fund, including fee approvals. Revenue fund fees support the operations of revenue fund facilities, such as residence halls, dining services, student unions, health/wellness centers, parking and other revenue-generating facilities. Revenue fund fees are charged to generate sufficient revenue to pay debt service, operate, equip, maintain, and repair revenue fund facilities.

Average room and board rates for fiscal year 2016 will be \$7,761 for a traditional double occupancy room with the most commonly chosen meal plan. The increase from last fiscal year will amount to an additional \$406 or 5.5 percent. Student union and wellness facility fees will increase very slightly from last year's rates. Student union rates will increase 0.7 percent to \$248.47 per academic year, and wellness center facility fees are increasing 1.66 percent to \$125.60 per academic year.

Of note, the Metropolitan State Parking Ramp and Student Union will be completed and open during fiscal year 2016 and the campus will now charge the full rate for each facility, consistent with their financial plans for the projects. Previously, Metropolitan State had committed to their students to defer the full parking and student union rates until the buildings were open for operation.

The list of fees the board is asked to approve is found in Attachments 2A – 2E. Additional information about the revenue fund is included in the supplemental materials (SP-10).

RESERVES

Board Policy 5.10 and Procedure 5.10.1 set requirements for designated cash reserve levels. The policy requires colleges and universities to maintain general fund cash reserves in the range of five to seven percent of general fund cash-basis operating revenues through designation as a special reserve amount. In addition, the policy allows the system as a whole to maintain a reserve up to two percent of the total state appropriation.

Colleges and universities are projecting reserve levels totaling \$97.3 million at the end of fiscal year 2016, which represents approximately 6.6 percent of general fund revenues. The system's reserve level is projected to be at \$10.5 million (less than one percent of general operating revenue) at the end of fiscal year 2015, with no plans to increase/decrease during fiscal year 2016. During fiscal year 2015, \$25,000 of system reserves were used to support the Bemidji State University and Northwest Technical College reorganization efforts with funds matched locally.

Reserve levels for each college and university are found in the supplemental materials (SP-12).

REALLOCATIONS

Reallocation is the reprogramming of base funding from one purpose to another in order to invest in higher priority activities or balance the budget. Reallocation is an on-going budget management strategy used by colleges, universities and the system office to optimize the use of scarce resources. An example of reallocation would be eliminating a position in a low-demand, low-enrollment program in order to add a position in a high-demand, high enrollment program. It is financial management tool that allows the system to innovate and respond to emerging needs in a tight budget environment.

More recently, reallocation targets have been set by the legislature as part of the system's performance funding goals. In April 2016, the system will be asked to report on reallocations made in fiscal year 2016. To meet the goal, \$22 million in costs will have to be reallocated. The legislature asked the board to redirect funds to direct mission activities, to stem growth in tuition and student fees, and to fund programs that benefit students. In fiscal year 2014, the system was asked to reallocate \$22 million and reported \$29.3 million in reallocations.

As part of their annual reporting, colleges and universities reported \$43.4 million in reallocations for fiscal year 2015 and have preliminary identified \$36.0 million for fiscal year 2016. In fiscal year 2015, \$32.9 million of the \$43.4 million in reallocations were used to balance budgets.

STUDENT CONSULTATION PROCESS

As reported at the May board meeting, colleges and universities have been discussing the fiscal year 2016 budget with campus constituents for several months, and the chancellor has consulted regularly with statewide student leaders to monitor the campus-level consultation process. Since the May board meeting, university presidents and their leadership teams have consulted with campus student leaders and bargaining units to discuss proposed increases in the fiscal year 2016 tuition rates. The chancellor has also spoken with both statewide student associations and the statewide bargaining units about the proposed university tuition rates.

University student leaders generally expressed support for the proposed tuition increase and were satisfied with the consultation process that occurred over the past few weeks and throughout the past year.

Letters documenting the student consultative process, including the additional consultation that occurred over the past several weeks, are posted on the MnSCU website (link below.) A summary of student consultation by college and university is provided in the supplemental materials (SP-13).

<http://www.finance.mnscu.edu/budget/operating/index.html>

TUITION WAIVER REQUEST

As part of the fiscal year 2016 operating budget, the Board is being asked to waive tuition for the first cohort (up to 25 students) enrolled in Northland Community and Technical College's Precision Agriculture Equipment Technician (PAET) program, in accordance with Board policy 5.12. NCTC is requesting the waiver of tuition for fall and spring semester of the 2015-2016 and 2016-2017 academic years for the first cohort. Additional information about the waiver request is provided in the supplement materials (SP-14).

FINANCIAL RECOVERY PLAN STATUS UPDATE

The eleven colleges and universities that are operating under financial recovery plans (FRP) continue to make progress in implementing their plans. Colleges and universities have cut expenses, continue to set aside funds to offset depreciation expenses, and are meeting the objectives outlined in their plans. Spending reductions implemented in fiscal year 2015 will continue into fiscal year 2016 and help improve financial performance and CFI scores. A one-time unanticipated expense has caused one college to fall short of its FRP goal for fiscal year 2015.

Colleges and universities continue to face a challenging financial environment and have identified enrollment and compensation/contract settlements as the two greatest risks to successful implementation of their plans. Increased state funding and the ability of universities to raise tuition rates has mitigated some of this risk and positioned the colleges and universities to meet their FRP objectives in fiscal year 2016. However, colleges and universities must adhere to their spending reduction plans to achieve long-term financial stability.

The structural funding problem caused by the equal allocation of state funds each year of the biennium combined with a tuition reduction for colleges and a tuition freeze for universities in fiscal year 2017 creates a significant risk to colleges and universities operating under financial recovery plans. Colleges and universities are aware of this risk and are incorporating this information into their financial planning.

LEARNING NETWORK OF MINNESOTA

Since fiscal year 2010, the Minnesota legislature has appropriated funding to Minnesota State Colleges and Universities for the Learning Network of Minnesota. The Learning Network of Minnesota is the core telecommunications network infrastructure that supports public higher education in Minnesota and is critical for daily campus and system operations.

In compliance with board policy 5.14, the board is asked to authorize the chancellor or his designee to enter into a contract with the Learning Network of Minnesota to provide the legislatively authorized funding. The legislature appropriated \$4.115 million in fiscal year 2016 and \$4.115 million in fiscal year 2017 for the Learning Network.

Additional information on the Learning Network of Minnesota is included in the supplemental materials (SP-15).

CONCLUSION

The proposed fiscal year 2016 all funds operating budget is designed to advance the strategic framework and to implement the goals outlined in the biennial budget request: protect affordability, protect programs, and provide the faculty and staff needed to deliver those programs. The budget totals \$1.9 billion, one percent more than in fiscal year 2015. It includes \$672.9 million in state appropriation and \$778.1 million in tuition revenue.

Tuition at state colleges will be frozen at fiscal year 2013 rates. Tuition at state universities will increase by an average of \$233 for a full-time undergraduate student and \$265 for a full-time graduate student. This will be the first increase in university undergraduate tuition rates since 2013. University tuition rates will be frozen again in fiscal year 2017 at fiscal year 2016 rates, and college tuition rates will be reduced by one percent.

The increase in state funding will help fund inflationary increases at both colleges and universities and will replace foregone tuition revenue resulting from the college tuition freeze. However, colleges and universities will continue to reallocate and reduce expenditures in their on-going efforts to adjust to lower enrollment and to offset the structural funding issues the system will face in fiscal year 2017.

RECOMMENDED COMMITTEE MOTION:

The Finance and Facilities Committee recommends that the Board of Trustees adopt the following motion:

- a. Adopt the annual total operating budget for fiscal year 2016 as shown in Table 4. Pursuant to Board Policy 5.9, the Board of Trustees will be periodically provided systemwide budget updates for all funding sources on an exception reporting basis.
- b. Approve the proposed tuition structure recommendations for fiscal year 2016 as detailed in Attachments 1A through 1E.
- c. Tuition increases are effective summer term or fall term 2015 at the discretion of the president. The chancellor is authorized to approve any required technical adjustments, and is requested to incorporate any approvals at the time fiscal year 2017 tuition recommendations are presented to the Board of Trustees.
- d. The Board of Trustees continues the policy of market-driven tuition for closed enrollment courses, customized training, and non-credit instruction, continuing education, and contract postsecondary enrollment option programs.
- e. Approve the Revenue Fund and related fiscal year 2016 fees for room and board, student union, wellness and recreation facilities, and parking ramps/surface lots as detailed in Attachments 2A through 2D, including any housing fees that the campuses may charge for occupancy outside the academic year. Approve the fiscal year 2016 fees structure for room and board for colleges who either own or manage student housing as detailed in Attachment 2E. The chancellor is authorized to approve fee structures for any new revenue fund programs as well as any technical adjustments, and is requested to incorporate any approvals at the time fiscal year 2017 recommendations are presented to the Board of Trustees.
- f. Approve a tuition waiver for courses in Northland Community and Technical College's Precision Agriculture Equipment Technician two-year program for the first cohort of students (up to 25) for fall and spring semester of the 2015-2016 and 2016-2017 academic years.
- g. Approve Student Life/Activity fee (\$117.36 per term) for St. Cloud State University.
- h. Authorize the chancellor or his designee to enter into an agreement with the Learning Network of Minnesota to provide the funding appropriated to the organization in Minnesota Laws Chapter 69, Article 1, Section 4, Subdivision 4, in the amount of \$4,115,000.

RECOMMENDED BOARD OF TRUSTEES MOTION:

- a. Adopt the annual total operating budget for fiscal year 2016 as shown in Table 4. Pursuant to Board Policy 5.9, the Board of Trustees will be periodically provided systemwide budget updates for all funding sources on an exception reporting basis.
- b. Approve the proposed tuition structure recommendations for fiscal year 2016 as detailed in Attachments 1A through 1E.
- c. Tuition increases are effective summer term or fall term 2015 at the discretion of the president. The chancellor is authorized to approve any required technical adjustments, and is requested to incorporate any approvals at the time fiscal year 2017 tuition recommendations are presented to the Board of Trustees.
- d. The Board of Trustees continues the policy of market-driven tuition for closed enrollment courses, customized training, and non-credit instruction, continuing education, and contract postsecondary enrollment option programs.
- e. Approve the Revenue Fund and related fiscal year 2016 fees for room and board, student union, wellness and recreation facilities, and parking ramps/surface lots as detailed in Attachments 2A through 2D, including any housing fees that the campuses may charge for occupancy outside the academic year. Approve the fiscal year 2016 fees structure for room and board for colleges who either own or manage student housing as detailed in Attachment 2E. The chancellor is authorized to approve fee structures for any new revenue fund programs as well as any technical adjustments, and is requested to incorporate any approvals at the time fiscal year 2017 recommendations are presented to the Board of Trustees.
- f. Approve a tuition waiver for courses in Northland Community and Technical College's Precision Agriculture Equipment Technician two-year program for the first cohort of students (up to 25) for fall and spring semester of the 2015-2016 and 2016-2017 academic years.
- g. Approve Student Life/Activity fee (\$117.36 per term) for St. Cloud State University.
- h. Authorize the chancellor or his designee to enter into an agreement with the Learning Network of Minnesota to provide the funding appropriated to the organization in Minnesota Laws Chapter 69, Article 1, Section 4, Subdivision 4, in the amount of \$4,115,000.

Date Presented to the Board of Trustees: June 17, 2015