September 20, 2016

Enterprise Risk Management

Board of Trustees Oversight Discussion

Minnesota State

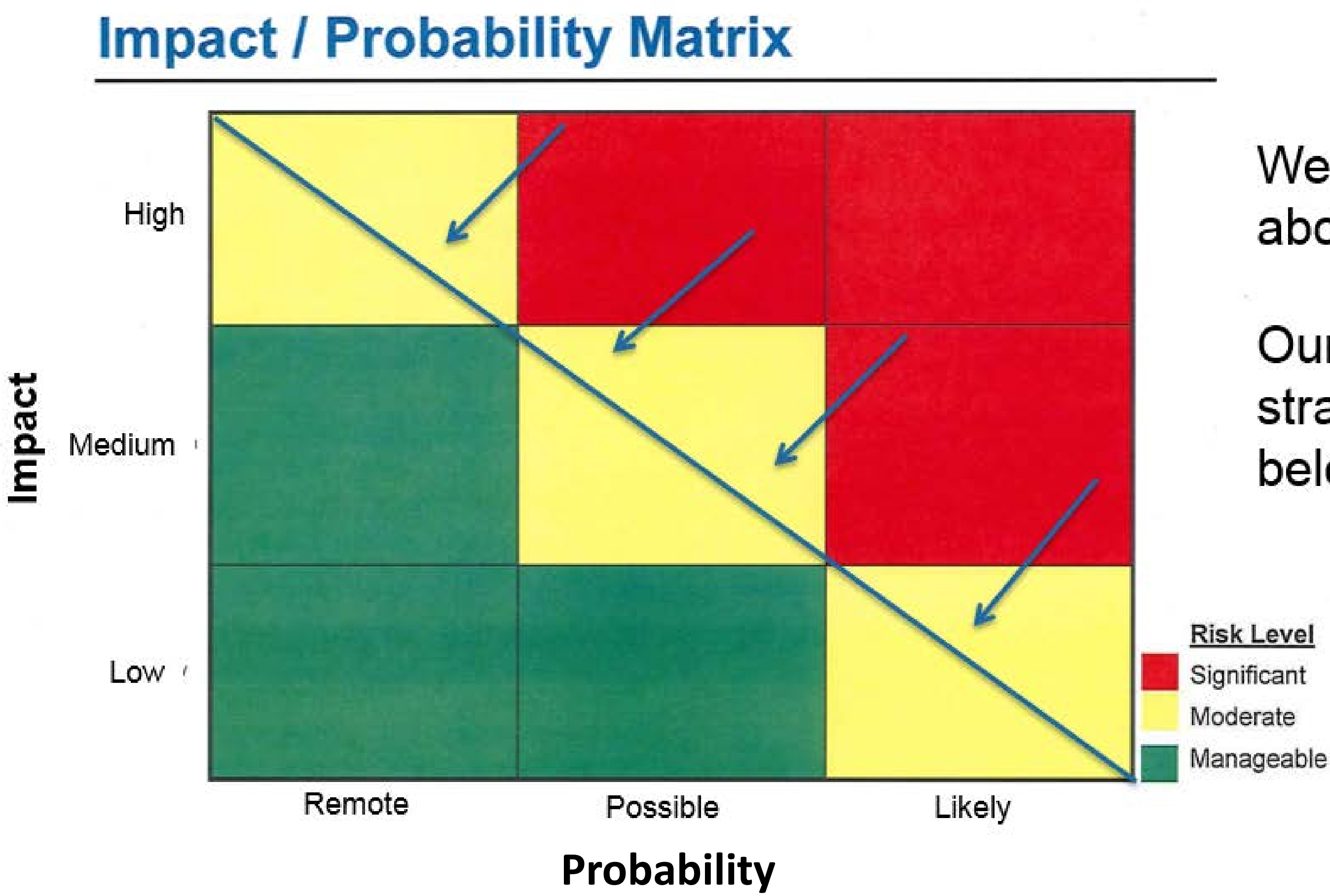
Suggested goals for the board session

1. Review, offer feedback, and provide oversight of the identification, assessment, and management of the top strategic risks
2. Identify and discuss any additional strategic risks that should be managed
3. Review and assess last year's board oversight of enterprise risk management

Enterprise risk management

- **What is risk?** Issues and uncertainties that impact our ability to realize our mission as articulated in the Strategic Framework
- **What is enterprise risk management?**
  - ERM is a structured, organization-wide approach to monitor, identify, assess, and manage issues and uncertainties that threaten fulfillment of our mission
  - ERM is an inherent and critical component of leadership's long-term strategy development and execution, as well as component of board oversight

We focus on risks that have a high probability of occurring *and* high impact



We focus on risks above the diagonal.

Our management strategy drives risks below the diagonal.

Top system-wide strategic and operational risks

- Strategic Risks
- Operational Risks
  - Academic and Student Affairs
  - Financial
  - Human Resources
  - Technology
  - Facilities

Background (in the appendix)

- Overview of risk
- Who is responsible for risk management?
- Two classes of risks: strategic and operational
- How do we identify and assess risks?
- How do we manage risks?
- How does Minnesota State ERM compare nationally and to other systems of higher education?
- Suggested readings

Review, offer feedback, and provide oversight of the identification, assessment, and management of the top strategic risks

- Discuss the high probability / high impact strategic risks we have identified
- Are there suggestions for additional strategies to better manage these strategic risks?
- Are there additional high probability / high impact strategic risks that the board thinks should be addressed?

Top strategic risks (major threats to quality, value, reputation, resources, and the ability to fulfill our core mission)

1. **A culture that fears change and has inadequate capacity to change**
   a. **Fear of change and a sense of loss** from changes that break tradition
   b. **Difficulty anticipating, responding to, or leading disruptive changes**
   c. **Advancing individual interests rather than students, the common good, and the enterprise**
   d. **Limited capacity and ability to make change** that stems from fear and resistance to change, ability of internal and external interests to block change, limited agility and change management expertise, workload and fatigue
   e. **Inability of our colleges and universities to make the changes needed to increase student success**
2. **Enrollment** challenged by declining number of high school graduates, low unemployment, increased competition, insufficient progress on student retention and successful transfer, as well as ineffective and counterproductive marketing
3. **Lack of a long-term sustainable financial model** for our colleges and universities. Incremental revenues are not keeping pace with incremental costs and are unlikely to do so without significant changes
4. **Potential disruptive innovations:**
   a. **technology based learning**
   b. **certification of competencies** by higher education institutions and other entities; growing acceptance of alternative credentials; value proposition of going to college is being questioned
   c. **employer managed, on-site training programs**
5. **Growing need to address affordability and student debt** in an era of limited state resources
6. **Outdated legacy systems** in the face of new technologies for student services, learning, course delivery, and administration
7. **Low awareness and varied reputation** of our colleges and universities and the system
8. **Legislative intrusion into the board's authority to govern**

Top strategic risks (1/4)

Risk	Risk Management Strategy
1. A culture that fears change and has inadequate capacity to change a. Fear of change and sense of loss b. Difficulty anticipating, responding to, or leading disruptive changes c. Advancing individual interests rather than students, the common good, and the enterprise d. Limited capacity and ability to make change e. Inability of our colleges and universities to make the changes needed to increase student success	• Continue to communicate about the urgent changes and challenges facing higher education and our colleges and universities • Create a more compelling, exciting, and engaging vision of the future • Continue to engage students, faculty, and staff in campus-based Charting the Future discussions and implementation • Increase professional development around change management and leadership • Modify the allocation framework to reward positive change • Pilot new innovations • Discuss with stakeholders the culture challenges; grow the capacity to change • Reinforce our commitment to students, making them the focus of all discussions
2. Enrollment challenged by declining number of high school graduates, low unemployment, increased competition, insufficient progress on student retention and successful transfer, as well as ineffective and counterproductive marketing	• CTF Work Plan o Improve curriculum alignment and student transfer (1.1.1) o Strengthen academic advising and access to student support information; remove policy barriers (1.1.2 thru 1.1.6) o Develop campus diversity plans; diversity mapping; improve recruitment and retention of diverse faculty and staff; provide professional development (1.3.1 thru 1.3.4) o Scholarship campaign (3.1.1) o Open Educational Resources (OERS) (3.1.2) • Conduct evidence-based assessment of retention best practices and scale the most efficacious strategies • Continue to partner with MDE and the public schools to ensure that more students are prepared for and on track to post-secondary education • Continue to improve the quality of the education we provide students • Implement and market the Twin Cities metro baccalaureate plan • Implement a coordinated statewide marketing and recruitment effort

Top strategic risks (2/4)

<table>
<tr><th>Risk</th><th>Risk Management Strategy</th></tr>
<tr><td>3. Lack of a long-term sustainable financial model for our colleges and universities. Incremental revenues are not keeping pace with incremental costs and unlikely to do so without significant changes</td><td>

CTF Work Plan

Redesign the current internal financial model (3.2.1)
Encourage entrepreneurial activities (3.2.5)

Develop and implement a long-term financial sustainability plan that identifies significant new sources of revenue and new ways to significantly reduce costs
Continue to monitor performance metrics on costs, revenues, and financial risk to drive accountability
Advance a coordinated statewide marketing and recruitment effort
Continue to increase private fundraising
Continue to advance the Campus Service Cooperative
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<tr><td>4. Potential disruptive innovations:

a. technology based learning

b. certification of competencies by higher education institutions and other entities; growing acceptance of alternative credentials; value proposition of going to college is being questioned

c. employer managed, on-site training programs</td><td>

CTF Work Plan

Develop a more powerful, quality online education strategy (1.2.1)
Develop state-wide competency certification and credit for prior learning (2.2.2)
Implement an state-wide model of comprehensive workplace solutions that will better serve businesses and others interested in customized training or continuing education (2.1.1)

Continue participation in the multi-state learning outcomes collaborative
Advance a coordinated statewide marketing effort
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Top strategic risks (3/4)

Risk	Risk Management Strategy
5. Growing need to address affordability and student debt in an era of limited state resources	• See all management strategies in response to Risk #2 above • Continue to control tuition and fees and monitor debt • Continue to deploy financial literacy programs for students • Continue to reduce administrative and institutional costs • Continue to monitor and control instructional costs • Continue to advance the Campus Service Cooperative • Develop and implement a long-term financial sustainability plan that identifies significant new sources of revenue and new ways to significantly reduce costs
6. Outdated legacy systems in the face of new technologies for student services, learning, course delivery, and administration	• CTF Work Plan o Develop a more powerful, quality online education strategy (1.2.1) o Ensure all students have access to technology (1.2.2) o Increase exploration of emerging technologies and professional development (1.2.3) o Align student and employee identification practices across the system (3.2.3) o Replace ISRS (3.2.4) • See management strategies of top technology operational risks

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Top strategic risks (4/4)

Risk	Risk Management Strategy
7. Low awareness and varied reputation of our colleges and universities and the system	• Advance a coordinated statewide marketing effort • Improve our coordinated, grassroots communications strategies • Continue to increase proactive placement of stories about our students, programs, community partnerships, and service to Minnesota • Develop a standard crisis communication plan
8. Legislative intrusion into the board's authority to govern	• Continue to communicate the wisdom of the governance model and board authorities articulated in statute (Chapter 136F).

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Top operational risks: Academic and Student Affairs

Risk	Risk Management Strategy
See also Strategic Risks; IT Risks; Facilities Risks	
• Growing population of students at risk	• Develop and share approaches to support students at risk (e.g., academic progress and support; mental health; etc.) • Support campus-level initiatives by sharing best practices and providing training
• Growing racial tensions and student activism	• Build institutional capacity to appropriately respond • Provide training and other resources • Facilitate the sharing of best practices • Develop system level support
• Relational risk and effective collaboration	• Build institutional capacity to create and maintain effective change and collaboration • Strengthen relations and trust with faculty (statewide and local) • Strengthen relationships and trust with campus ASA leadership and staff; grow enterprise behavior
• Title IX compliance (sexual assault, athletics, etc.)	• Board policy • Designated campus Title IX officers • Provide training, other resources • System supported reporting tools • Periodic reviews
• Title IV and state financial aid programs	• Board policy • System-wide coordination of campus financial aid compliance • Monitoring, reviews, and training

Top operational risks: Financial

Risk	Risk Management Strategy
• Enrollment	• Close monitoring and remediation communication with campuses • Expand long-term demographic and economic forecasting • Support student recruitment and increase retention • Increase marketing and communication strategies
• Financial sustainability of colleges and universities	• Financial triggers revised to accelerate early awareness of stress • Multi-year modeling tools for campus use and reporting • Develop long-term strategies for revenue growth (e.g., enrollments, retention, customized training, fundraising) • More effective management of the curriculum • Implement e-procurement system that includes streamline and incorporating best practices to increase efficiency and savings • Grow partnerships and collaborations among colleges and universities; add incentives in allocation framework • Advance shared services and regional service center activities • Facilities rightsizing; program alignment and sharing strategies
• Federal and state financial support for students	• Encourage federal and state investments in students (e.g., state grant program, Pell, Perkins, TRIO).

Top operational risks: Human Resources

Risk	Risk Management Strategy
• Talent recruitment, retention and development to address the anticipated high turnover in key leadership and staff positions over the next five years	• Continue to refine and advance our comprehensive system-wide recruitment strategy • Deploy performance management and succession planning tools effective at identifying and developing high performers early • Ensure robust recruitment and retention of a strong and diverse workforce • Build systemwide HR capacity to manage turnover-related issues • Continue to prioritize talent development (eg., Luoma Academy; Executive Leader Development; new and continuing employee training and leadership development)
• Regulatory management (ADA, ACA, FLSA, FMLA, Workers' Comp., etc.)	• Continue to develop sytemwide HR compliance capacity • Design a system audit process to ensure accurate compliance • Continue to move toward a systemwide HR transactional service model

Top operational risks: Technology

Risk	Risk Management Strategy
• Information security and information management	• Create and maintain a robust set of policies and procedures that clearly convey expectations for safeguarding and managing data / information resources • Implement technology risk and control assessments • Operate a security program that aligns with the organization's strategic needs and risk tolerances • Evaluate information technology practices that meet or exceed policy / procedure and adopted technology frameworks
• Poorly aligned / aging solutions that are not sustainable in their current form and/or hamper the organization's ability to act operationally and strategically to meet current and future needs	• Pursue strategies to replace / re-tool core IT infrastructure and applications • Pursue common business practices in advance of technology changes • Actively manage the change associated with technology replacement and business practice adjustment

Top operational risks: Facilities

Risk	Risk Management Strategy
• Facility and infrastructure reliability	• Advance coordinated capital planning improvements • Partner with state for sufficient financial assistance • Set and meet repair and replacement goals; investment guidelines • Pursue mothball, out-lease, and demolition opportunities
• Safe, secure, compliant operations	• Communication, training, education, and auditing • State agency partnerships (e.g., MnOSHA Alliance, State risk and COPE program) • Master contracts / coordinated and consolidated methods • Regional and system collaboration • System office and campus plans • Undertake systemwide staffing and operations study • Periodic review, training exercises, and scenarios
• Increasing costs / expenses: energy, supplies and materials, disposal	• Physical plant systems preventative maintenance • Competitive bidding • Strategic sourcing, master contracts • Benchmarking and re-commissioning • Campus Service Cooperative

Board oversight of enterprise risk management

- Oversight of enterprise risk management is a responsibility of the Board of Trustees. Oversight is exercised both by board committees and the full board
- Broad, strategic discussions of risks and management strategies are held at the September board retreat and again at a winter board meeting
- The chancellor and relevant cabinet members keep the board chair and appropriate board committee chairs apprised on a timely basis of significant changes in the enterprise’s risk profile.
- During the course of the year, board committee chairs and the board chair work with the chancellor and relevant cabinet members to schedule committee (or board study session) discussions of strategic and operational risks and management strategies

Review and assess board oversight of enterprise risk management

- Review and assess board oversight during FY2016 of strategic and operational risks (see the enclosed table).
- How should the strategic and operational risks identified for FY2017 inform board committee agendas for the year ahead?

FY2016 board discussion and oversight of top strategic and operational risks

Top Strategic Risks 2015-2016	Board Discussion and Oversight
Student success	Sept Board; Nov ASA; Jan Board; Jan ASA; May ASA & Diversity
Enrollment	Sept Board; Oct Finance
Long-term financial sustainability	Sept Board; Oct Finance; Nov Finance; Jan Board; Jan Finance; Mar Finance, Apr Finance; June Board
Potential disruptive innovations	Sept Board; Jan Board
Affordability and student debt	Sept Board; Nov ASA; Mar ASA; Apr ASA & Finance
New technologies and outdated legacy systems	Sept Board; Oct Finance; Mar Finance
Low awareness and varied reputation	Sept Board; Jan Board; Apr Board; Jun Board
Capacity and ability to lead and support change	Sept Board; Apr HR
Top Operational Risks	
Academic and Student Affairs	
Title IV and state financial aid programs	
Growing population of students at risk	Nov ASA; May ASA & Diversity; Jun ASA & Diversity
Title IX	
Financial	
Enrollment	Oct Finance; Mar Finance
Financial Sustainability	Oct Finance; Nov Board; Nov Finance; Jan Finance; Mar Finance; Apr Finance; Jun Finance; Jun Board
Federal and state financial support of students	Jan Finance; April ASA and Finance
Human Resources	
Talent recruitment, retention, & development	Apr HR
Regulatory management	Nov HR; Mar HR
Technology	
Information security and information	Oct Board
Poorly aligned /aging solutions	Oct Finance; Mar Finance
Facilities	
Facility and infrastructure reliability	*Scheduled for Oct '16 Finance*
Safe, secure, compliant operations	*Scheduled for Oct '16 Finance*
Increasing costs	*Scheduled for Oct '16 Finance*

Appendix

Risk

- Every organization operates in an inherently risky environment
- Risks cannot be eliminated, but effectively managing risk can create greater value, protect resources and reputation, and increase our ability to realize our core objectives and responsibilities
- Some appetite for risk is healthy. Risk is key to innovation and high returns on investment. "All successful organizations take risks, and the most promising opportunities often involve heightened risk" (AGB, 2009)

Who is responsible for risk management?

- Board Policy 5.16: “The **chancellor** for the system office and the **presidents** for the colleges and universities are responsible for effectively managing risks in order to conserve and manage the assets of the system office, colleges and universities and minimize the adverse impacts of risks or losses.”
- The assessment and management of risk is **everyone’s responsibility** – it occurs at all levels of leadership and management from front-line campus employees to oversight by the board. Every day, leaders and employees across the system make risk-based decisions
- The system-level ERM effort is led by the **ERM team** (chancellor, vice chancellors, director of internal audit, general counsel, chief of staff, associate vice chancellor for facilities, government relations and communications officer)
- **Presidents and their leadership teams** lead campus-level ERM efforts
- The **Board of Trustees** oversees the ERM effort

Two classes of risks

- ***Strategic risks:* threats to the realization of our core objectives**
  - E.g., quality of graduates; reputation; revenue streams
  - Primary responsibility to monitor, identify, assess, and manage risks:
    - systemwide: chancellor and members of the ERM team
    - colleges and universities: presidents and their leadership teams
- ***Operational risks:* threats to assets, people, and compliance with laws and regulations**
  - E.g., integrity of financial system; emergency preparedness; network security
  - Primary responsibility to monitor, identify, assess, and manage risks:
    - systemwide: chancellor and members of the ERM team
    - colleges and universities: presidents and their leadership teams

How do we identify and assess risks?

- At the system level, the ERM team (with engagement of staff at both the system and campus level) continuously scans the internal and external environment to identify and assess risks. The team pays particular attention to the "intersections."
- Annually, presidents are asked to identify the top risks facing their college/university and to describe the strategies they are using to manage those risks
- Risk identification and assessment are included in annual performance reviews and goal setting for the chancellor, presidents, and chancellor's cabinet
- The Leadership Council periodically reviews and discusses ERM

"Most important challenges and risks facing my college / university" as reported by presidents in June 2016 (n=28)
(= increase over past year; = increase two years in a row)

Enrollment / competition for students / reduction of high school graduates (19)

Long-term financial sustainability; rising costs; limited revenue (16)

Human resource concerns: leadership transition; ability to recruit and retain talent; turnover (15)

Infrastructure, aging facilities, including keeping up our facilities and technology (10)

IT security (8)

Campus security / emergency preparedness (4)

Fundraising and resource development (4)

Student retention and completion(3)

Affordability and student debt (3)

Accreditation (3)

Partnership agreements with other colleges and universities (3)

Public image, reputation (2)

Servicing diverse communities (2)

Achievement gap (2)

Competition from on-line providers (2)

Other risks mentioned by a single president: duplication of programs; regulatory environment; faculty relations; increasing needs of our students; structure schools; inclusive culture; program development; growth of service area; student life on campus; better communication; allocation framework redesign; comprehensive workplace solutions; branding initiative; need for greater collaboration; status quo culture; market forces; student activism.

How do we manage risks?

- Implementing the *Charting the Future* recommendations is critical to managing our top strategic risks
- "Tone at the top" and "tone of the organization" are also critical to managing strategic and operational risks at both the system and campus levels
- At the system level, individual members of the ERM team (with engagement of system and campus staff) lead the development and implementation of strategies to manage risks and monitor progress
- System, college, and university strategic and fiscal plans are also strategies to manage risk. System-level leaders and presidents incorporate risk management in their strategic plans and annual work plans

How do we compare nationally?*

	National	Minnesota State
Institution has conducted an ERM process in the last two years	39%	Yes
Institution uses risk tolerance in guiding leadership decisions	34%	Yes
Primary responsibility for ERM is led by ≥ 2 senior administrators	22%	Yes
The full board discusses institutional risks	62%	Yes
ERM approached on an ongoing rather than “as needed” basis	54%	Yes
Getting enough information about risk	39%	?
Institution is doing a good job identifying, assessing, and planning for institutional risk	25%	?

**A Wake-up Call: Enterprise Risk Management at Colleges and Universities Today*, Association of Governing Boards of Universities and Colleges and United Educators, 2014. Results from a 2013 AGB survey of public and private college and university presidents, governing boards, provosts, CFOs, legal counsels, risk managers, and chief compliance/audit officers.

How do we compare to other systems?

	U of Wisc. System	U of CA System	U of Texas System	Tenn Board of Regents	U of Georgia System	SUNY System	U System of Md	Minnesota State
Who is responsible for ERM?	Staff from 4 units	Office of Risk Services	Systemwide compliance staff	Internal Audit	Exec Director of Risk Mgmt	No ERM system in place	No ERM system in place	**System Exec Team and Presidents**
Board involvement	Not clear	Not clear	Yes – compliance committee	Yes – audit committee	Yes – full board	No	No	**Yes – full board & committees**
Strategic risks assessed?	List of risks, but strategic risks not specified	Yes	List of risks, but strategic risks not specified	No	Yes	No	No	**Yes**
Operational risks assessed?	List of risks, but operational not specified	Yes	Yes	Yes	Yes	No	No	**Yes**
A process to identify risks?	Yes	Yes	Yes	Yes	Yes	No	No	**Yes**
ERM reporting frequency	Every 18-24 months	Every 2 years	Not clear	Annually	No set period; ongoing	None	None	**Annually**

For further reading:

A Wake-up Call: Enterprise Risk Management at Colleges and Universities Today, Association of Governing Boards of Universities and Colleges and United Educators, 2014.

"Negative Outlook for US Higher Education Continues Even as Green Shoots of Stability Emerge," Moody's Investors Service, July 11, 2014.

Janice M. Abraham, *Risk Management: An Accountability Guide for University and College Boards*, AGB Press, 2013.

"The Five Lines of Defense – A Shareholder's Perspective," *Board Perspectives: Risk Oversight*, Issue 51, Protiviti, 2013.

"Exploring Risk Appetite and Risk Tolerance," Risk and Insurance management Society, Inc., 2012

Report of the Work Group on Long Term Financial Sustainability

Summary of the Challenges

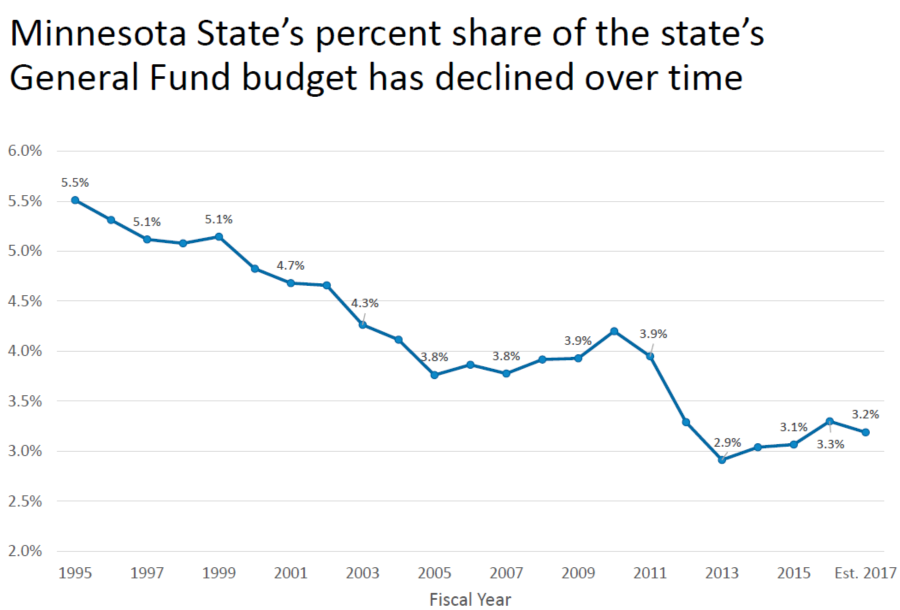
> "The Minnesota State Colleges and Universities face a future that is financially unsustainable. The situation is urgent and demands development of strategies that will enable improved service to students, the state, its citizens and its communities."
>
> – Report of the Work Group on Long Term Financial Sustainability, June 2016

1. Incremental costs have been outpacing incremental revenue.

Revenue bottom line: Between FY2008 and FY2017, state appropriation and tuition revenue *combined* increased an average of 1.17% per year. (State appropriation increased an average of 0.12% per year; tuition increased an average of 2.26% per year.)

Background facts about revenue

- State support per student (in constant dollars) in FY2015 was 23% below FY2002 funding level.
- Higher education's share of the state's budget has dropped from 12.2% in FY1995 to 7.2% in FY2017; Minnesota State Colleges and Universities' share dropped from 5.5% to 3.2%.
- The state's share of campus general fund budgets has dropped from 66% in FY2002 to 44% in FY2015.
- 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 size of the funding pie has not increased; rather the sizes of the tuition and appropriation slices have merely shifted.
- Net tuition and fees as a percent of state median income at Minnesota State colleges was 2.6% in 2015 (compared to 3.1% in 2009). Net tuition and fees as a percent of state median income at Minnesota State universities was 4.7% in 2015 (compared to 5.0% in 2009).



Background facts about costs

- **75%** of general fund expenditures are dedicated to faculty and staff compensation. Compensation has been increasing faster than new revenue.

Employee Unit	FY14 – FY17 Average Annual Base Rate Increase[1]	Average Fringe Increase	FY14 – FY17 Average Annual Comp Rate Increase
AFSCME	5.5%	5.0%	5.3%
MAPE, MMA, Comm. and Mgr. Plans	6.3%	5.4%	6.0%
MSUAASF	3.4%	4.1%	3.6%
IFO	3.2%	4.0%	3.4%
MSCF	3.9%	4.4%	4.0%
Administrative Plan	2.4%	3.7%	2.7%

[1]takes into account steps and salary schedule enhancements

- Fully allocated instructional costs (in nominal dollars) have increased 3.4% per year between FY2010 and FY2015.
- Campus academic facilities will require $1.64 billion in asset preservation over the next decade.
- Some of the current 22.4 million square feet of campus academic space is obsolete and/or underutilized, yet still requires utilities and maintenance.
- All of the credit enrollment growth over the past decade can be attributed to the increase in Pell eligible and first generation students and students of color. To succeed, these students have much greater need for academic support services (advisors, tutors, counseling, small classes) than their predecessors.

2. We have made modest progress in increasing revenues.

- Our colleges and universities' share of undergraduate higher education enrollment Minnesota has increased from 63.0% in FY2009 to 65.5% in FY2014
- Private giving has increased from $47.4 million in FY2011 to $76.2 million in FY2015
- Grant revenue has increased from $90.0 million in FY2011 to $99.7 million in FY2015

3. We have made significant progress in reducing costs.

- Our college, university, and system office administrative spending is among the lowest in the country: the system ranks 35th out of 50 states and the District of Columbia in administrative spending per student FYE. Administrative spending is 15% below the national average per FYE and below similar systems in all contiguous states (Iowa, Wisconsin, North Dakota, and South Dakota).
- Institutional support expenses across all campuses have fallen from 12.4% of total expenses in FY2011 to 11.8% in FY2015.
- The system office base budget has dropped from $43.5 million in FY2009 to $33.1 million in FY2016 (from 3.0% of the system-wide budget to 2.1%).
- The total number of employees, systemwide, has been cut by 10.6% (from 18,443 in FY2011 to 16,494 in FY2016) in response to the 14.7% drop in FYE enrollment over those years.
- 3.1% (525) of the systemwide employees are administrators, down 9% since 2009.

4. The consequences of incremental costs outpacing new revenue have put in jeopardy the quality of education we provide students and our ability to serve communities across Minnesota.

- Over the years FY2013 through FY2016, 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.
- Investment in new technology and equipment has declined.
- 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.
- 19 of our colleges and universities are operating under financial recovery plans.

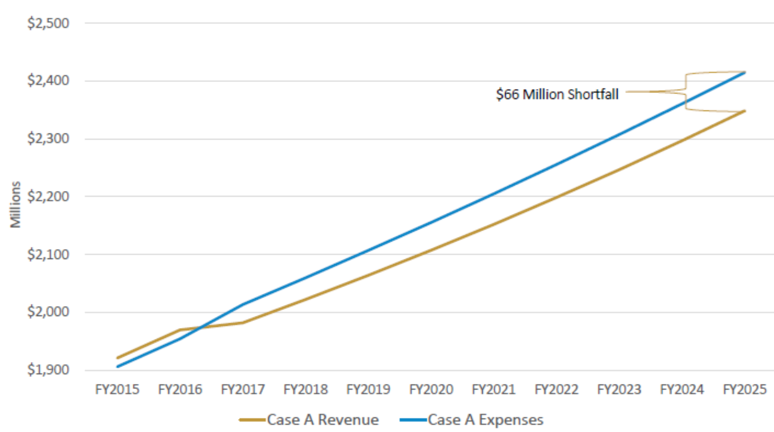
5. Incremental costs will continue to outpace incremental revenue unless there are substantial increases in revenues *and* substantial reductions in costs.

> "Without changes in to the system's operating model, its future is financially unsustainable. The system's annual structural funding gap is estimated to be growing at a rate such that by 2025 it will be between $66 million to as high as $475 million – truly crisis proportions."
>
> – Report of the Work Group on Long Term Financial Sustainability, June 2016

<u>Scenario A (the financially optimistic scenario)</u>

<u>Assumptions (starting in FY2018)</u>

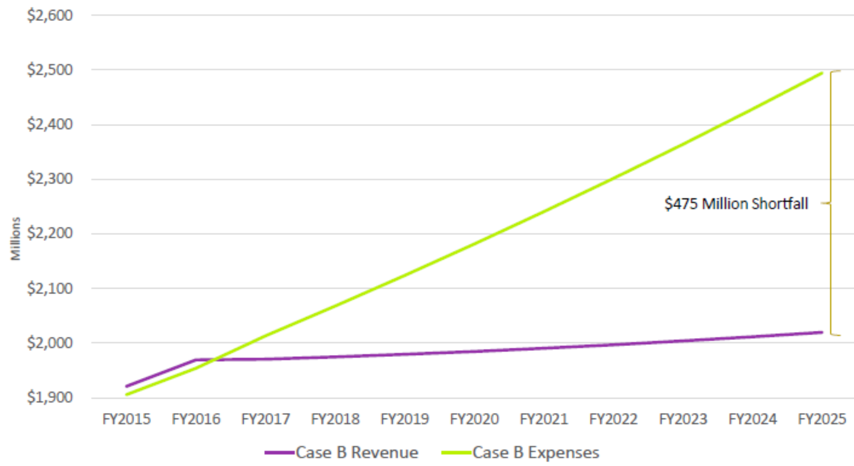
- State appropriation increases above their historic average at 1.1% *each* year
- Salaries, fringe benefits, and other expenses increase below their historic average at 2.3% *each* year
- Enrollment increases above its historic average, at 1.0% *each* year
- Tuition and fees increase above their historic average, at 3.0% *each* year



<u>Scenario B (the financially pessimistic scenario)</u>

<u>Assumptions (starting in FY2018)</u>

- 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



Recommended Strategies

Estimated recurring impact of a 1% increase in revenue

Revenue Strategy	Gross increase in revenue	Cost to generate the new revenue	Net increase in revenue
Expand online education	tbd	tbd	tbd
Expand CT/CE	$297,000	$204,000	$93,000
Increase private fundraising	$762,000	$119,000	$643,000
Increase enrollment market share	$8,256,000	$6,906,000	$1,350,000
Increase retention	$7,947,000	tbd	tbd
Increase tuition rates	$7,586,000	-	$7,586,000
Increase state support	$6,735,000	-	$6,735,000

1. Act as an enterprise

To harness the collective power of the colleges and universities and marshal more effective and efficient campus-based leadership dedicated to improving student success

1.1 The faculty should align and streamline the curriculum to reduce the time to graduation and the cost of the degree. This should be done by continuing the work initiated, in part, under Charting the Future and other efforts to establish guided transfer pathways that:

- provide clear navigation within colleges and universities and across the system so that it is easier for students to persist and complete their programs;
- resolve inconsistencies within the Minnesota Transfer Curriculum; and
- decrease complexity and inefficiencies, while maintaining an appropriate range of student choice and program specialization.

1.2 The colleges and universities should create competency-based credential and degree pathways, allowing students to integrate and individualize their learning and demonstrate competency developed both inside and outside of the classroom.

1.3 The colleges and universities should align online course and program offerings with the emerging systemwide online strategy.

1.4 The chancellor should coordinate the design and delivery of customized training throughout the state and commit to grow the enterprise revenue by five percent per year.

1.5 The chancellor should coordinate marketing efforts for cross-system offerings such as streamlined curriculum, guided transfer pathways, competency-based credential and degree pathways, online offerings, and customized training.

2. Consolidate the delivery of core functions

To create more cost-effective operations where knowledge and services are shared and redundancies are minimized

2.1 The board should establish criteria for campuses to have full, dedicated administrative structures.

2.2 The board should create regional planning, communication and leadership structures to ensure effective coordination of core functions among and between colleges and universities.

2.3 The chancellor should continue to align the leadership structures of colleges in the metropolitan area, such as the efforts underway between Anoka-Ramsey Community College and Anoka Technical College, as well as Dakota County Technical College and Inver Hills Community College.

2.4 The chancellor should create regional and statewide call centers and processing centers that consistently communicate information related to admissions, financial aid, registration, human resources, accounts receivable and other common functions.

3. Build partnerships that prepare students for a successful college or university experience

To help eliminate the opportunity and achievement gaps

3.1 The colleges and universities must work across the system and with K-12 and community partners to eliminate achievement and opportunity gaps to better prepare students and increase their success in college.

3.2 The colleges and universities must work across the system and within their communities to form service provider partnerships in such areas as social services, housing, transportation, day care, and food support.

3.3 The colleges and universities should increase post-secondary enrollment options and concurrent enrollment.

3.4 The colleges and universities should strengthen financial literacy training, career advising and other support services that promote persistence and success at the start of a student's academic career, and monitor progress at regular intervals as they proceed through the system.

4. Adopt more creative and flexible labor practices

In response to the changing needs and expectations of students and communities, as well as changing organizational structures and faculty and staff roles and assignments

4.1 The chancellor, working with the Metro Alliance, should organize faculty along two new full-time and part-time units, enabling individual members to move seamlessly from campus to campus. Administrative and student service processes and procedures should be developed accordingly. Pilot this initiative in the metropolitan area, where it makes the most immediate sense geographically.

5. Re-calibrate physical plant and space capacity

In order to address regionally disproportionate surpluses, as well as to accommodate new academic and administrative organizational structures

5.1 – 5.3 The chancellor should undertake comprehensive facilities planning by region to increase utilization. The colleges and universities also should work to increase use of underutilized physical spaces through tuition and fee incentives or staffing arrangements. The colleges and universities should pursue non-academic revenue-generating uses of surplus physical capacity that complements the mission of the system's campuses, while meeting a community need and conforming to policy/statutory guidance.

Key

Contribution to financial sustainability of more than $25 million

Contribution to financial sustainability of $5 million to $25 million

Contribution to financial sustainability of $1 million to $5 million

Report of the Workgroup on Long-Term Financial Sustainability
June 2016

Minnesota
STATE COLLEGES
& UNIVERSITIES

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MISSION

The Minnesota State Colleges and Universities system of distinct and collaborative institutions offers higher education that meets the personal and career goals of a wide range of individual learners, enhances the quality of life for all Minnesotans and sustains vibrant economies throughout the state.

STRATEGIC FRAMEWORK

1. **Ensure access to an extraordinary education for all Minnesotans**

   - Our faculty and staff will provide the best education available in Minnesota, preparing graduates to lead in every sector of Minnesota's economy.
   - We will continue to be the place of opportunity, making education accessible to all Minnesotans who seek a college, technical or university education; those who want to update their skills; and those who need to prepare for new careers.

2. **Be the partner of choice to meet Minnesota's workforce and community needs**

   - Our colleges and universities will be the partner of choice for businesses and communities across Minnesota to help them solve real-world problems and keep Minnesotans at the leading edge of their professions.
   - Our faculty and staff will enable Minnesota to meet its need for a substantially better educated workforce by increasing the number of Minnesotans who complete certificates, diplomas and degrees.

3. **Deliver to students, employers, communities and taxpayers the highest value, most affordable option**

   - Our colleges and universities will deliver the highest value to students, employers, communities and taxpayers.
   - We will be the highest value, most affordable higher education option.

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PROBLEM STATEMENT

The Minnesota State Colleges and Universities system (the system) faces 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.

GUIDING PRINCIPLES OF THE WORKGROUP

The work of the Long-Term Financial Sustainability Workgroup is guided by the system's Strategic Framework with its commitments to providing Minnesotans with an extraordinary education; being the partner of choice to meet Minnesota's workforce and community needs; and providing the highest value, most affordable education option.

- Improving student success is key to the long-term financial sustainability of the colleges and universities
- The workgroup's recommendations must recognize and respect faculty roles in curriculum development, teaching and curriculum management
- Strong campus and community partnerships are central to college and university sustainability
- Other efforts related to advancing the system and its campuses, including, but not limited to, Charting the Future work, are respected and considered
- Sharing and leveraging resources creates opportunities for advantages to be enjoyed by all of the system's stakeholders

EXECUTIVE SUMMARY

The Minnesota State Colleges and Universities system is a creation of state government formally established in 1995 through the merger of Minnesota's technical colleges, community colleges and state universities into one publicly supported system. Over the last several decades, funding appropriations from the state – historically the system's most important source of revenue – have been in decline. The Minnesota legislature has passed legislation in the last several years directing the Board of Trustees to freeze tuition, a second major source of operating revenue for the system. These facts, together with flat or declining enrollments, have produced a clearly unsustainable financial operating model.

The colleges and universities have coped with these revenue challenges by reducing costs. But looking ahead, continued cost cutting by the system, as it exists today, is not the solution. Unless there is real, systemic change to the system, it will become unsustainable by 2025, when revenue and expense projections define a shortfall in the range of $66 million to $475 million – truly crisis proportions. We cannot and must not wait until 2025 to begin to make changes or we will only compound the challenges of achieving financial sustainability. We must act now. Business as usual means the system's effort to serve the people of Minnesota will only increase in intensity.

In an effort to reverse this situation, Chancellor Steven Rosenstone formed the Long-Term Financial Sustainability Workgroup in October 2015 comprised of a cross-section of the system's stakeholders, including faculty and student representatives. Within the context of the system's strategic framework, his charge to the work group addressed three questions:

1) What changes should be made to the system's expenditure and revenue strategies to ensure the long-term financial sustainability of our colleges and universities in light of the priorities articulated in the strategic framework?

2) Are there alternative models for how we should organize ourselves, educate students and serve communities across Minnesota that will advance excellence, access and affordability, *and* that will be more financially sustainable over the years ahead?

3) What tools as well as academic and financial planning strategies are needed to effectively implement recommended changes?

Co-chaired by Phil Davis, Associate Vice Chancellor/Managing Director, Campus Service Cooperative and Laura King, Vice Chancellor for Finance and Chief Financial Officer, the workgroup met monthly through June 2016, hearing expert presentations, surveying members and holding open discussion sessions.

This report delineates a series of challenging lessons learned throughout the course of this effort, with transformative implications. It then lays out five overarching recommendations with attendant rationale, as well as weighted considerations related to ease of implementation and contribution to financial sustainability. The following is a summary of the recommendations.

Recommendations

1. ***Act as an enterprise – harness the collective power of the colleges and universities and marshal more effective and efficient campus-based leadership dedicated to improving student success***
2. ***Consolidate the delivery of core functions for more cost effective operations where knowledge and services are shared and redundancies are minimized***
3. ***Build partnerships that prepare students for a successful college or university experience and help eliminate opportunity and achievement gaps***
4. ***Adopt more creative and flexible labor practices in response to the changing needs and expectations of students and the system's communities, as well as the organizational structures and faculty and staff roles and assignments***
5. ***Re-calibrate physical plant and space capacity to address regionally disproportionate surpluses, as well as to accommodate new academic and administrative organizational structures***

THE SITUATION: HOUSTON, THE SYSTEM HAS A PROBLEM

> *This is a 'Houston, we have a problem' report. People who know what they're talking about think we have a problem down the road if some things don't get fixed.* – Jane Wellman, higher education finance expert, as quoted in *Inside Higher Ed*

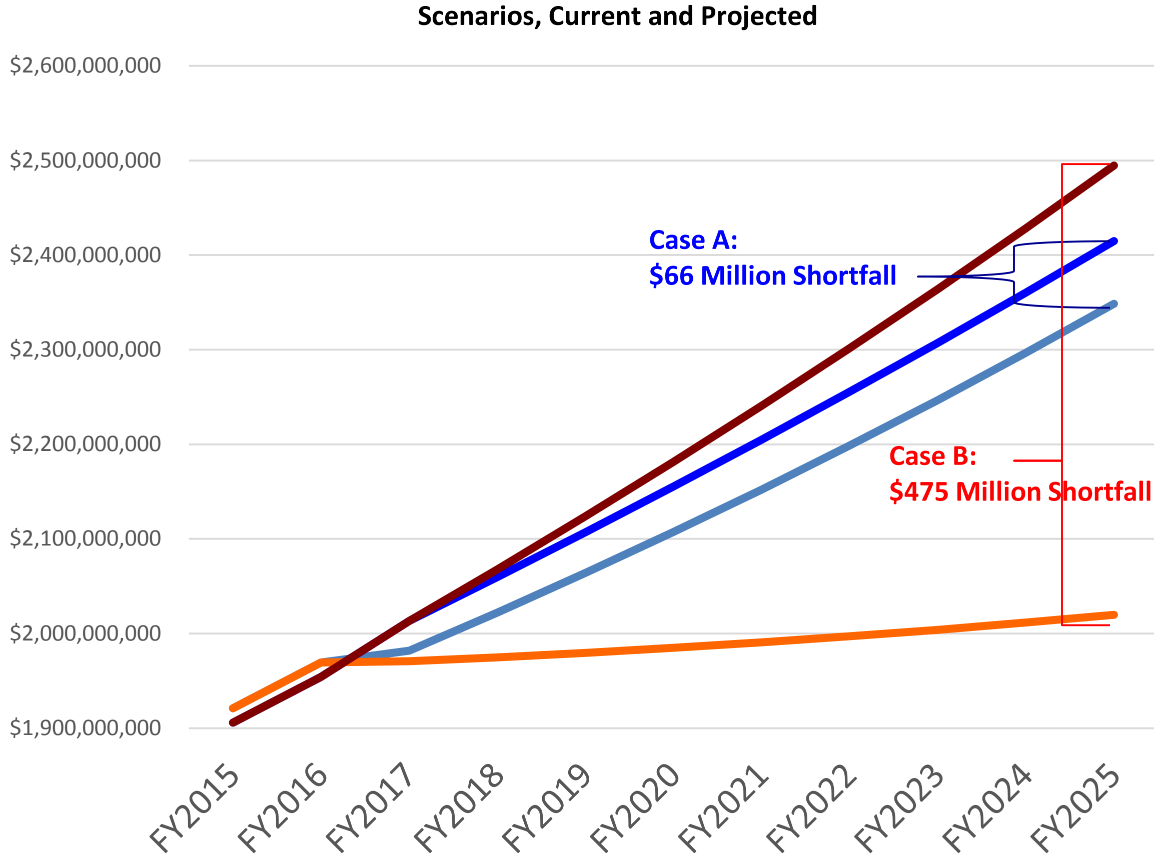
Wellman was referencing a report on a 2013 survey of college and university business officers by *Inside Higher Ed* and Gallup in which barely a quarter of campus chief financial officers (27 percent) expressed strong confidence in the viability of their college or university's financial model over five years, and that number drops in half (13 percent) when they are asked to look out over a 10-year horizon. Further, more than 60 percent of CFOs agree that a significant number of higher education institutions are facing a financial crisis that threatens their existence.

Consistent with these findings, without changes to the system's operating model, its future is financially unsustainable. The system's annual structural funding gap is estimated to be growing at a rate such that by 2025 it will be between $66 million to as high as $475 million – truly crisis proportions. For the last several biennia, the colleges and universities have coped with this situation by cutting into core programs and services. At this juncture, however, 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. We cannot and must not wait until 2025 to begin to make changes or we will only compound the challenges of achieving financial sustainability. We must act now. Business as usual means the challenges facing the system's effort to serve the people of Minnesota will only increase in intensity.

There is a need for pronounced changes to life as usual that will touch all system stakeholders. At worst, these changes will be a means of mere survival. At best, the system will grasp and accept opportunities to thrive as a model of transformative change. Financial sustainability and academic excellence do not need to be mutually exclusive. In fact, economies of scale, cost efficiencies, structural labor modifications and innovative revenue streams can add up to administrative and academic outcomes that benefit all involved, leading to more effective delivery on the system's mission in the 21st century.

A Financial Crossroads

Revenue and Expenses



This graph models two scenarios of revenues and expenses projected over 10 years:

- **Case A assumes expenses at historical CPI rates, moderate tuition rate increases and slight enrollment increases. Case A projects a $66M deficit at year 10.**
- **Case B assumes expense increases at system historical averages, no tuition rate increase and slight enrollment growth. Case B projects a $475M deficit at year 10.**

Figure 1: Revenue and Expense Scenarios, Current and Projected

The Minnesota State Colleges and Universities system is a creation of state government adopted into law by the legislature in 1991 and effective in 1995 when Minnesota's technical colleges, community colleges and state universities merged into one publicly governed and supported system. Over the last several decades, funding from the State of Minnesota – historically the system's most important source of revenue – has been in decline. As the costs of healthcare and other state obligations and priorities have increased and shifted, revenue allocated to the system, and higher education generally, has diminished accordingly. Despite recent investments by the State of Minnesota, state support per student (in constant dollars) in FY2015 was 23 percent below FY2002 funding levels. The state's share of campus general fund budgets has dropped from 66 percent in FY2002 to 44 percent in FY2015. At the same time, pressure on affordability and the board's abiding commitment to access and affordability has pushed down tuition revenues, a second major source of operating revenue for the system. These facts, together with flat or declining enrollments, have produced a clearly unsustainable financial operating model.

Long-Term Reductions in State Revenue Have Caused More Dependence on Tuition Revenue

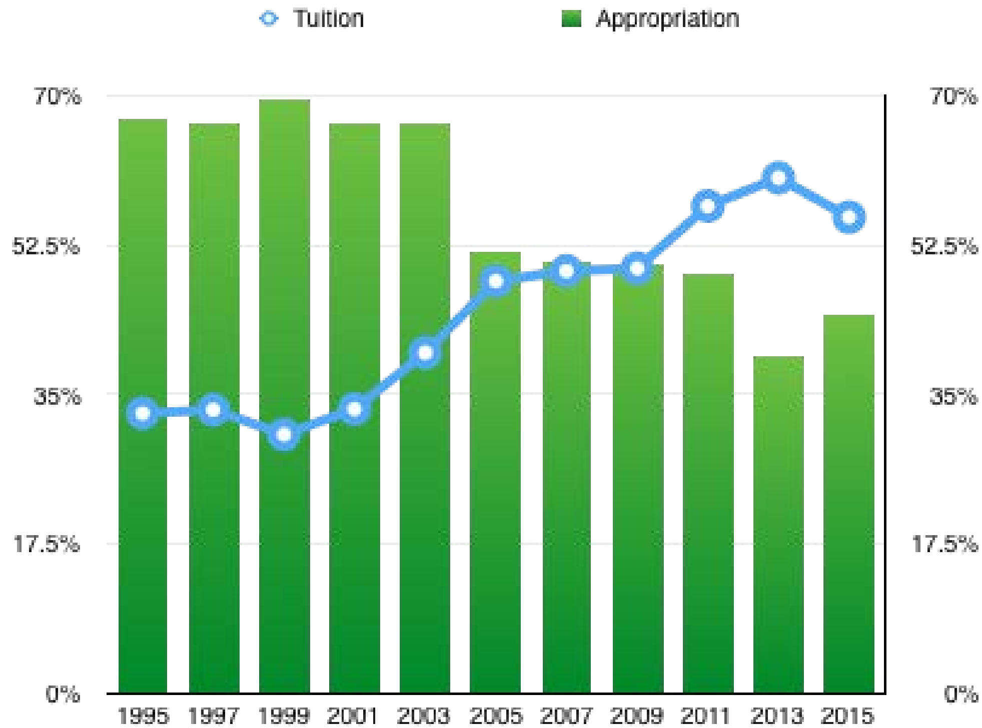


Figure 2: Long-term reductions in state revenue have caused more dependence on tuition revenue

The system's colleges and universities have coped with these revenue challenges by reducing costs – closing programs, laying off faculty and staff and re-prioritizing and reallocating existing funds. And yet even an infusion of new base funding during the FY2014-FY2016 biennium was not sufficient to offset the structural imbalance created by the shift in state support. In fact, the new state funding appropriated to the system has not helped to solve the sustainability problem. The new state funds have mostly offset the lost tuition resulting from the tuition freeze and have not been a source of new operating revenue. In other words, the overall size of the funding pie has not increased; rather, the sizes of the tuition and appropriation slices of the pie have merely shifted.

The System's Share of Minnesota's State Budget

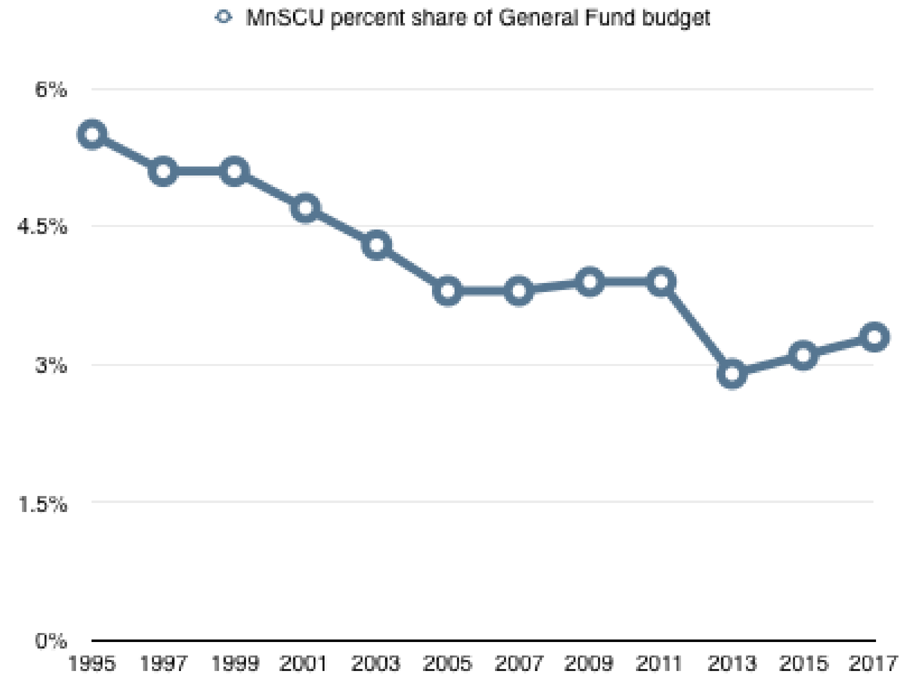


Figure 3: The System's Share of Minnesota's State Budget

As the fifth largest higher education system in the nation, educating nearly 400,000 students annually, the system, with its 37 colleges and universities, over 16,000 employees and annual budget of $1.9 billion, is no stranger to the scope of challenges and issues related to survival in the 21st century world of higher education. Its challenges are complex and multi-dimensional with myriad intersections that can make them appear intractable. And yet the system owes it to the future of Minnesota's citizenry to find and adopt solutions.

At a time when terms like "collaborative," "collective," and "cross-sector" are more than buzz words, but rather operational philosophies and approaches that are gaining traction within government, business and social services, it behooves the system's stakeholders to be like-minded. Through the system's comprehensive strategic planning effort, strides are being taken in that direction – solutions are being considered across the board. But not quickly enough. The system's challenges become especially vivid and demanding when viewed through a financial lens.

To this end, in the fall of 2015, Chancellor Steven Rosenstone convened a 24-member panel to examine the situation and make recommendations for improving the long-term financial sustainability of the system and its colleges and universities. The following is an overview of the workgroup's efforts and ensuing recommendations.

CHANCELLOR ROSENSTONE'S CHARGE

On October 9, 2015, Chancellor Steven Rosenstone delivered his charge (Appendix B) to the Workgroup on Long-Term Financial Sustainability, which was meeting for the first time. The chancellor asked the members to be bold in their search for new approaches to ensuring the financial sustainability of the Minnesota State Colleges and Universities system. He described the history of shrinking revenue and growing expenses and urged the group to keep in mind the importance of maintaining affordability for students and their families.

Pointing to the system's strategic framework, Chancellor Rosenstone reminded members of the overarching context for their work: to ensure access to an extraordinary education for all Minnesotans; to be the partner of choice to meet Minnesota's workforce and community needs; and to deliver to students, employers, communities and taxpayers the highest value, most affordable option.

Stressing the importance of its work to the future of the system, the chancellor encouraged the workgroup to ask the difficult questions and challenge tradition. He warned that current budget-balancing practices were not sustainable and that a new approach needed to be considered. He asked the workgroup to address three questions:

1) What changes should be made to the system's expenditure and revenue strategies to ensure the long-term financial sustainability of our colleges and universities in light of the priorities articulated in the strategic framework?
2) Are there alternative models for how we should organize ourselves, educate students and serve communities across Minnesota that will advance excellence, access and affordability, *and* that will be more financially sustainable over the years ahead?
3) What tools as well as academic and financial planning strategies are needed to effectively implement recommended changes?

Chancellor Rosenstone concluded his remarks by asking the workgroup to provide him with a report of its findings and recommendations by June 2016.

> *Development of a plan must entail a process that candidly examines and confronts facts; assesses (and where appropriate challenges) deeply held assumptions, traditions and beliefs; considers new ideas, models, and strategies; and draws upon the most effective strategies employed by our campuses and/or recommended by the Charting the Future implementation teams.* – Chancellor Rosenstone

CHALLENGING LESSONS: TRANSFORMATIVE IMPLICATIONS

The system can and must be more nimble and responsive to student needs.

Improving the student experience is essential to the long-term financial sustainability of the system. Simply put, student success equals long-term financial sustainability. And yet, some of the system's current curriculum models, pedagogical practices and support services do not produce necessary rates of persistence and eventual degree or certificate completion – especially among non-traditional students, students of color and American Indian students, populations that will continue to grow in importance to the successful delivery of the system's mission and the health of the state of Minnesota.

Hispanic and Black/African American communities accounted for nearly 60 percent of the state's population increase between 2000 and 2010. There are increasing numbers of minority students in Minnesota high schools and these students are graduating at lower rates than white, non-Hispanic students; graduation rates range from 54 percent for American Indian students to 66 percent for Hispanic students, compared to 88 percent for white non-Hispanic students. This gap is unacceptable; the system's efforts thus far to close the gap have produced marginal improvements.

In the system, students of color and American Indian students accounted for 24 percent of all credit students in 2015, up from 15 percent in 2006. And yet, the six-year completion rate for the system's white university students entering in the fall of 2008, for example, was 54 percent, compared to 42.7 percent for students of color and American Indian students. The three-year completion rate for white college students entering in the fall of 2011 was 53.6 percent, while the rate for students of color and American Indian students was 38.1 percent. There is acknowledgement among workgroup members that future success will require heightened college-going behavior across all Minnesota student populations. The system needs to improve enrollment and retention overall, with particular attention to the state's growing and strikingly underserved minority student populations. (Source: Report on Student Demographics to the Workgroup, March 2016)

Students of Color and American Indian Students Comprising an Increasing Percentage of Students

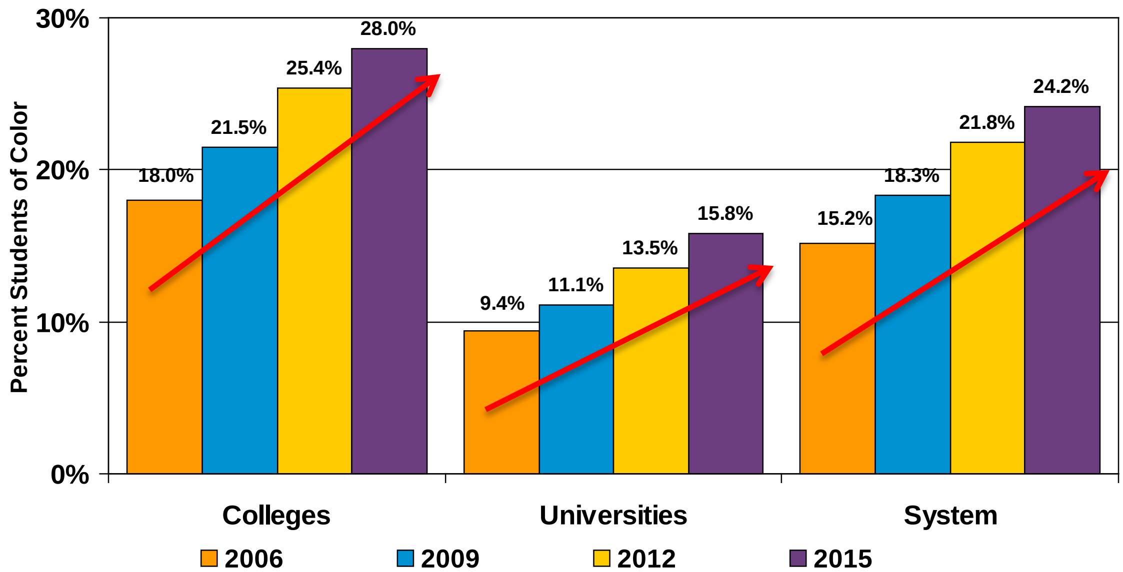


Figure 4: Students of color and American Indian students comprising an increasing percentage of our students

Forecasted population growth in the Twin Cities alone will occur entirely among people of color and American Indians; populations that have historically been underrepresented and underserved in higher education. Consistent with national performance, the largest gap in degree attainment between the white majority and people of color/American Indians exists at the baccalaureate level. Historically, nearly 75 percent of the 100,000 students that attend one of the systems two-year metropolitan colleges indicate that they intend to complete a bachelor's degree at some time in the future. While 30 percent of these transfer-minded college students subsequently enroll in a system university, 70 percent do not. Instead, 48 percent of transfer-minded college students remain in Minnesota but enroll in a non-system college or university – 14 percent transfer to the University of Minnesota; 14 percent transfer to a private, for-profit college or university; 20 percent transfer to a private, non-profit college or university; 22 percent enroll in a college or university located outside the state. (Source: Report to the Academic and Student Affairs Committee of the Board of Trustees, January 2016)

Where System Students Transfer

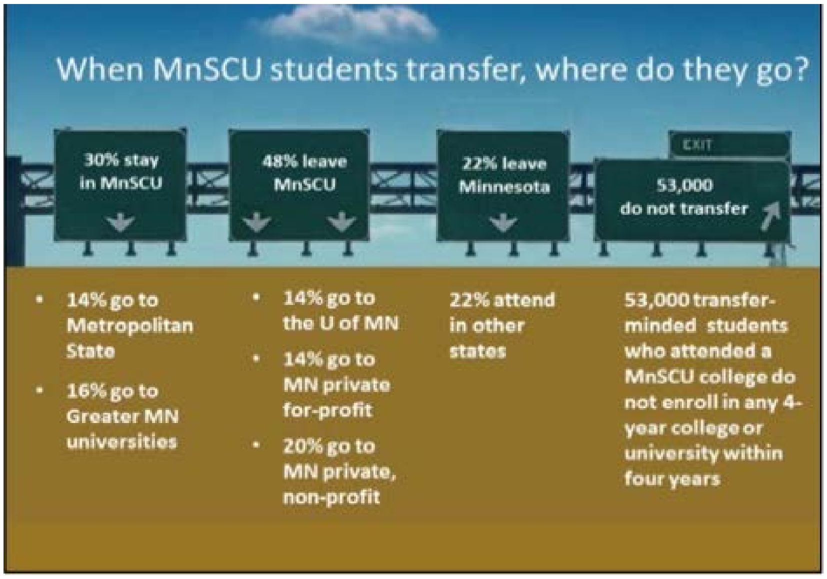


Figure 5: Where System Students Transfer

Most concerning of all is that approximately two-thirds of the system's transfer-minded students who start on the road to a baccalaureate degree at a metropolitan-area college do not enroll in any college or university within four years of leaving. If the system is to meet the future need for baccalaureate-educated workers in Minnesota, it must provide additional opportunity for these students to enroll in one of its universities.

Efforts to serve these populations will require both colleges and universities to be more creative about removing barriers, collaborative and adaptable to their changing needs and expectations. Colleges and universities need creative approaches to recruiting and retaining faculty and staff of color, flexible scheduling and efforts to promote a sense of belonging. Only then will the system maintain a responsible and competitive edge in a daunting marketplace. Such efforts will include, but not be limited to, labor practices that support new organizational structures, inter-campus assignments and engage faculty in new ways to imagine and redefine their roles.

Despite the best intentions of so many on the system's campuses, the status quo often inhibits student success and, in turn, the system's financial viability. There are actual costs to the system and its colleges and universities at whatever point a student drops out of the pipeline – losses in tuition and costs associated with recruitment and staff and faculty salaries, to name a few. This is not to mention the lost opportunity for the individual student and an educated and skilled citizenry.

Growing existing or finding new operating revenue streams, including tuition, will not fill the system's deepening fiscal hole.

There are limited options for revenue growth that can and should be explored. Efforts already underway to expand online and customized training activities are important to the communities the system serves. They are, however, incidental and do not provide the potential for budget relief of any significant magnitude. Further, the system's colleges and universities do not have cultures that support or incorporate substantial private or individual philanthropy for operations and programming; thus, turning to fundraising as a "silver bullet" revenue source is unrealistic. Modest increases over time are possible, but significant upswings in philanthropic dollars over the next 10 years are not realistic.

Ninety percent of the system's revenue is generated from the state appropriation and student tuition. The capacity and propensity of either of these sources to increase significantly are modest at best. Tuition increases were not entertained by the workgroup as a substantial contributor to long-term financial sustainability in light of the system's affordability commitment and strategies. What's more, students proposed an examination of the costs students face in paying for their education.

That said, minimal revenue increases can make a difference, as shown by "1%" projections in non-tuition or non-appropriation revenues. Capturing other potential revenue streams also is a consideration. If the system was able to increase market share of Minnesota resident undergraduates by one percent, $8.3 million in tuition revenue would be generated. Capturing one percent of high school students attending college outside of the state and those that don't enroll in college would increase revenue by $920,000 in the first year. And, a one percent increase in retention would produce nearly $8 million in revenue. Combined, these changes could generate $18.8 million in additional income in total. These are important efforts in their own right, but they will take time and investment.

1% increase in select revenue sources generates about $19 million

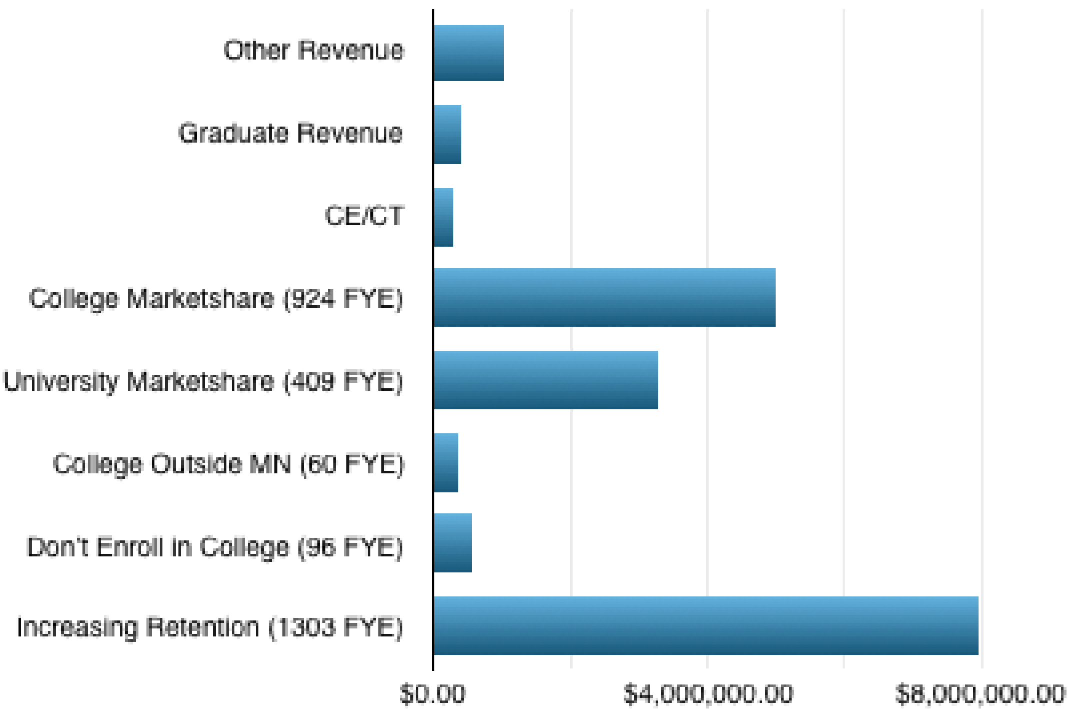


Figure 6: Increasing efficacy and efficiencies by 1% would generate $18.8 million for the system.

In spite of these projections, the overriding reality is that the system is in its fifth year of enrollment declines. The system's ongoing commitment to affordability is holding down tuition increases. And state support is not keeping up with tuition limitations. Enrollment and retention increases alone will not solve the sustainability problem.

The system can and must improve core administrative and academic support functions that exist from campus to campus and at the system level.

The system is, first and foremost, an academic enterprise that revolves around students. It is clear that for the success of students, as well as the employees who serve them, the system needs to work as an efficient public enterprise as well. Independence and autonomy are understandably hallowed values associated with higher education. Within the system, college and university autonomy is most definitely respected. However, given today's global and technical realities, it can present barriers to success and sustainability. Lack of coordination across departments, offices and campuses, patchwork processes and other inefficiencies that arise from uncoordinated growth are costing the system real and significant time – and money – and impairing the success of students. The system also is unnecessarily at-risk of creating situations where core administrative functions can and have failed to perform. The system needs to establish a sense of continuity and efficiency as a cohesive collection of inter-related efforts responsible to all stakeholders. The system cannot balance its budget within the same cost structure. To reduce costs and improve results, the system must re-organize.

RECOMMENDATIONS

1. Act as an enterprise

To harness the collective power of the colleges and universities and marshal more effective and efficient campus-based leadership dedicated to improving student success

Rationale: The system's colleges and universities have a history of fierce independence when it comes to curriculum, which has created unnecessary barriers to successful student mobility. It is essential to increasing financial sustainability that gains in student retention, transfer and graduation rates – especially among students of color and American Indian students – be made, while being realistic about overall enrollment increases. Improvements in academic planning, curriculum design and program delivery will limit unnecessary program duplication and increase student success, thereby increasing net tuition revenue and reducing investment losses. These improvements can take place when widespread commitment to joint curriculum development across the system's colleges and universities is present. The colleges, universities and system can then determine academic program needs and priorities through comprehensive statewide and regional planning. Integral to these improvements is a faculty effort to make what is taught and how it is taught more culturally, pedagogically and technologically relevant to the growing diversity of the system's student population.

1.1 The faculty should align and streamline the curriculum to reduce the time to graduation and the cost of the degree. This should be done by continuing the work initiated, in part, under Charting the Future and other efforts to establish guided transfer pathways that:
- provide clear navigation within colleges and universities and across the system so that it is easier for students to persist and complete their programs;
- resolve inconsistencies within the Minnesota Transfer Curriculum; and
- decrease complexity and inefficiencies, while maintaining an appropriate range of student choice and program specialization.

1.2 The colleges and universities should create competency-based credential and degree pathways, allowing students to integrate and individualize their learning and demonstrate competency developed both inside and outside of the classroom.

1.3 The colleges and universities should align online course and program offerings with the emerging system-wide online strategy.

1.4 The chancellor should coordinate the design and delivery of customized training throughout the state and commit to grow the enterprise revenue by five percent per year.

1.5 The chancellor should coordinate marketing efforts for cross-system offerings such as streamlined curriculum, guided transfer pathways, competency-based credential and degree pathways, online offerings and customized training.

2. Consolidate the delivery of core functions

To create more cost-effective operations where knowledge and services are shared and redundancies are minimized

Rationale: The colleges and universities replicate too many of the same core operating functions. The cost of duplicating these functions on every campus, regardless of size, leads to higher than necessary per unit costs and less than optimal service to students. It also creates unnecessary risks to the campuses and the system. Consolidating leadership and administrative functions will improve services to students, reduce operating costs and allow for better ongoing control of their growth. Failing to deal with these issues will likely lead to significant cross subsidies between colleges and universities, which will not be acceptable.

2.1 The board should establish criteria for campuses to have full, dedicated administrative structures.

2.2 The board should create regional planning, communication and leadership structures to ensure effective coordination of core functions among and between colleges and universities.

2.3 The chancellor should continue to align the leadership structures of colleges in the metropolitan area, such as the efforts underway between Anoka-Ramsey Community College and Anoka Technical College, as well as Dakota County Technical College and Inver Hills Community College.

2.4 The chancellor should create regional and statewide call centers and processing centers that consistently communicate information related to admissions, financial aid, registration, human resources, accounts receivable and other common functions.

3. Build partnerships that prepare students for a successful college or university experience

And help eliminate the opportunity and achievement gaps

Rationale: The goal of increasing student success will require improvements in academic readiness and expansion of support services to students, especially as the student body becomes more diverse. These services are a key part of a student's successful progress, but may not be core to the mission of the colleges and universities or a core competency. Colleges, universities and the system must find capable community partners who can help provide necessary support services and work with the colleges and universities in partnership to eliminate achievement and opportunity gaps.

3.1 The colleges and universities must work across the system and with K-12 and community partners to eliminate achievement and opportunity gaps to better prepare students and increase their success in college.

3.2 The colleges and universities must work across the system and within their communities to form service provider partnerships in such areas as social services, housing, transportation, day care and food support.

3.3 The colleges and universities should increase post-secondary enrollment options and concurrent enrollment.

3.4 The colleges and universities should strengthen financial literacy training, career advising and other support services that promote persistence and success at the start of a student's academic career, and monitor progress at regular intervals as they proceed through the system.

4. Adopt more creative and flexible labor practices

In response to the changing needs and expectations of students and communities, as well as changing organizational structures and faculty and staff roles and assignments

Rationale: Nearly half of the system's students who earn a baccalaureate degree have attended at least one other system college or university. No longer are the system's colleges and universities isolated schools with discrete curricula, faculty and staff. With approximately 70 percent of the system's costs invested in personnel, it must find ways to meet the needs of the increasingly mobile student body by being more flexible where administration, curriculum, teaching and learning are concerned.

4.1 The chancellor, working with the Metro Alliance, should organize faculty along two new full-time and part-time units, enabling individual members to move seamlessly from campus to campus. Administrative and student service processes and procedures should be developed accordingly. Pilot this initiative in the metropolitan area, where it makes the most immediate sense geographically.

5. Re-calibrate physical plant and space capacity

In order to address regionally disproportionate surpluses, as well as to accommodate new academic and administrative organizational structures

Rationale: The system is overbuilt in some parts of the state. There is a high cost to the system due to this imbalance. Better capital planning, space allocation and utilization can significantly reduce operating costs and increase revenue.

5.1 The chancellor should undertake comprehensive facilities planning by region to increase utilization.

5.2 The colleges and universities also should work to increase use of underutilized physical spaces through tuition and fee incentives or staffing arrangements.

5.3 The colleges and universities should pursue non-academic revenue-generating uses of surplus physical capacity that complements the mission of the system’s campuses, while meeting a community need and conforming to policy/statutory guidance.

RECOMMENDATIONS BY FINANCIAL SUSTAINABILITY, IMPLEMENTATION EASE

Recommendations evaluated by financial sustainability and ease of implementation

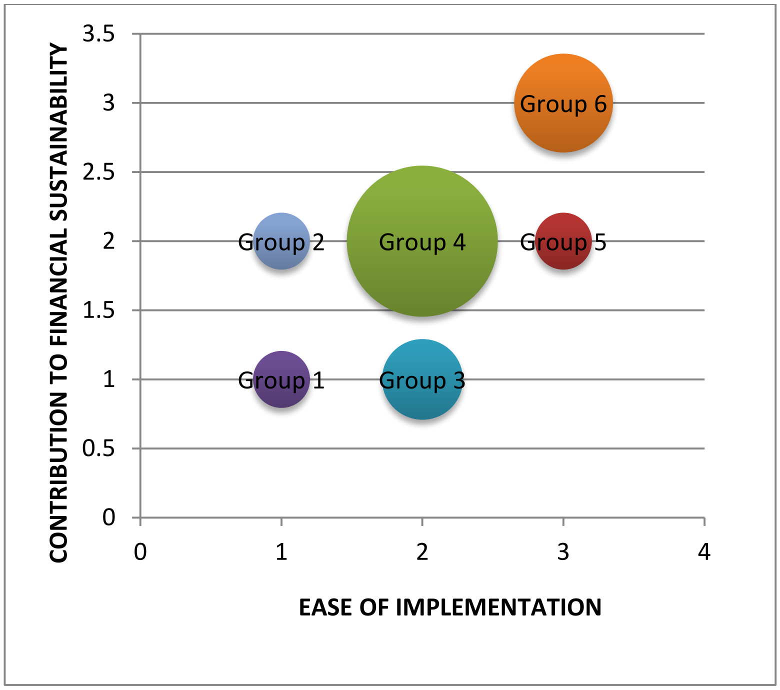


Figure 7: Recommendations evaluated by financial sustainability and ease of implementation

EASE OF IMPLEMENTATION – how long it takes for the recommendation to start delivering results (not how quickly will all the work be done)

1 = within six months;
2 = six to 18 months;
3 = more than 18 months

CONTRIBUTION TO FINANCIAL SUSTAINABILITY

1 = $1 million to $5 million
2 = $5 million to $25 million
3 = more than $25 million

Group One
- 3.3 increase post-secondary enrollment options (1,1)

Group two
- 1.5 coordinate marketing efforts for cross-system offerings (1,2)

Group Three
- 2.3 align the leadership structures of colleges in the metropolitan area (2,1)
- 2.4 create regional and statewide call centers and processing centers (2,1)

Group Four
- 1.2 create competency-based credential and degree pathways (2,2)
- 1.3 align online course and program offerings (2,2)
- 1.4 coordinates the design and delivery of customized training (2,2)
- 2.1 establish criteria for campus administrative structures (2,2)
- 2.2 create regional planning, communication and leadership structures, (2,2)
- 3.2 work with community service providers (2,2)
- 3.4 create services that promote student persistence and success (2,2)

Group Five
- 4.1 organize faculty along two new full-time and part-time units (3,2)

Group Six
- 1.1 align and streamline the curriculum (3,3)
- 3.1 eliminate achievement and opportunity gaps (3,3)
- 5.1 undertake comprehensive facilities planning by region (3,3) – includes 5.2 and 5.3

Conclusion

Strengthening the enterprise as a whole is necessary and essential to increasing the value of the educational experience for students, all parties who have a stake in serving them, and the future of the state of Minnesota. The recommendations above provide a substantial and material roadmap for improving financial sustainability over the next 10 years. As the workgroup members constructed them, they were mindful that they will require meaningful, collective effort. Transformative change is never easy, but with respect to Minnesota State Colleges and Universities, it has never been more important.

The work of the Long-Term Financial Sustainability Workgroup was undertaken last fall at the initiation of Chancellor Rosenstone. The workgroup was asked to approach its work with laser-focused perspective on the system's long-term financial outlook and the actions needed to improve its financial sustainability. There are elements of the workgroup's recommendations that dovetail with the projects and actions of the *Charting the Future* work. Projects or actions launched under the *Charting the Future* effort are expected to continue. Their incorporation into the thinking and recommendations of the Long-Term Financial Sustainability Workgroup serve as endorsement of both the improved effectiveness and financial benefit of the projects and actions.

The recommendations contained in this report will benefit from continued work to leverage and improve reporting and data analytics available to system and campus leaders. It is clear that progress on the recommendations in the report will require additional data and reporting tools in support of the effort. The chancellor asked the workgroup to identify the tools and academic and financial strategies needed to implement its recommendations. While the workgroup made some progress on this front, identification of the necessary tools and strategies is expected to emerge as more detailed implementation recommendations are formulated during the forthcoming consultations with stakeholder groups. The workgroup also discussed the probability of both one-time costs and ongoing increases in capacity related to the recommendations as individual strategies are moved into implementation.

It is the understanding of the workgroup that the chancellor will review this report and present it to the Board of Trustees at its June 2016 meeting. He will then seek additional consultation with stakeholder groups, select priority initiatives and pursue further analysis of the financial outcomes of the priority initiatives, according to a timetable that accommodates review of the final recommendations at the October 2016 meeting of the trustees.

Appendix A

Alternative Perspectives on the Recommendations

As the Long-Term Financial Sustainability Workgroup was preparing its final recommendations, members were encouraged to submit feedback, as they had been throughout the entire process. Three members expressed objections to some of the recommendations when the consensus view was not consistent with their own. They also raised questions designed to clarify what was meant by some of the recommendations. What follows is a summary of their comments.

The first recommendation centers on making changes to the curriculum, how students earn degrees and the role of online education and customized training. The feedback affirmed that the effort to establish transfer pathways was already well under way and should continue. There was a mixed reaction to the proposal to increase online offerings, with one member opposing the idea and another member recommending that the system first concentrate on increasing online offerings in graduate programs. The proposal to create competency-based degrees drew a suggestion to try a pilot to measure the results.

The recommendations related to consolidating the delivery of core functions were met with skepticism and concern about reducing student access to services. Differences in local circumstances were cited as a reason to move cautiously.

Building partnerships with K-12 and non-profit organizations received support from most members, although the proposal to expand concurrent enrollment was opposed by two members.

There was unanimity of opinion among the two teaching faculty members about the recommendation to organize new faculty units in the metro area. Both members strongly opposed this recommendation, suggesting it would adversely affect student-faculty relationships without producing academic or financial benefits; further, both members expressed serious concerns regarding the collective bargaining implications of this proposal.

Appendix B

Chancellor Rosenstone's Charge to the Workgroup

Minnesota
STATE COLLEGES
& UNIVERSITIES

STEVEN J. ROSENSTONE
Chancellor

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October 7, 2015

TO: Workgroup on the Long-Term Financial Sustainability of Minnesota State Colleges and Universities

Phil Davis, Associate Vice Chancellor and Director of the Campus Service Cooperative
Laura King, Vice Chancellor for Finance and Chief Financial Officer

Ron Anderson, Vice Chancellor for Academic and Student Affairs
Deborah Bednarz, System Director for Financial Planning and Analysis
Mark Carlson, Vice Chancellor for Human Resources
Kari Christiansen, Vice President, Administrative Services, Central Lakes College
Jay Cowles, Chair, Board of Trustees Finance and Facilities Committee
Oscar Flores-Ibarra, Professor of Economics, Minnesota State University Moorhead
John Gunyou, Former Commissioner, Minnesota State Finance
Eduardo Gutierrez, Admissions Counselor, Metropolitan State University
Ken Janz, CIO, Winona State University
Gary Kloos, Executive Director, Minnesota Managers Association
Bryan Kotta, IT System Manager, Minnesota State University Moorhead
Devinder Malhotra, President, Metropolitan State University
Ramon Padilla, Vice Chancellor for Information Technology and CIO
Annette Parker, President, South Central College
Kevin Parker, Student, Anoka-Ramsey Community College
Jim Schowalter, Former Commissioner, Minnesota Management and Budget
Jenny Stratton, Finance, Minnesota State University, Mankato
Kent Quamme, Instructor, Minnesota State Community and Technical College
Skeeter Rogers, Student, Minnesota State University, Mankato
Christina Royale, Provost/VP, Academic Affairs Inver Hills Community College
Lori Voss, VP of Administration, Minnesota West Community and Technical College
Brian Yolitz, Associate Vice Chancellor for Facilities

FROM: Steven Rosenstone

RE: Charge to the Workgroup

Thank you for agreeing to serve on the Workgroup on the Long-Term Financial Sustainability of Minnesota State Colleges and Universities.

The success of Minnesota State Colleges and Universities depends, in large part, on our ability to develop and implement a long-term, sustainable financial plan that provides the resources the system's colleges and universities need to ensure that they can provide access to an extraordinary education for all Minnesotans; be the partner of choice to meet community and business needs; and be the lowest cost / highest value higher education option in the state.

Like other public higher education systems across the country, our colleges and universities have experienced a significant change in their sources of revenue. Despite recent investments by the State of Minnesota, state support per student (in constant dollars) in FY2015 was 32% below FY2002 funding levels and the state's share of campus general fund budgets has dropped from 66% in FY2002 to 44% in FY2015. Looking forward, state budgets will likely remain under increasing pressure from other pressing state needs (e.g., health care, preK-12, economic and social service programs).

The reduction in state support has resulted in greater reliance on tuition as a source of revenue. In recent years, public concern about, as well as our commitment to, affordability have substantially lowered the appetite for anything beyond very modest tuition rate increases.

Public entities, such as our college and universities, with their strong reliance on people, have always struggled to match the growth in expenses with the growth in revenue. Although the dynamic is not new, the constraint on both state support and tuition rate increases, coupled with the decline in the number of high school graduates, has made the external environment more challenging over the past decade. As a result, new revenue is not keeping up with expenses and this has placed our colleges and universities under enormous financial pressure. This fiscal constraint has limited their ability to invest in new academic programs, student services, equipment, and new technology. It challenges our ability to invest in the new initiatives suggested by the Charting the Future implementation teams. Unchecked, it will put innovation and excellence at risk.

How will our colleges and universities thrive in this new reality? How will they secure the resources they need to ensure their excellence, protect access and affordability, and meet the needs of the communities they serve? How will our colleges and universities thrive in an increasingly complex and competitive higher education market where the number of high school graduates has declined, where the need to serve an increasingly diverse population has risen, and where some competitors promote themselves as providing faster, friendlier, more flexible and reliable pathways to courses and degree completion?

The Workgroup on the Long-Term Financial Sustainability of Minnesota State Colleges and Universities is charged with developing a long-term financial strategy that will ensure that the system's colleges and universities can better fulfill their mission over the next decade and beyond. This work will require a thoughtful, dispassionate review of political, demographic, and economic facts and trends and candid reflection on current cost structures, revenue streams, and models. The long-term financial plan must take into account demographic and economic trends; changes in the marketplace; and the opportunities, pressures and constraints on revenues and expenses.

Development of a plan must entail a process that candidly examines and confronts facts; assesses (and where appropriate challenges) deeply-held assumptions, traditions and beliefs; considers new ideas, models, and strategies; and draws upon the most effective strategies employed by our campuses and/or recommended by the Charting the Future implementation teams.

The Workgroup is charged with formulating recommendations to the chancellor, the Leadership Council, and the Board of Trustees that will strengthen the long-term financial sustainability of our colleges and universities. The overall questions to be addressed are:

1. *What changes should be made to the system's revenue and expenditure strategies to ensure the long-term financial sustainability of our colleges and universities in light of the priorities articulated in the strategic framework?*

2. *Are there alternative models for how we should organize ourselves, educate students, and serve communities across Minnesota that will advance excellence, access and affordability, and that will be more financially sustainable over the years ahead?*

3. *What tools as well as academic and financial planning strategies are needed to effectively implement these recommended changes?*

Revenue Strategies

- What strategies should our colleges, universities, and system office use to grow a larger and more diversified portfolio of revenues (e.g., customized training and continuing education revenue; private giving; program growth; enrollment growth; increased retention; development of physical assets and intellectual property; etc.)? What is the likely fiscal impact of each strategy? How should we implement each strategy to realize its full potential?

Expense Strategies

- What are our major cost drivers and which costs are increasing faster than revenue?

- What are the opportunities (beyond those strategies currently being pursued) to further reduce expenses and reduce the rate of increase in expenses (e.g., greater efficiency and effectiveness in academic programs and administrative operations; improved asset and real estate management including improved space utilization; more effective information technology infrastructure; expanded innovative staffing practices; etc.)? What new models should be considered? What is the likely efficacy of each strategy? How should we implement each strategy to realize its full potential?

Planning Strategies, Tools, and Models

- Are there alternative models for how we should organize ourselves, educate students, and serve communities across Minnesota that will advance excellence, access and affordability, and that will be more financially sustainable over the years ahead?

- Do we have effective long-term campus-level and system-level financial and human resource strategies, models, and planning tools that take into account projected changes in revenue and expenses as well as demographic, enrollment, and economic trends that affect the financial health of our colleges and universities? What improvements should be made to these strategies, models and tools? How can our system and campus budget decisions be better linked to our academic priorities and to financial sustainability? What changes to the system and campus budgeting processes should be considered? How might new financial strategies support innovation and excellence?

- How should the projected impact of new revenue and expense strategies be assessed and their impacts included in our models and planning tools? How might we best track and evaluate the relationship between the system and campus financial plans and long-term sustainability?

- What system-level and campus-level planning processes are needed to monitor and evaluate the long-term financial sustainability of our colleges and universities and the system as a whole?

Schedule

The Board of Trustees and I would appreciate periodic updates on your work over the months ahead. The workgroup should complete its deliberations and issue its report with findings and recommendations by June 3, 2016.

Thank you for your service on behalf of this important endeavor.

Appendix C

The Workgroup and its Process

The Long-Term Financial Sustainability Workgroup was comprised of 22 members and two co-chairs representing a broad array of stakeholder interests drawn from campuses as well as the system at-large. Students, union representatives from every representative group, campus leaders and outside experts were regular, active participants.

From October 2015 to June 2016, the workgroup met monthly. The meeting agendas included presentations and group discussion in an atmosphere of intentional inclusivity – frank feedback was expressly welcomed and actively sought. The presentations were rich in content concerning state demographics and trends, the system's academic and student affairs, and financial overview and analyses. Agendas were designed to provide for extensive group discussion. Online questionnaires also provided timely opportunities for more confidential input as facts and observations were revealed, giving members time to think and reflect. Survey responses were anonymously shared with all members.

The preparation of the report was facilitated by Co-Chairs Phil Davis, Associate Vice Chancellor/Managing Director, Campus Service Cooperative and Laura King, Vice Chancellor for Finance and Chief Financial Officer. The goal was to have a report that reflected the lessons learned by the workgroup and the strategies and recommendations that emerged from the workgroup discussions and survey results.

Workgroup members were provided with a draft report for consideration in advance of the meeting on May 5, 2016, which served as an opportunity for input. The three-hour meeting was organized to generate feedback through large group and small group discussions. Feedback was gathered and incorporated into a second draft that was distributed to the workgroup on May 16, 2016. Written feedback was solicited and incorporated into the final version of the report, which was presented to Chancellor Rosenstone. Finally, the effort of the work group and its report was vetted against *Charting the Future* work to-date and is intended to complement this overarching strategic planning initiative.

Co-Chairs:

- Phil Davis, Associate Vice Chancellor and Director of the Campus Service Cooperative
- Laura King, Vice Chancellor for Finance and Chief Financial Officer

Members:

- Ron Anderson, Vice Chancellor for Academic and Student Affairs
- Deborah Bednarz, System Director for Financial Planning and Analysis
- Mark Carlson, Vice Chancellor for Human Resources

- Kari Christiansen, Vice President, Administrative Services, Central Lakes College
- Jay Cowles, Chair, Board of Trustees Finance and Facilities Committee
- Oscar Flores-Ibarra, Professor of Economics, Minnesota State University Moorhead (IFO)
- John Gunyou, Former Commissioner, Minnesota State Finance
- Eduardo Gutierrez, Admissions Counselor, Metropolitan State University Minnesota State University Association of Administrative and Service Faculty (MSUAASF)
- Ken Janz, CIO, Winona State University
- Gary Kloos, Executive Director, Middle Management Association (MMA)
- Bryan Kotta, IT System Manager, Minnesota State University Moorhead, Minnesota Association of Professional Employees (MAPE)
- Devinder Malhotra, President, Metropolitan State University
- Ramon Padilla, Vice Chancellor for Information Technology and Chief Information Officer
- Annette Parker, President, South Central College
- Michael Wenzel, Student, Rochester Community & Technical College, Minnesota State College Student Association (MSCSA)
- Jim Schowalter, Former Commissioner, State Management and Budget
- Jenny Stratton, Finance, Minnesota State University, Mankato American Federation of State, County and Municipal Employees (AFSCME)
- Kent Quamme, Instructor, Minnesota State Community and Technical College Education Minnesota - Minnesota State College Faculty (MSCF)
- Cara Luebke, Student, Winona, Minnesota State University Student Association (MSUSA) – alternate appointee
- Joseph Wolf, Student, Mankato, Minnesota State University Student Association (MSUSA) –appointee
- Christina Royal, Provost/Vice President of Academic Affairs, Inver Hills Community College
- Lori Voss, Vice President of Administration, Minnesota West Community and Technical College
- Brian Yolitz, Associate Vice Chancellor for Facilities

Support Staff:

- Maureen Braswell, Executive Assistant to the Vice Chancellor of Finance-Chief Financial Officer
- Celena Monn, Executive Assistant to the Associate Vice Chancellor, Campus Service Cooperative
- Kathy Hanon, System Office Budget Director

Appendix D

Overview of Workgroup Meetings

November 12, 2015
Presenters:
Tom Gillaspy, retired demographer, State of Minnesota, on general observations and conclusions related to the current and projected make-up of the student population and the state's workforce

Deborah Bednarz, System Director for Financial Planning and Analysis and Workgroup Member, on the definition of the challenge, the revenue and expense gap and outlook

December 18, 2015
Presenter: Ron Anderson, Vice Chancellor for Academic and Student Affairs and Workgroup Member, on sustainable, alternative models for organizing faculty and administration and curriculum development

Two rounds of group discussion: 1) review of the November meeting notes in small groups, 2) large-group opportunity for general observations

January 13, 2016
Presenter: Brian Yolitz, Associate Vice Chancellor for Facilities and Workgroup Member, on the Long-Term Financial Sustainability of College and University Facilities

Two rounds of group discussion: 1) continued large-group discussion of material presented at December meeting, 2) small group discussions of survey questions

February 17, 2016

Presenter: Mark Carlson, Vice Chancellor for Human Resources and Workgroup Member, on a human capital perspective examining workforce cost realities and system architecture

Large-group discussion of two questions: 1) What activities have been most helpful in formulating your thoughts about possible recommendations?; and 2) What additional areas of inquiry would help you to feel ready to make recommendations? As a result, the co-chairs committed to bringing additional input from the student perspective to the March meeting.

Large-group discussion directed by Ron Anderson, Vice Chancellor for Academic and Student Affairs and Workgroup Member, who invited the workgroup to review eight possible strategies based on best practices and emerging trends in higher education that emerged from discussion at the December meeting. Members were encouraged to consider the benefits of each strategy to students, and also to the colleges, universities and the system.

March 24, 2016

Presenters:
Craig Schoenecker, Senior System Director of Research, on the changing demographic profile of the system's student population

Joe Wolf, student representing the state universities' student association and Richard Barnier, student, representing the state colleges' student association on perspective related to the student experience

Small group discussions on student demographics and the student experience.

April 6, 2016

Presenter: Deborah Bednarz, System Director for Financial Planning and Analysis and Workgroup Member, on revenue options for building long-term sustainability

The workgroup reviewed draft themes and recommendations.

May 5, 2016

Large group and small group review of the first draft of the full report. The members provided suggested revisions. A second draft was distributed to members on May 16 with a request for written feedback by May 20, 2016.

June 8, 2016

The final report was distributed to workgroup members on June 1, 2016.

Celebration of the workgroup's efforts.

September 2016

FY2018-FY2019

Biennial Budget Legislative Request

Board of Trustees Retreat

Minnesota State

Topics for discussion

1. Address any questions concerning the context
2. Assess the proposed priorities
3. Assess the recommended approach
4. Assess the alternative approaches
5. Assess the strategies for managing risks
6. Advise on possible strategic messages

Part I
Context for the FY2018-FY2019 Legislative Request

What is the biennial budget legislative request?

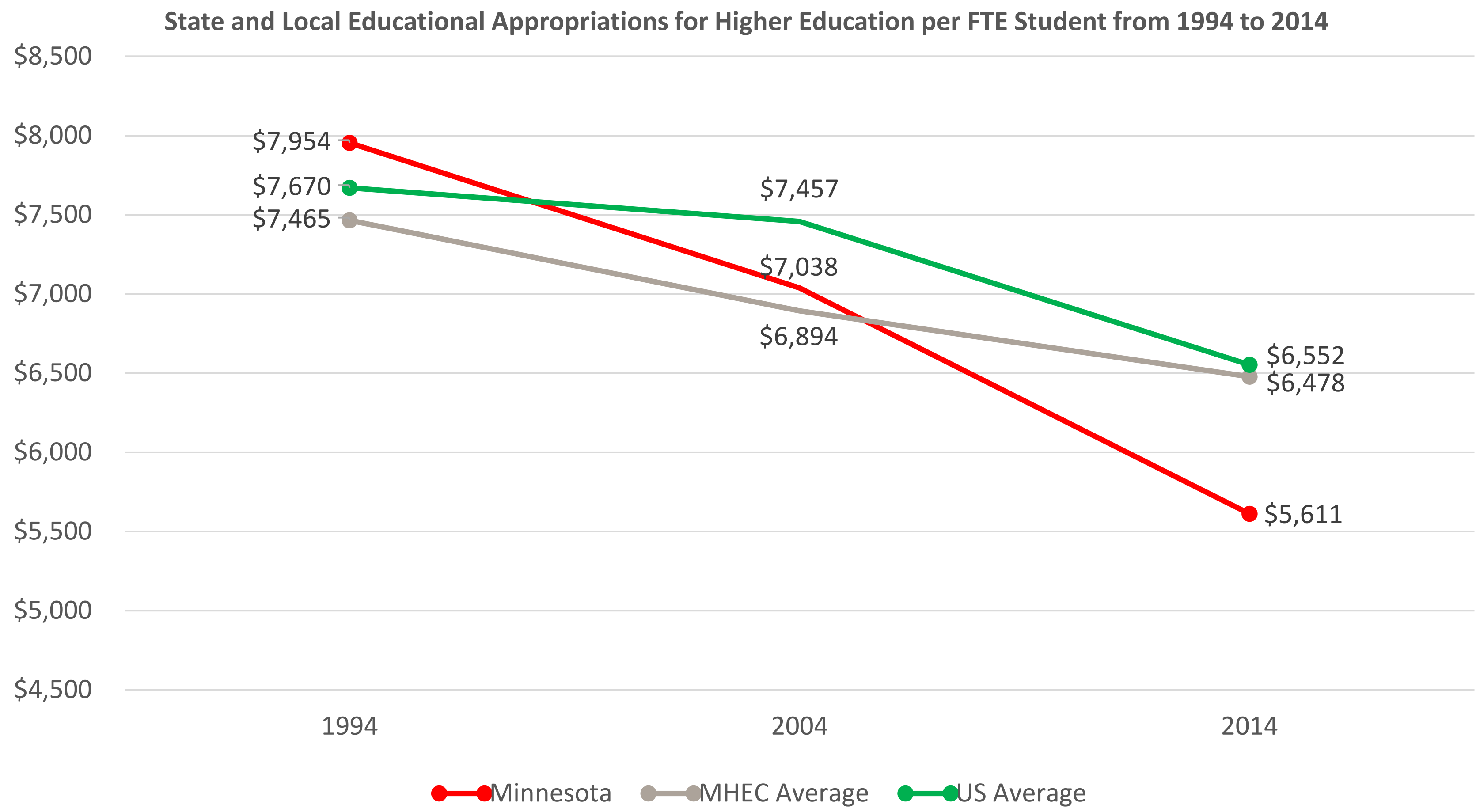
The Board of Trustees' formal request to the legislature for two years of state operating funds for Minnesota State

How important is state support?

- State appropriation and student tuition are the two primary sources of funding for our colleges and universities
- The legislature may also have a say in tuition rates
- State appropriation sets constraints on available resources for:
  - Compensation
  - Program support and growth
  - Student support services
  - Technology and equipment
  - Solutions to challenges campuses are trying to address
  - New initiatives and investments
  - New partnerships
  - Innovations

- National and state data

Minnesota's funding of higher education has plummeted and significantly trails other states



Source: SHEEO. (2015). SHEF FY 14. Estimates have been adjusted for inflation. As reprinted in *Higher Education In Focus, Selected Performance Indicators for Minnesota*. (2014-2015), Midwestern Higher Education Compact, *p. 24*.

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Minnesota's funding of its community and technical colleges and state universities significantly lags the national average

- Minnesota spends ***36% less than*** the national average on its thirty community and technical colleges
- Minnesota spends ***24% less than*** the national average on its seven state universities
- Minnesota spends ***23% more than*** the national average on its research university

Higher education is “crowded-out” by Medicaid and K-12 spending as well as other state priorities

Higher education in Minnesota is more “crowded-out” by Medicaid and K-12 spending than it is in other states.

Share of Total State Spending, 2014

	Higher Education	K-12 Education	Medicaid	Other
Minnesota	5.5%	32.9%	17.4%	44.1%
U.S. Average	12.9%	23.5%	15.3%	48.4%

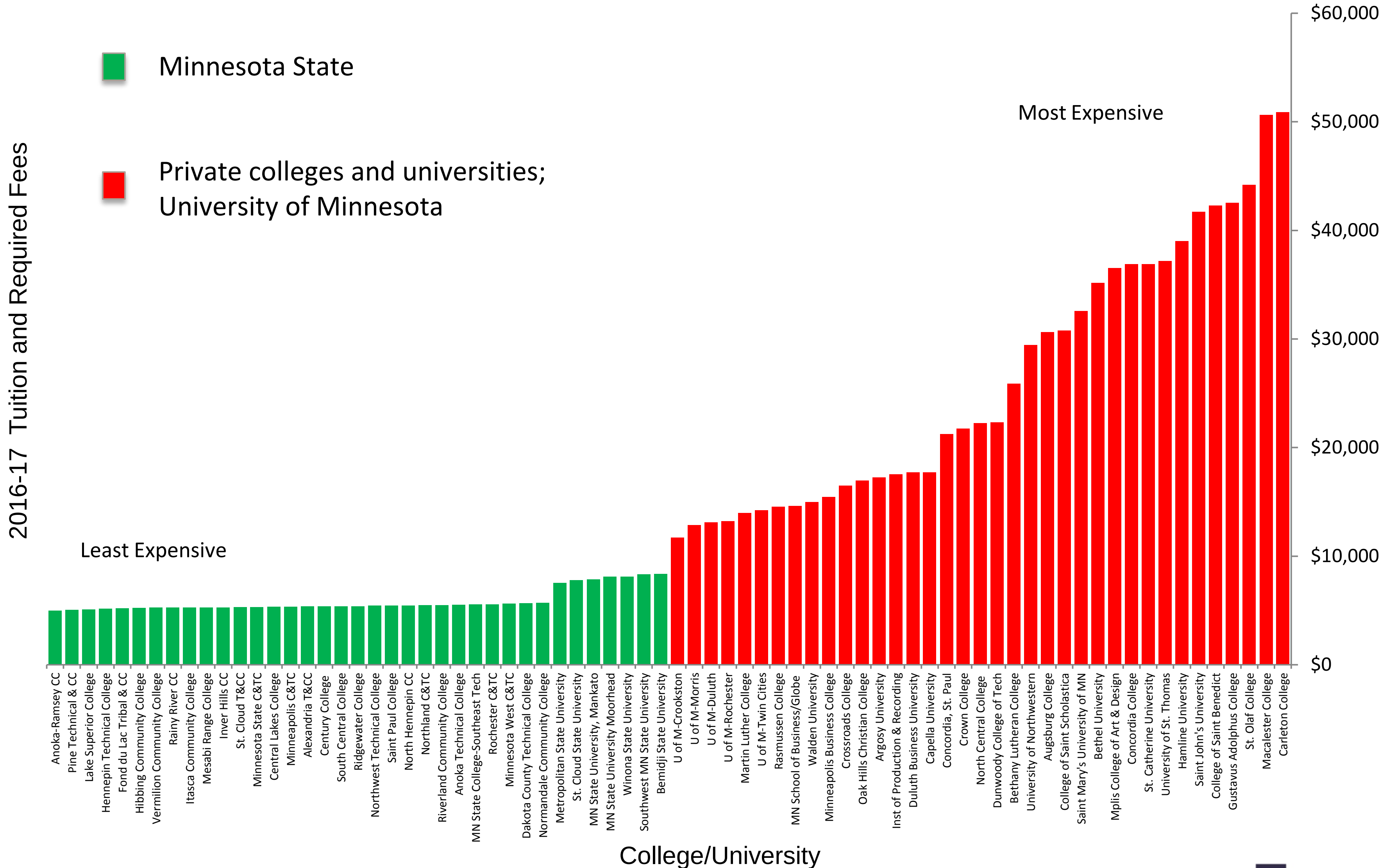
Source: Dan White and Sarah Crane, Moody’s Analytics, *Crowded Out: The Outlook for State Higher Education Spending,* prepared for the National Commission on Financing 21st Century Higher Education, 2016, Appendix C.

State budget - General Fund outlook

- FY2016-FY2017 enacted state budget forecasts an ending balance of $729 million on June 30, 2017
- FY2018-FY2019 state outlook forecasts an additional ending balance of $1.047 billion on June 30, 2019
- State revenue forecast assumptions and risks include:
  - Economic growth assumptions revised downward in near term
  - Forecasted spending revised upwards slightly
  - Forecasted spending does not include any adjustment for inflation in the FY2018-FY2019 biennium

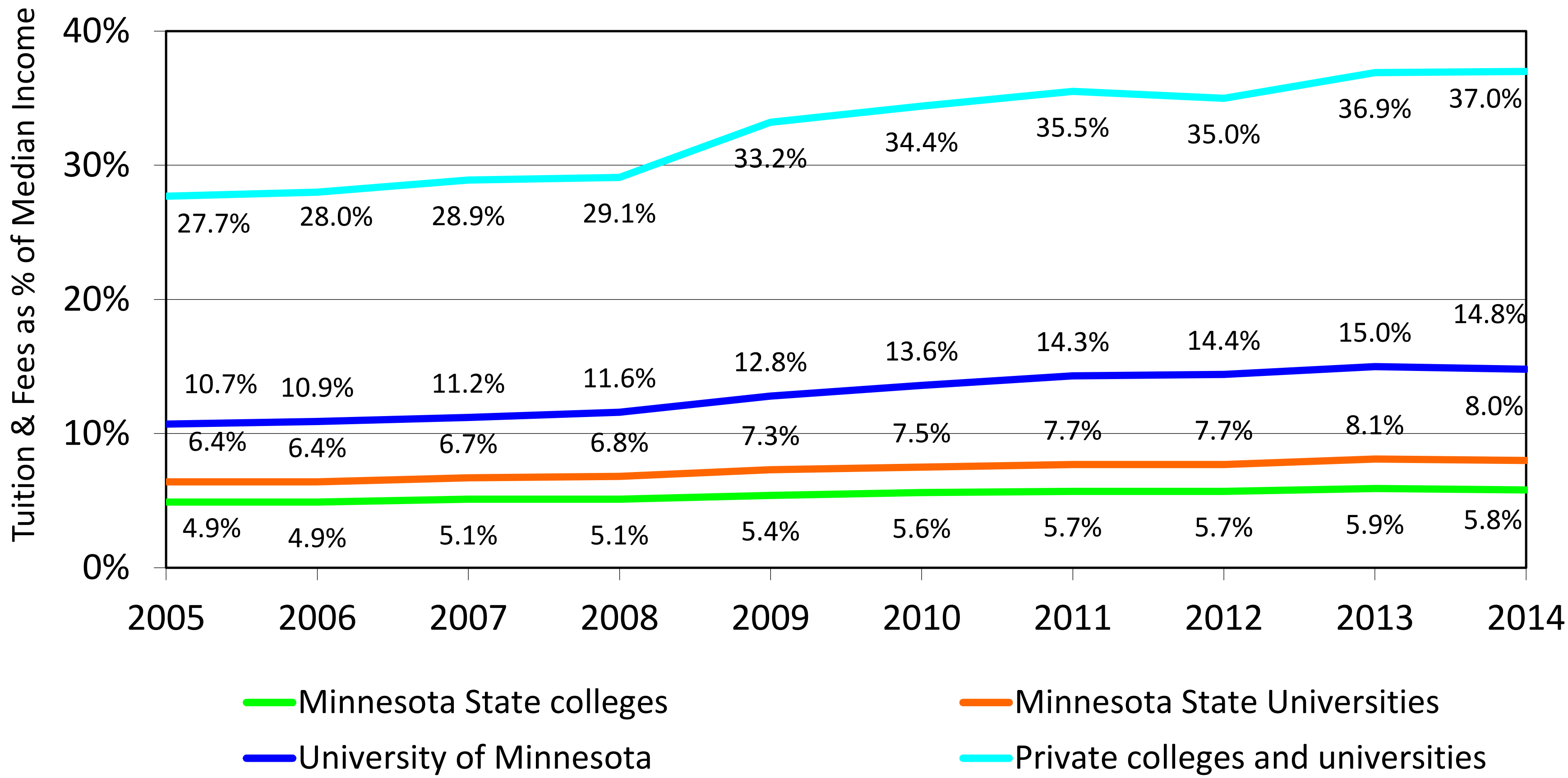
- Minnesota State data

Minnesota State are the most affordable higher education options



Source: Minnesota State Office of Academic Research, June 2016

Tuition & fees have been stable as a percent of median income



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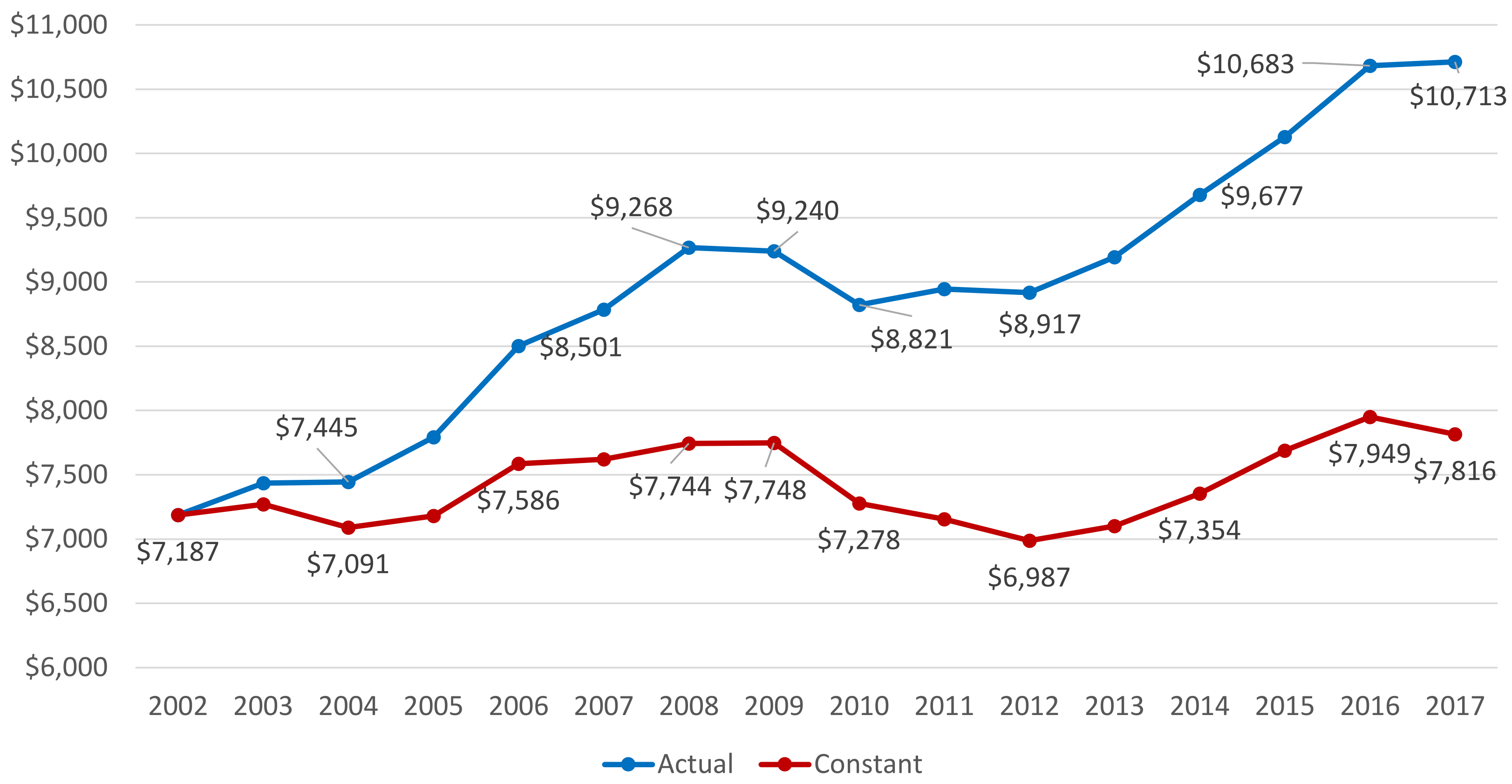
Minnesota State tuition revenue and state support per FYE student has remained stable in constant dollars



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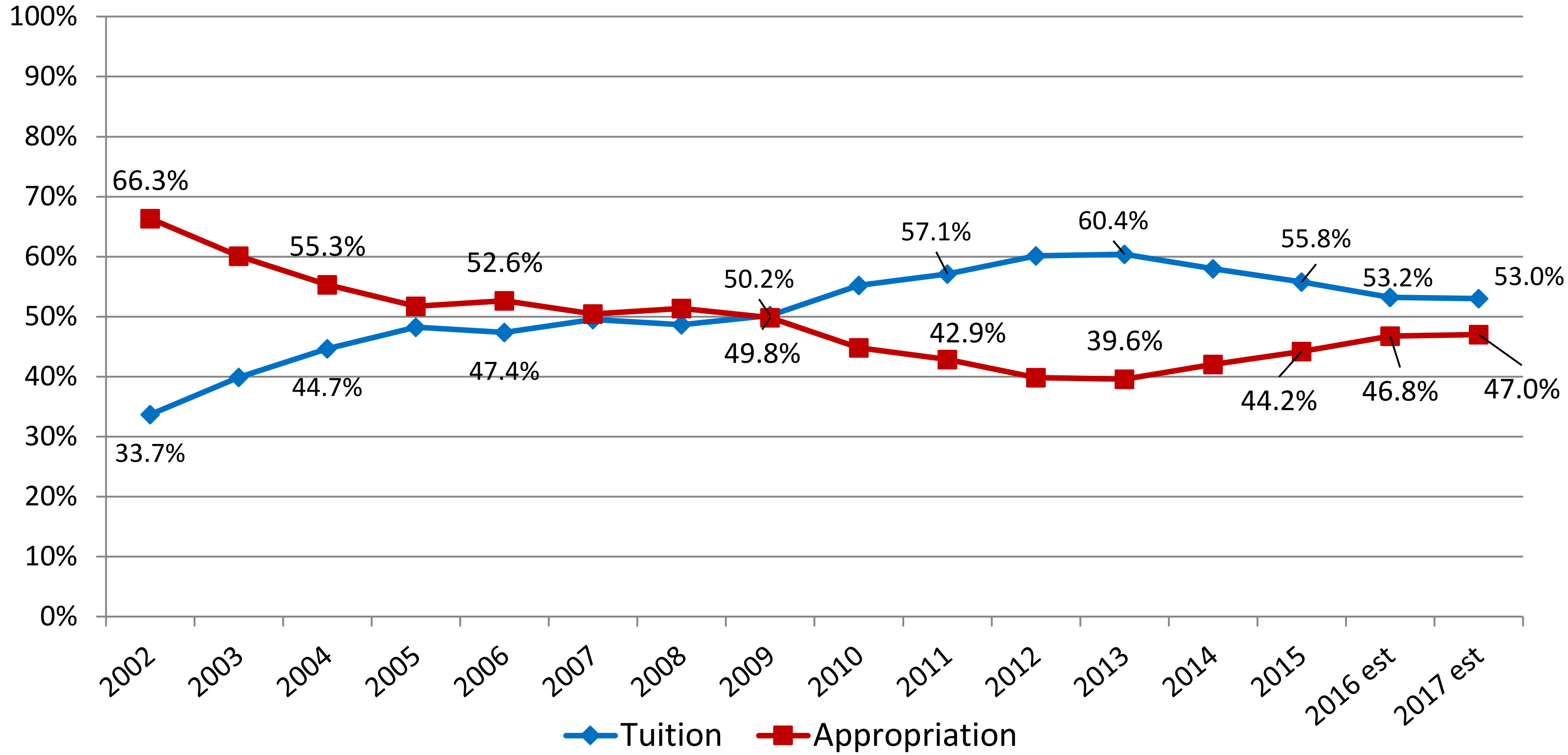
The relationship between Minnesota State tuition and state appropriation has changed significantly over the past 15 years



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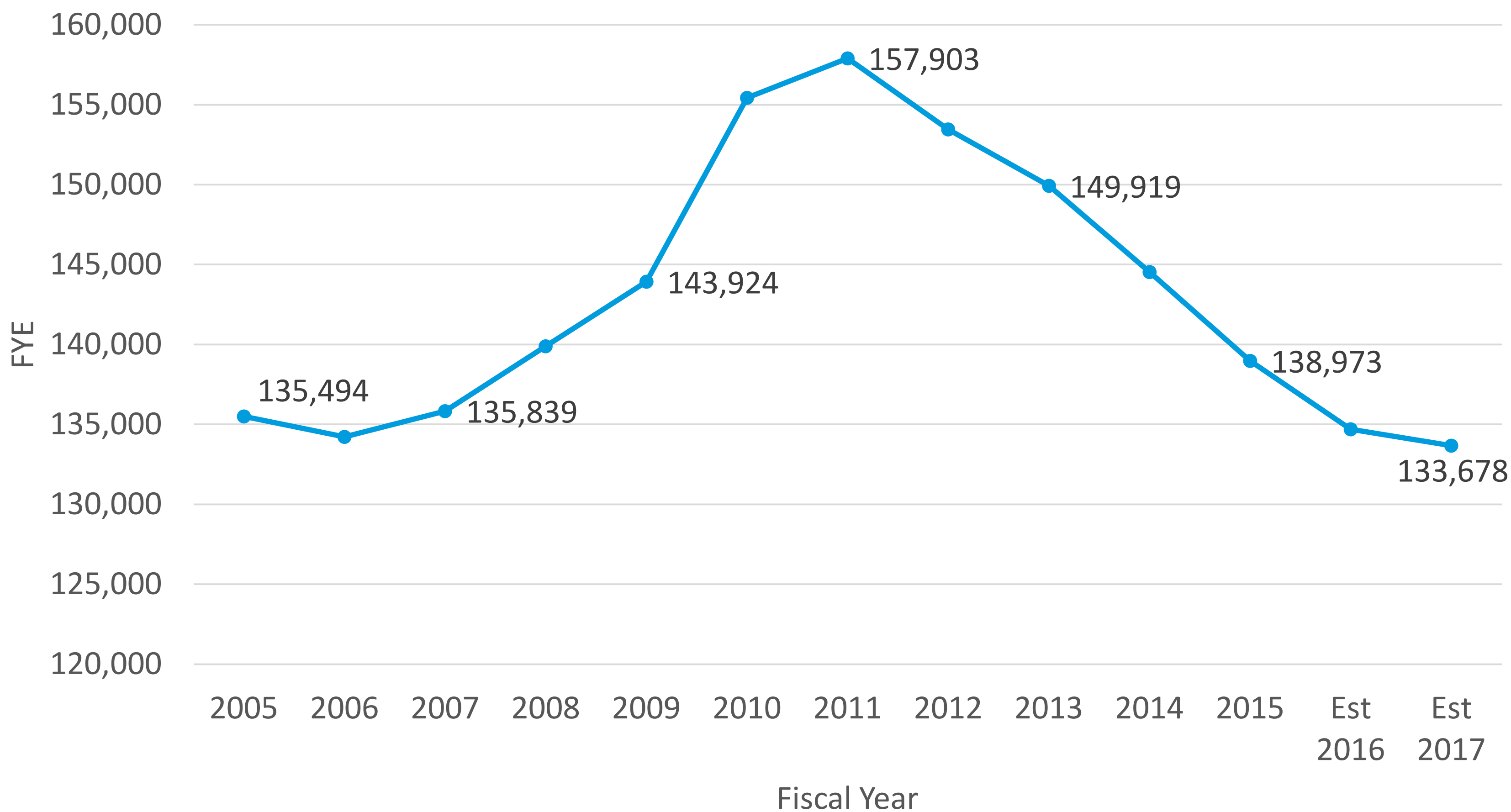
Enrollment in credit courses grew during the recession but has since fallen



Some facts

- Between FY08 and FY17, state support and tuition revenue *combined* increased an average of 1.2% per year.
- In the FY14-FY15 biennium, state support and tuition *combined* increased 4.3% (**$119 million**). All of the increase was state support, tuition rates were frozen.
- In the FY16-FY17 biennium, state support and tuition *combined* increased 4.3% ($121 million). **$101 million** of the increase was state support; tuition was reduced by 1% in FY17 at our colleges; tuition increased an average of 3.4% in FY16 at our universities.

Incremental costs have been outpacing incremental revenues

75% of general fund expenditures are dedicated to faculty and staff compensation. MMB negotiates 1/3 of our compensation costs and its results strongly influence the other 2/3 of our costs. Compensation has been increasing faster than new revenue.

Employee Unit	FY14 – FY17 Average Annual Base Rate Increase[1]	Average Fringe Increase	FY14 – FY17 Average Annual Comp Rate Increase
AFSCME	5.5%	5.0%	5.3%
MAPE, MMA, Comm and Mgr. Plans	6.3%	5.4%	6.0%
MSUAASF	3.4%	4.1%	3.6%
IFO	3.2%	4.0%	3.4%
MSCF	3.9%	4.4%	4.0%
Administrative Plan	2.4%	3.7%	2.7%

[1]takes into account steps and salary schedule enhancements

We have significantly reduced costs

- Our college, university, and system office administrative spending is among the lowest in the country: the system ranks 35th out of 50 states and DC in administrative spending per student FYE – 15% below the national average and below similar systems in all contiguous states (IA, WI, ND, SD).
- The total number of employees, system-wide, has been cut by 10.6% between FY2009 and FY2016; only 3.1% (525) of the system-wide employees are administrators, down 9% since FY2009.
- The system office base budget has dropped from $43.5 million in FY2009 to $33.1 million in FY2016 (from 3.0% of the system-wide budget to 2.1%).
- Institutional support expenses across all campuses have fallen from 12.4% of total expenses in FY2011 to 11.8% in FY2015.

Initial consultation has occurred with Minnesota State stakeholders

All statewide bargaining units, both student associations and the Leadership Council have provided initial input

- Themes:
  - Meet Minnesota’s talent needs
  - Help address Minnesota’s economic and racial disparities
  - Ensure affordability
  - Improve student success and advance academic excellence
  - Replace an out-of-date, unreliable enterprise technology system with one that better serves students
  - Fund inflationary costs to protect students, programs, and campuses and that funds compensation
  - Propose legislative changes that provide a mandatory, permanent mechanism for State funding
  - Make the case that education is an important public good

Part II
Minnesota State's Incremental Needs for FY2018-FY2019

Inflationary increases in base costs + ISRS Next Gen + Innovations = Total FY18-FY19 needs

Proposed goals of the biennial legislative request

- Develop a proposal that serves our students, communities, and the state of Minnesota
  - Reduce Minnesota’s economic and racial disparities
  - Help meet Minnesota’s critical need for talent
  - Improve student success (particularly for underserved students)
  - Protect access and affordability
  - Ensure essential enterprise-wide technology infrastructure is in place
  - Fund inflationary costs
- Forge a proposal and build a strong coalition of support among students, faculty, staff and community partners

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Incremental resources needed next biennium to cover only inflationary costs (no funding for new initiatives or ISRS Next Gen)

	Increase in resources needed for FY18-FY19
3% compensation increases (salary, steps and fringe) =	$107 million
3% inflationary increases in operating costs =	$ 36 million
Total required =	$143 million

Context for compensation assumption

- The last three biennial legislative requests have included 3% per year for total compensation increases (salary, steps and fringe benefits).

- MMB has instructed state agencies to budget *only* for projected step and insurance increases in FY2018 and FY2019 – increases in general salary rates are to be presented as a new funding request.

- UM is asking for 1.75% each year for total operating cost increases. Compensation increase assumptions are not known.

Possible options for innovation

1. Improve student success and reduce outcome disparities, particularly for underrepresented students
2. Expand access to baccalaureate education through innovative, coordinated partnerships
3. Provide financial incentives for student persistence and success
4. Support innovation in the use of emerging educational and learning technologies
5. Grow collaborative degree programs in high-demand sectors to meet state talent needs
6. Develop competency-based degree paths in targeted high-demand sectors

Total FY2018-FY2019 recommended incremental needs

Inflationary increases in base costs + **ISRS Next Gen** + **Innovations** = **Total FY18-FY19 needs**

$143 million

$20 million
Option C

$10 million

$173 million

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Part III
Potential Sources of Incremental Funds for FY2018-FY2019

State support + Tuition rates and enrollment growth + Other new revenue + Self financing

= Total FY18-FY19 resources

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Question #1: Should we assume a tuition rate increase?

FY2018	FY2019	Projected Biennial Revenue
0%	0%	$0
1%	1%	$23 million
2%	2%	$46 million
2%	0%	$30 million
3%	0%	$46 million
3%	3%	$69 million

Recommendation: We should propose holding tuition at FY2017 rates and ask the state to provide the funds needed to cover the revenue from a foregone 3%/year tuition increase.

Question #2: Should we propose that the state cover the cost of reduced or free tuition?

- A 1% reduction in tuition would add $7.6 million to the $173 million in needs for the next biennium.
- Free tuition for students attending one of our colleges or universities right out of high school would add $62 million to the $173 million in needs for the next biennium, assuming no enrollment increases.
- Free tuition for all Minnesota State students would add $728 million to the $173 million in for the next biennium, assuming no enrollment increases.
- Individual benefits of a "free tuition" program are very regressive – low income students get Pell grants and higher income students get "free."
- Emerging evidence that it could harm the diversity of college students if admission is restricted by GPA, ACT, or merit to control program costs.
- What happens when the state hits a recession, base budgets are cut, but there is no tuition revenue cushion?

Recommendation: Hold at FY2017 rates but do not reduce or eliminate tuition.

Question #3: Should we assume new revenue from enrollment growth?

A 1% increase in market share would yield approximately $2.7 million net new revenue over the biennium ($16.5 million in new tuition minus $13.8 million in marketing, instructional, and student services costs.)

Recommendation: We should *not* assume new revenue from enrollment growth. Given the continued dip in the number of high school graduates and the state's low unemployment rate, it would be risky to assume an increase in enrollment in the next biennium.

Question #4a: How should we fund ISRS Next Gen?

- We need a funding model in place for the entire scope of the project, not only for the funds that will be expended in FY2018-FY2019

	FY2018 – FY2023		Implications for FY2018-FY2019 Request	
Project Funding	**State Support**	**Self-Funding**	**Annual Base Funding***	**One-time**
Option A	$150 million	$0	$10 million	$90 million
Option B	$110 million	$40 million	$10 million	$50 million
Option C	$60 million	$90 million	$10 million	$0
Other Options	?	?	?	?

** Total base funding available is the annual base funding multiplied by 6 years (FY2018-FY2023)*

Recommendation: Option C

Question #4b: What are possible strategies for self-funding ISRS Next Gen?

- Draw over six years (or another term) college, university, and system contributions as grants to fund the one-time portion of project; and/or
- Develop a new cost allocation charge tied to student and staff headcount or some other basis; and/or
- Increase the current student technology fee or create an additional student technology fee.

Recommendation: TBD

Question #5: What are the priorities for investments in innovations and how should we pay for them?

Recommendation: Request state support to improve student success and reduce outcome disparities, particularly for underserved students

a. Provide financial incentives for student persistence and completion
b. Provide incentives for college students who complete a transfer pathway degree to enroll at one of our universities
c. Establish dual admissions strategy

Part IV
Recommended Approach

Recommended approach

Ask for what we need – $173 million with a commitment from the board to hold tuition in FY2018 and FY2019 at FY2017 rates if the request is fully funded

- Asks for what we need
- Leads with a powerful commitment to affordability
- Protects our service to students and communities; enables us to help reduce economic and racial disparities; enables us to meet Minnesota's talent needs; enables ISRS Next Gen and modest investments in innovation
- Continues to move the state back towards its historic level of investment

Potential Sources of Incremental Funds for FY2018-FY2019

State support
$173M

+

Tuition rates and enrollment growth
$0

+

Other new revenue
$0

+

Self financing
$90M

=

Total FY18-FY19 resources
$263M

MINNESOTA STATE

Risks of recommended approach

- Size of the request is much larger than historic patterns
- Could be met with skepticism
- If we receive less than requested <u>and</u> tuition controls are legislated, there will be a huge revenue shortfall. The results will be devastating and will impact students and communities across the state:
  - A large number of program closures affecting our ability to deliver the talent Minnesota needs
  - Reductions in course sections and student services that will negatively affect students and increase disparities
  - Layoffs of faculty and staff will be necessary and inevitable
  - Even modest compensation increases will be at risk
  - There will be huge technology, security, and operational risks

Strategies for managing the risk

- A simple, compelling message about what the $173M will make possible – benefits for students, communities, economic growth, meeting Minnesota's talent needs, and reducing disparities.
- Illustrate how Minnesota is falling behind other states in the development of talent.
- Convey a strong, detailed message on the negative impact on students, the underserved, and communities across the state, if not fully funded.
- Argue strongly for the need to treat employees fairly.

Possible strategic messages

- Challenge the legislature to move back toward historic state support levels (50% by 2019).
- Spotlight affordability for students and the need to serve more students across state.
- Highlight programs that prepare graduates for high demand, high growth industries or are critical to meeting Minnesota's talent needs.
- Show what we are doing, proactively, to advance affordability and reduce costs.
- Emphasize the number of students we serve and our value proposition.
- Communicate compelling, student and community focused stories that highlight local and human impact.

Possible strategic messages: Highlight what we do and what we have done

- At a time when 74 percent of jobs in Minnesota require some higher education, Minnesota has a responsibility to provide the education students need to prepare them for the high quality, high demand jobs that will keep communities across Minnesota prosperous.
- We serve more students of color and American Indian students, more first generation college students, and more students from families of modest financial means than all the other higher education providers in the state <u>combined.</u>
- We have embraced change. Tell the story about the changes we have made – changes designed to produce better results (e.g., pedagogy; transfer pathways; developmental education; new ways of doing business).

Possible strategic messages: Consequences if request not fully funded

- Campuses are already cutting budgets to address the FY2016-FY2017 biennial budget shortfall and dips in enrollment. Cuts will continue no matter what the legislative outcome.
- 19 of our 37 colleges and universities are already operating under financial recovery plans.
- Without full funding of the legislative request, even greater cuts will be required.
- The need for a 21st Century enterprise technology system to deliver the education Minnesota's require is critical and cannot be overstated.

Deliverables for presidents and campus communities

- Provide simple messages that all campuses, students, faculty and staff can use in their advocacy.
- Create a compelling one-pager for each college and university that illustrates how their share of the proposal will be used.
- Prepare a narrative on what each college and university is doing to improve affordability, reduce costs, meet Minnesota's talent needs, reduce disparities, serve their communities and help students succeed.
- Remember: All politics are local – bring the budget down to the campus level.
- Develop campus-level talking points and data on tough issues like the consequences of lack of funding.

“Alternative A” to consider

- Endorse a 3% tuition increase in FY2018 and FY2019, reducing the state request by $69 million:
  - Shared responsibility: students and the state equally share cost increases
  - Stronger probability of legislative success at a lower request level

- Risks
  - Out of sync with supporters of tuition freeze
  - At risk of funding for tuition freeze and nothing else
  - At risk of losing student support

“Alternative B” to consider

- Reduce compensation target to 1.5% for those contracts and plans we negotiate, reducing the state request by $36 million:
  - Shared responsibility: faculty, administrators and the state share cost increases and together protect affordability for our students
  - Stronger probability of legislative success at a lower request level

- Risks
  - Does it treat employees fairly?
  - Can we settle contracts within this budget constraint?
  - At risk of losing faculty and staff support

“Alternative C” to consider

- Some combination of “Alternative A” and “Alternative B” (e.g., 1.5% tuition increase and 2% compensation increase):
  - Shared responsibility: students, faculty, administrators and the state share cost increases and protect affordability
  - Stronger probability of legislative success at a lower request level

- Risks
  - All the risks of “Alternative A” and “Alternative B”

“Alternative D” to consider

- Propose a per capita or per student funding formula in statute. Express state request as a funding increase per student.
  - Would fund Minnesota State like K-12 in state budget process with automatic increases as enrollment increases.
  - Recognizes that costs increase as enrollment increases.
- Risks
  - Funding formula would automatically reduce support if enrollment declined.
  - Would establish new base funding level substantially lower than historical levels.

Next steps

- Sept 20-21 Board of Trustees retreat discussion
- Sept – Oct Continued consultation with student, faculty, and staff statewide leadership
- Oct 10-11 Leadership Council discussion
- Oct 18-19 Board of Trustees meeting 1st reading
- Oct 20-Nov Continued consultation
- **Nov 15-16 Board of Trustees meeting 2nd reading and adoption**
- **Nov 17 Submission to MMB**

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Topics for discussion

1. Address any questions concerning the context
2. Assess the proposed priorities
3. Assess the recommended approach
4. Assess the alternative approaches
5. Assess the strategies for managing risks
6. Advise on possible strategic messages