



FINANCE, FACILITIES AND TECHNOLOGY COMMITTEE

SEPTEMBER 16, 2008

8:00 a.m.

BOARD ROOM

WELLS FARGO PLACE

30 7TH STREET EAST

SAINT PAUL, MN

Please note: Committee/Board meeting times are tentative. Committee/Board meetings may begin up to 45 minutes earlier than the times listed below if the previous committee meeting concludes its business before the end of its allotted time slot.

Committee Chair Thomas Renier calls the meeting to order.

- (1) **Minutes of July 15, 2008 (pp. 1-6)**
- (2) **Work Group on Technology Minutes of June 18, 2008 (pp. 7-9)**
- (3) Finance, Facilities and Technology Update (pp. 10-15)
- (4) Reserves Discussion (pp. 16-28)
- (5) Tuition and Fees Study Including the Cost of Attendance (pp. 29-39)
- (6) FY 2010-2011 Biennial Operating Budget Request (First Reading) (pp. 40-52)

Members

Thomas Renier, Chair

Clarence Hightower, Vice Chair

Duane Benson

Ruth Grendahl

Allyson Lueneburg

Dan McElroy

Scott Thiss

James Van Houten

Bolded items indicate action required.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
FINANCE, FACILITIES AND TECHNOLOGY COMMITTEE
MEETING MINUTES
July 15, 2008**

Finance/Facilities Policy Committee Members Present: Clarence Hightower, Chair; Tom Renier, Vice Chair; Trustees Duane Benson, Ruth Grendahl, Dan McElroy, Scott Thiss, and James Van Houten

Other Board Members Present: Cheryl Dickson, Jacob Englund, Allyson Lueneburg, and Terri Thomas

Leadership Council Representatives Present: Vice Chancellor Laura King

The Minnesota State Colleges and Universities Finance/Facilities Policy Committee held its meeting on July 15, 2008, 4th Floor, Board Room, 30 East 7th Street in St. Paul. Chair Hightower called the meeting to order at 9:05am.

1. MINUTES OF MAY 20, 2008

The Finance/Facilities Policy Committee meeting minutes of May 20, 2008 were approved as presented.

2. MINUTES OF WORK GROUP ON TECHNOLOGY MEETING OF APRIL 24, 2008

The Work Group on Technology meeting minutes of April 24, 2008 were approved as presented.

3. FINANCE, FACILITIES, AND TECHNOLOGY UPDATE (*Information Item*)

Vice Chancellor King updated the Committee on the recent Revenue Fund bond sale which closed on June 27, 2008. The System achieved favorable results on the sale as compared to national indices. The bonds will provide funding for two projects at Winona State University.

As of July 1, four capital projects funded from the 2008 bonding bill were bid and awarded in the amount of \$48M. Five additional capital projects are scheduled for award by the end of the year. In addition, 14 HEAPR projects have been bid for \$11M and 25 additional projects are planned for bid and award through the remainder of the calendar year.

The Finance Division priority effort on the price of attendance and the cost to educate students has been incorporated into a larger study concerning tuition policies. Further discussion of the effort is on the agenda for today with the final report scheduled for the September Board meeting. Recommendations from the study will be incorporated into the FY2010-2012 biennial operating budget planning this fall.

4. ACQUISITION OF STUDENT HOUSING: HIBBING COMMUNITY COLLEGE *(Action)*

Associate Vice Chancellor Allan Johnson presented the Committee with a request to acquire the 34-unit student apartment housing complex located at 1601 East 25th Street, adjacent to the Hibbing Community College (HCC). The acquisition price is a maximum of \$780,000, subject to confirmation by appraisal.

The 132-bed student housing building is important to HCC's student enrollment, particularly as a rural college attracting students from outside the immediate area. HCC's ownership of the building will guarantee the building remains student housing, give the college flexibility in use, rental agreements and single control and expediency of maintenance and general building upkeep. As current managers of the onsite housing complex, HCC already has the majority of the responsibility for the facility.

Discussion of the purchase ensued with committee members who wanted assurance that a business plan was in place and that the housing could support itself. Mr. Johnson confirmed that the buildings were in good shape but in need of some cosmetic repairs such as carpeting, furniture or appliances. He acknowledged that HVAC, roof and window repairs may be needed several years down the road.

Trustee Renier moved that the Finance, Facilities, and Technology Committee recommend adoption of the following motion. Trustee Thiss seconded the motion which carried with no dissent.

RECOMMENDED MOTION:

The Board of Trustees approves the acquisition of the Hibbing student housing complex from the Hibbing Economic Development Authority for a maximum price of \$780,000 subject to the satisfactory completion of all necessary due diligence consistent with the terms and conditions as described in this report, including receipt and review of a current appraisal; and approval by the Vice Chancellor – Chief Financial Officer of a 20-year business and program plan for the facility.

5. CENTURY COLLEGE PROPERTY LEASE *(Action)*

Associate Vice Chancellor Allan Johnson presented a request for Board approval for Century College to 1) lease-out a 9.17 acre tract, known as the Truck Driver Training and Motorcycle Course, to Scannell Properties, an agent and developer on behalf of Federal Express Ground, for up to 20 years; and 2) simultaneously lease-in a parcel of approximately 20 acres from Scannell Properties along Interstate 94 for a replacement truck driver training facility to be constructed by Scannell for Century College.

Mr. Johnson and Mr. Gregory Ewig, System Director for Real Estate, reassured the Committee that the lease covers environmental issues and provides for alternative use of the Scannell property if the truck driving program is discontinued.

Trustee Van Houten moved that the Finance, Facilities, and Technology Committee recommend adoption of the following motion. Trustee Grendahl seconded the motion which carried with no dissent.

RECOMMENDED MOTION:

The Board of Trustees approves the lease of Century College property to Scannell Properties and a sublease to Federal Express Ground, and a lease from Scannell Properties for a replacement truck driver training facility in Afton/West Lakeland Township, subject to final approval of lease terms as outlined in **Exhibit D** by the Chancellor or his designee.

6. TRANSFER OF PROPERTY: ANOKA TECHNICAL COLLEGE HORTICULTURE CENTER (Action)

Anoka Technical College has operated a remote site in Anoka known as the Horticulture Center. During the past few years, the college has consolidated and moved all programs from the Horticulture Center to the Main Campus. The Horticulture Center includes approximately three (3) acres of land and approximately 24,500 square feet of buildings, including a classroom building, an attached green house and various storage facilities. The building conditions range from fair to poor. Anoka Technical College has no further need for the property.

A provision in this year's bonding bill directed the Board of Trustees to convey the Anoka Technical College's Horticultural Center property to the Anoka-Hennepin School District by July 31, 2008 for \$1.00. The intent of the conveyance is for the school district to establish a new and expanded joint Secondary Technical Education Program (STEP) with the college.

Trustee Benson moved that the Committee recommend adoption of the following motion. Trustee Thiss seconded the motion which carried with no dissent.

RECOMMENDED MOTION:

The Board of Trustees affirms and approves the conveyance of the Anoka Technical College Horticulture Center property to the Anoka Hennepin School District, and directs the Chancellor or his designee to execute all necessary documents to complete the conveyance in compliance with 2008 session law.

7. FY2009 OFFICE OF THE CHANCELLOR AND ENTERPRISE TECHNOLOGY BUDGET REDUCTIONS (Information)

Vice Chancellor King reported that the Office of the Chancellor has completed operating budget planning for the fiscal year which incorporates the reductions directed by actions of the 2008 legislature. The legislation directed reductions in three areas; \$1,000,000 in a one-time reduction to system reserves in FY2008; \$5,000,000 in a FY2009 base reduction to planned spending for the information technology enterprise investment program; and \$2,600,000 in a FY2009 base reduction to the Office of the Chancellor operating budget.

The reserve reduction was directed by the legislature to occur in FY2008 and the state appropriation was reduced accordingly. After the reduction, the FY2008 System

reserve of \$6.9M is approximately 4.9% of the System's resources. System reserves were already low by every available national and peer comparison. The system's auditors have annually cautioned the Board about low reserve levels and urged action to add to reserves. The Chancellor will take steps beginning with the FY2010 budget to re-build reserve levels and advise the Board of progress.

The reduction of \$5M planned FY2009 spending for the information technology enterprise investment program will result in slight delays in project roll outs, smaller pilot efforts, the delay of a portion of a project to 2010 and savings through strategic hardware purchasing strategies. There will be no reduction to the campus allocation. It is important to recognize that the specific project impacts were reduced by the action last spring that held back \$2.35 million from new commitments. The overall reduction of \$5M in the base in 2009 and every year thereafter will put a permanent slow down on the progress toward the ITS strategic plan approved by the Board in 2006.

The final component of the 2009 reductions concerns a base cut to the budget of the Office of the Chancellor. A reduction of \$1.6 million will occur in the amount of funds available for special initiatives. The reduction results in \$4.5M available for new efforts in FY2009, a decline of \$4.5M from the amount available in FY2008. An additional \$1M will be reduced from the operating budgets of the three largest divisions (Academic and Student Affairs, Finance and Information Technology Services) with smaller reductions in other cabinet offices. The overall impact will translate into delays in campus assistance, reduction in the funds available for on-line development, a decline in the use of outside advisory services and some cost avoidance strategies. Colleges and universities can expect to feel the impact of the service level reductions.

As a result of the discussion about the reduction of services provided to the campuses it was suggested that the Committee should be more aware of what work is done at the Office of the Chancellor. Vice Chancellor King will schedule a presentation for the September meeting to that end.

8. FY2008 FINANCIAL STATEMENT ISSUE DISCUSSION (*Information*)

GASB 45, a financial accounting standard effective FY2008, establishes reporting requirements for other post employment benefits (not pension benefits), primarily for retiree health benefits (OPEB). GASB 45 applies implicit rate subsidies to retirees participating in the state health plan until they reach the age of 65. The standard does not require that the System switch from pay-as-you-go to an advanced funding approach, but relates only to how obligations are reported on the financial statements.

The liability calculations were made by Deloitte Consulting LLP under contract with the Minnesota Department of Employee Relations (DOER), based on early retiree health plan provisions, participant data, and input on actuarial assumptions provided by the System, DOER and Minnesota Department of Finance (DOF) staff.

The key question is "Should the System establish segregated assets for OPEB liabilities?" For financial reporting purposes the System could record a liability (or

asset) for a FY2008 amount (\$6 million for the System), and could also include required footnote disclosure, including unfunded liability (\$94 million for the System). The other option would be to establish an irrevocable trust.

The recommendation of the Vice Chancellor – Chief Financial Officer is to defer establishment of a trust due to uncertainties regarding assumptions, drawbacks of a GASB defined funding vehicle (i.e., irrevocable trust), and low materiality. Associate Vice Chancellor Tim Stoddard noted that other states have struggled with this also as in the future the standard may change. The wait and see attitude would allow the System to study the issue and get a two year update. The liability may be overstated as workers continue in the workforce instead of retiring due to personal or economic issues.

Chair Hightower and other committee members agreed with the staff recommendation.

9. TUITION STUDY INCLUDING THE PRICE OF ATTENDANCE (Information):

Vice Chancellor King reported that the Finance Division is in the process of completing the tuition study and will share the results in draft form with the Board of Trustees in September, 2008. The purpose of this report is to solicit comments from trustees concerning several central policy and philosophical issues in order to best inform the final report's drafting. The policy issues were centered on mission-market conflict; tuition dispersion-internal rate equity; methods for charging tuition; affordability; and financial aid.

Karen Kedrowski, System Budget Director, facilitated a discussion with Committee members on the difference in cost basis (per credit, banded or contracted post-secondary enrollment option) or market basis tuition. Market basis tuition could either be a "cost recovery" or "profit generating" tuition. Trustees questioned which tuition rate was best for increasing accessibility and maximizing participation.

Discussion among the Trustees focused on their concern with tuition and fees being high at the colleges compared to nationwide averages; the importance of knowing the impact of financial aid on cost of attendance; what it costs an institution to offer technical programs; and the need for flexibility in tuition pricing.

The System's colleges and universities have different cost structures due to program mix (technical/liberal arts, lab/lecture) and services offered to the students resulting in a need for differing level of financial resources. The different cost structures enables sensitivity to local market conditions – some of the colleges and universities are in very competitive local markets. The ability to tailor tuition rates to the local market is very important to the competitive posture of these schools. However more uniform sticker price would bring greater internal rate equity. This would change how the state appropriation is distributed to colleges and universities and perhaps freeze tuition at the highest priced institutions while allowing the lower priced institutions to catch up.

Central to the issue of tuition is the question of affordability. The federal and state governments play important roles in promoting access through their financial aid programs. There are a number of forms of financial aid available to students such as federal (Pell)/state grants, private/institutional scholarships, work study, and loans. The Board supports a state financial aid program that provides access to affordable, high quality public higher education for all Minnesotans that reduces the financial burden for lower-income and part-time students.

The tuition study will be shared with the Board of Trustees at the September meeting.

The meeting adjourned at 12:00 noon.

Respectfully submitted,
Nancy Lamden, Recorder

MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
Work Group on Technology Meeting Notes
June 18, 2008

Work Group Members Present: Cheryl Dickson, Chair; Trustees Duane Benson, Scott Thiss, and James Van Houten; Staff – Vice Chancellors Laura King and Ken Niemi
The Work Group on Technology held its meeting on June 18, 2008, 4th Floor, World Trade Room, 30 East 7th Street in St. Paul. Chair Dickson called the meeting to order at 9:00 am.

Approval of the April 24, 2008 Committee Meeting Minutes

Chair Dickson called for a motion to approve the April 24, 2008, Meeting minutes. The Minutes were approved.

Chair Dickson provided an update on the IT Workplace Summit, hosted by the Center of Excellence for Strategic Information Technology and Security at Metropolitan State University. The purpose of the summit was to gather information from employers on how to better serve both employers and students. The hosts followed up by requesting attendees expand on the ideas discussed at the summit.

UPDATE ON THE ENTERPRISE TECHNOLOGY PROJECT

Vice Chancellor Niemi presented an Update on the FY 08 Enterprise Technology Projects. Discussion of the report included:

- Prioritization of Projects - Clarification of the means used to prioritize projects. The Enterprise Investment Committee (EIC) prioritizes projects using specific criteria to evaluate projects.
- Status Chart - Vice Chancellor King recommended the addition of a column to the project status chart. This column would describe the hierarchy type of the projects listed as shown on the pyramid chart.
- Security – The security projects have been combined into one EIC project for FY09. There has been significant progress in improving enterprise security, it is imperative that these efforts continue.
- Learning Objects / Gaming – Chair Dickson request that IFO President Nancy Black address their concerns about the issue of intellectual property. President Black reported that she met with Chancellor McCormick, Gail Olson and Linda Baer to request a review of the intellectual property policy. Staff and Faculty are concerned that procedures and policies are out of date. Chair Dickson suggested that this issue should be brought to the Academic Affairs Committee for review.

2. DEFINITIONS OF KEY WORDS

Vice Chancellor Niemi presented a draft list of commonly used abbreviations, acronyms and terms and their definitions to the Board Work Group. Chair Dickson recommended that members write down any acronyms or words they would like to see included in the list and send them to Vice Chancellor Niemi.

3. ENTERPRISE TECHNOLOGY BUDGET CUT: WHERE TO CUT AND WHY?

Vice Chancellor Niemi presented to the Work Group on Technology a budget cut potential impact summary. The legislature mandated \$5 million in cuts to technology funding; an additional \$500,000 in cuts from the technology budget for FY 09 has also been identified as the ITS share of the Office of the Chancellor cuts. Vice Chancellors Niemi, Baer, and King have developed a preliminary plan to identify items for budget cut consideration. The funds will come from EIC projects, cost shifts, stretching out projects across multiple fiscal years and delays for new projects. The Enterprise Investment Committee will reprioritize projects and give final recommendations on the cuts. Any projects delayed will remain on the EIC list and will move up as resources become available.

Vice Chancellor Niemi requested input from the work group members on any items that should be added to the principles list.

- Strategic Plan - Trustee Thiss inquired how the budget cuts being considered apply to the strategic plan. A recommendation was made to require an alert for any items considered for budget cuts that impact the strategic plan.
- Vendors – Ken Niemi reported continued efforts to leverage the buying power of Minnesota State Colleges and Universities with state agencies and the Midwest Higher Education Compact. By working together purchasing power is maximized. The committee recommended that the vendors be approached to look for ways they can reduce cost.
- Failure to Appropriate Clause – All contracts used by Minnesota State Colleges and Universities include the “failure to appropriate funds” clause which permits the cancellation of a contract without cause with 30 days notice.

4. CAMPUS IT FEES, RESPONSIBILITIES, PRINCIPLES AND GUIDELINES

Vice Chancellor King presented information on campus technology fees, showing the fee amounts and how campuses are spending the money generated.

Chair Dickson inquired at what point should the Board discuss folding this fee into the operating costs. Elimination of fees would mostly likely increase tuition. The committee felt it was important that the impact of all fees is transparent to students.

5. D2L UPDATE AND CONTINGENCY PLANS

Vice Chancellor Niemi provided an update on the Desire 2 Learn (D2L) case. The judge stayed the imposition of the injunction for 30 days, allowing implementation of the upgrades. The upgrade was successfully implemented in the MnSCU system in early June.

David Bouchard reported that the Instructional Management System Advisory Committee (IMS) has been working on contingency plans. Currently we have a stable platform; however, Blackboard has announced their intent to further

challenge D2L in regards to the Blackboard patents. The committee will continue to explore and pilot other options over the next year, such as open source platforms (like Moodle) and will also study the possible implementation of regional hosting options.

6. OTHER BUSINESS

Chair Dickson inquired if this Technology Work Group should continue meeting, or should they recommend that the Board Technology Committee be reconvened? Trustee Benson responded that he likes smaller work groups; they allow time for presentation of more detailed information and discussion in an informal structure. Trustee Thiss stated that it is a premature to decide that question at this point. This work group's function is still in the data and information gathering phase and what it will ultimately accomplish is yet to be seen. Chair Dickson agreed and stated that this would be a good topic for the next meeting.

Trustee Van Houten stated that he agrees with both of the previous comments. The timing of eliminating a separate Board Technology Committee when funding was significantly increased could be seen as problematic. He would like to see talking points developed on funding cuts so that Board members are knowledgeable about budget cuts and what the impact of those cuts will be.

7. Next Meeting

Vice Chancellor King reviewed the time line of upcoming meetings: In July the Leadership council will hold discussion on reductions and in August the Board Work Group will look at how the materials are presented and help make them concise. The work group members are asked to review the materials provided so far and provide feedback on what can be improved.

Trustee Van Houten requested that a communication plan and talking points be identified by the communications staff. Chair Dickson will add communication plans to the August agenda. If a plan or report is complete it can be presented to the Board in September and if not it will move to November. Vice Chancellors King and Niemi and Jim Dilleuth will mock up something and send it out prior to the August meeting.

The committee requests that all meeting materials be sent out prior to the meeting in order to enable adequate review.

Respectfully submitted,
Christine Benner, Recorder

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

Agenda Item Summary Sheet

Committee: Finance, Facilities and Technology **Date of Meeting:** September 17, 2008

Agenda Item: Finance Division Update (FY2009 Finance Division Work Plan)

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Proposed
Policy Change

☐

Approvals
Required by
Policy

☐

Other
Approvals

☐

Monitoring

☒

Information

Cite policy requirement, or explain why item is on the Board agenda: The Finance, Facilities and Technology Policy Committee of the Board of Trustees is "charged with oversight of all systemwide fiscal, facility and technology matters. This includes biennial budget development, tuition, allocation formula, technology policy and resources and capital budget requests. [*Excerpt from Board Policy 1A.2, part 5, sub B.*]

Scheduled Presenter(s): Laura King, Vice Chancellor/Chief Financial Officer

Outline of Key Points/Policy Issues: The Finance division supports the Committee in the exercise of its responsibility and has incorporated those responsibilities into the Finance Division work plan for FY2009.

Background Information: The Finance division updates the work plan annually.

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

INFORMATION ITEM
Finance Division Update

The Finance, Facilities and Technology Policy Committee of the Board of Trustees is "charged with oversight of all systemwide fiscal, facility and technology matters. This includes biennial budget development, tuition, allocation formula, technology policy and resources and capital budget requests. [*Excerpt from Board Policy 1A.2, part 5, sub B.*]

The Finance division supports the Committee in the exercise of its responsibility and has incorporated those responsibilities into the Finance Division work plan for FY2009 (Attachment A). Input from the Finance, Facilities and Technology Committee members is welcome.

Date Presented to the Board: September 17, 2008

FY2009 FINANCE DIVISION WORKPLAN

System wide priorities and campus services
 Statewide financial/facilities leadership capacity building
 System and college-university financial outlook
 Board-chancellor management reporting framework

2008-2012 strategic goals

1. Increase access and opportunity
2. Promote and measure high quality learning programs and services
3. Provide programs and services that enhance the economic competitiveness of the state and its regions
4. Innovate to meet current and future educational needs

AREAS OF FOCUS

1. Leadership/innovation

- Lead financial planning framework for FY 2010-2011 biennial budget with linkage to strategic plan. Include measurable results from the system's action plan, show accomplishments resulting from the new funding for technology and access and opportunity. Make sure appropriate results from the tuition study and the allocation framework review are brought forward for consideration.
- Advance FY2010-2011 Operating Budget through the legislative process; complete state submission; support system request book development; assist in developing legislative presentations; prepare system fiscal notes..
- Continuous improvements of the allocation framework – present recommendations for peer review process and those coming from the President's Review Committee–to the leadership council subcommittees, full council, Chancellor and Board.
- Complete Economic Model/Tuition study, move recommendations through Leadership Council review and Board adoption and incorporate changes in 2010-2011 allocation and budget planning
- Conduct a review of the financial data to assure its integrity. Focus on the chart of accounts and how institutions should be coding their data.
- Prepare a project charter and complete preliminary system design work identifying integrated registration-to-payment functionality (currently termed Registration and Financial Integration Model or RFIM). This design will facilitate easy, consistent, understandable student administrative access whether within a campus or across multiple campuses. Further, the design will integrate the necessary functionality of such larger processes as application and admission, registration, financial aid, deferred payment plans, employee waivers, third-party payments, room and board and all other aspects of students' experiences that create charges to and settlements of students' receivables balances. The business scope will broadly encompass all of the System's educational offerings to all Learner Segments, which will eliminate many campus-based inefficient work-around solutions that exist to serve non-credit based offerings and many auxiliary services.

FY2009 FINANCE DIVISION WORKPLAN

- Identify high level “end-state” future financial information systems’ needs including integration with other administrative systems. The initial step will be migrating the Accounting Module to the web (J2EE) and may incorporate small upgrades if possible. Among the modules to be considered are procurement and accounts payable, fixed assets/equipment, accrual accounting and reporting, SCUPPS module and the interface with the state’s SEMA4 system, etc. Part of this will be evaluating community sourced software modules such as those that will be offered through the Kualu Foundation.
- Develop FY2010 – 2015 Capital Budget for Board approval and forwarding to the Dept of Finance, Governor and Legislature
- Advance capital planning with colleges and universities for reinvestment in, or new construction of Revenue Fund facilities. Develop project scope, cost estimates and financing strategy for possible 2009 – 2010 bond sale.
- Assist cabinet in coordinated, regional and system planning
- Conduct a Security Audit of selected colleges and universities
- Develop an RFP template for 2-year college dining services
- Develop a “team” approach to campus safety using the resources of the Fire Center, Risk Management, Worker’s Comp program and Human Resources

2. Monitoring/self assessment and accountability

- Develop new principles and standards for program tuition, on-line differentials and use of market rates; seek board review in fall 2008
- Undertake economic and financial analysis of policies and practices regarding non resident student enrollment including cost benefit analysis, examination of tuition policy, role of state funding policy and measurement of the state’s economic impact.
- Examine need for and development of MnSCU-unique facilities design and construction form contracts.

3. Operations

- Implement system wide consolidated purchasing initiative and develop an enhanced targeted vendor strategy. Provide department training and leadership on procurement.
- Develop the financial framework within which the collective bargaining process for the three faculty units and the administrative plan will proceed for the next biennium
- Develop strategy to promote sustainability and energy conservation on campuses
- Complete development of a real property leasing and other agreement inventory and report

FY2009 FINANCE DIVISION WORKPLAN

- Support ASA in formulation of metro area educational services strategic plan where facilities impacts.
- Revise Design and Construction Standards to incorporate principles of sustainability and B3 Guidelines for major renovations. Recommend policy on LEED design
- Publish System Procedures addressing leasing-in and leasing-out
- Assess business use of and acceptance of payment cards and other electronic payments such as e-checks. Identify purchasing card plan replacement as necessary; this may or may not involve a new RFP. Coordinate efforts to increase credit card security, including canceling unnecessary merchant agreements and moving related processing volume to the DOF contract with US Bank, with Internal Audit, ITS and campuses.
- Develop FY 2010 operating budget plan for Board review and approval
- Publish a coordinated “All Hazards” planning program to encompass Emergency Preparedness, Continuity of Operations and Crisis Intervention
- Execute a Construction Manager (at risk) form construction contract
- Develop several alternative construction project delivery packages (e.g. design/build; CM).
- Complete development; document; and roll out Fleet and driving policies and procedures
- Develop campus real estate maps

4. Financial reporting

- Collaborate with ASA in the development and implementation the preliminary phase of an Integrated Planning process for use by all colleges and universities.
 - On the Finance side, this will include the design and implementation of meaningful performance measures using a financial planning and measurement approach combining longer-term financial planning (drafting a prototype Finance Master Plan as a model for all C/Us), annual reporting (yearend and interim) including defined performance measures and narratives, and annual updates (using annual addendums) to the Finance Master Plan.
 - The development or refinement of institutional level financial performance indicators for the system will in large part be dependent on individual institution integrated planning and will need to measure performance against institutional goals and missions. Each individual college and university will also need to identify peer institutions and assess comparability of performance measure data for such institutions.
 - One key objective of this effort is a set of financial performance measures that is understandable and will support campus evaluations by the Chancellor, the Chancellor’s Cabinet and ultimately the Board of Trustees.
- Continue work on the long term strategy for financial management including recommendations regarding external audits approved January 2005 by the Board of Trustees. In addition to the

FY2009 FINANCE DIVISION WORKPLAN

performance measures and auxiliary reporting work, this will include continued annual training and audit planning (internal, OLA and private firms).

- Develop on-line payroll training for campus personnel (Campus Assistance).

. **Systems/information**

- Configure “Unifier” project management system on selected projects; load all FY2008 design projects and selected construction projects into system.
- Implement phase II of the WEB/ISRS budget module, develop business case to move forward with additional phases of the module.
- Pilot test campus room scheduling software project to determine its applicability to improved space utilization monitoring and reporting

MINNESOTA STATE COLLEGES AND UNIVERSITIES BOARD OF TRUSTEES

Agenda Item Summary Sheet

Committee: Finance, Facilities and Technology **Date of Meeting:** September 17, 2008

Agenda Item: Reserves Discussion

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Proposed
Policy Change

☐

Approvals
Required by
Policy

☐

Other
Approvals

☐

Monitoring

☒

Information

Cite policy requirement, or explain why item is on the Board agenda: The purpose of this Board report is to provide financial information to the Finance, Facilities and Technology committee as background information for a discussion of Board required reserves (a designated cash reserve as currently required under Board Policy 5.10 and related procedure 5.10.1) and full accrual reserves using the common financial ratio measure of primary reserve and the number of months of operating expenses represented by this primary reserve measure.

Scheduled Presenter(s): Laura M. King, Vice Chancellor—Chief Financial Officer
Judy Borgen—Associate Vice Chancellor, Budget Unit
Tim Stoddard—Associate Vice Chancellor, Financial Reporting

Outline of Key Points/Policy Issues: Minnesota State Colleges and Universities (the System), and the component colleges and universities are required under Board Policy 5.10 and Procedure 5.10.1 to maintain general fund cash reserves in the range of 5 – 7 percent of general fund cash-basis operating revenues through designation as a special reserve amount.

Unlike the Board required reserve, the primary reserve is a full-accrual accounting measure that compares expendable net assets (relatively liquid net assets) to the sum of annual operating expenses plus interest expense. This percentage value multiplied times twelve months yields the number of months of operating expenses that that can be covered through use of the expendable net asset balance.

Questions regarding reserves such as what levels of Board reserves and primary reserves are adequate, how should reserves be measured, what steps should be taken to move all colleges and universities to a defined or target level, are ultimately part of policies, procedures and guidelines directed at setting financial management policies and the goals thereof. Reserves are a key component.

Background Information: This discussion on reserves is in response to the referral of the discussion by the Audit Committee to the Finance, Facilities and Technology Committee.

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

INFORMATION ITEM
Reserves Discussion

BACKGROUND

The purpose of this Board report is to provide background information and data to the Finance, Facilities and Technology committee for purposes of a discussion about reserves. Although measured differently, financial reserves are represented by both Board required reserves (designated fund balances—a designation of yearend general fund cash) and primary reserves (a full-accrual measure including all funds that first subtracts total liabilities from total assets and compares the liquid component of net assets to operating expenses).

Regardless of which reserve measure is used, there are wide variances across the system's colleges and universities. Reserves are typically expected to cover operational and strategic objectives. That is, reserve balances provide resources to assist an organization maintain operations for some period in spite of adverse financial conditions, and if adequate, reserves can provide opportunity funds to pursue innovative, strategic programs. Ideally, reserves are adequate to provide operational and strategic support consistent with financial management policies and related goals.

Reserves are created over time through intentional financial management. Positive annual operating results are accumulated year-by-year as part of and in accordance with financial management goals. Assessment of operational risks plays a key role in determining a reasonable level of operational reserves, assessment of strategic needs and opportunities (e.g., socio/economic, market, technology, and others) determines a reasonable level of strategic reserves, and economic and operational realities present constraints and challenges that will impact reserve levels and the timing of reserve accumulation.

A committee presentation will be made by Judy Borgen, Associate Vice Chancellor of Budget, and Tim Stoddard, Associate Vice Chancellor of Financial Reporting.

CONTENTS

1. Executive summary
2. Current policies, procedures and guidelines covering financial management components
3. Comparing Board required reserve and primary reserve
4. External views on primary reserves
5. Summarized Board and primary reserve values for the System's colleges and universities
6. Dynamics associated with increasing Board reserves and primary reserves
7. Next steps

1. Executive summary

- Financial management policies generally have operational and strategic objectives and will provide direction to management, allow assessment and drive specific goals and behavioral expectations. For example, a reserve is operational (e.g., continuity of operation in the face of revenue interruption) and strategic (e.g., fund new, innovative strategic programs).
- Board Policy 5.10 and Procedure 5.10.1 set requirements for designated cash reserve levels; Procedure 5.10.1 recognizes the full-accrual financial measure of net assets as a broader measure of financial condition, but it does not set full-accrual reserve guidelines.
- Increasing the Board required cash reserve from the current average 5 percent to a 10 percent level for all colleges and universities over a five year period would require adding approximately \$65.3 million of additional designated fund balance to the June 30, 2007 balance of \$63.1 million.
- Increasing the primary reserve from the current 2.5 months to 3.0 months of operating expense at a consolidated system level over the same five year period would require additional net operating margin of approximately \$67.1 million; increasing each additional month thereafter would require about \$128 million.
- **Key questions**
 - What levels of Board reserves and primary reserves are adequate and how should this be defined?
 - What steps should be taken to move all colleges and universities to a defined or target level?

2. Current policies, procedures and guidelines covering financial management components:

- Include
 - Required cash reserves
 - Annual external financial statement audits of 7 state universities, 5 colleges, the Revenue Fund and the consolidated system
 - Financial Trends and Highlights since fiscal year 2006 including Composite Financial Index and other measures coupled with steps to increase the use and understanding of accrual financial data by all colleges and universities. (See Attachment 1 for a summary and an example presentation format).
 - Operational and compliance audits by Offices of Internal Audit and the Legislative Auditor
 - Balanced budgets
 - Revenue Fund and other auxiliary operations are subject to various Board or Revenue Fund policy/procedure requirements related to reserve requirements tied to months coverage of operating expenditures
- Do not include:
 - Goals for improving financial condition (e.g., strengthening primary reserve)
 - Financial profile components and target values or range (e.g., positive operating margin)

3. Comparing Board required reserve and primary reserve are quite different

- Board required reserve
 - Board Policy 5.10 requires a reserve of between 5% and 7%
 - It is a cash reserve—a designation of fund balance
 - It looks at general fund balance as a percentage of prior year general fund revenue

- Primary reserve
 - Primary reserve has no standing in Board Policy, Procedure or Guideline
 - Primary reserve is a common, enterprise-wide (all funds) financial ratio
 - It includes all accrued assets and liabilities (i.e., assets – liabilities = net assets)
 - It compares expendable net assets (relatively liquid) to the sum of operating expenses (including depreciation on capital assets) plus interest expense
 - It approximates the number of months that operations could continue despite a temporary halt in revenue
- Comparative example: Assume that at 6/30/08 XYZ Community College had only one asset, a cash balance of \$1,000,000, and only one liability, compensated absences payable of \$1,000,000. Further assume that XYZ designated \$500,000 of the cash balance as required reserve (Board required reserve).
 - Board required reserve = \$500,000 (e.g., 5% of prior year general fund operating revenue)
 - Primary reserve = 0.0 months--XYZ has zero net assets (cash of \$1million minus compensated absence liability of \$1million) so the numerator in the primary reserve calculation is zero.

4.External views on primary reserves.

Strategic Financial Analysis for Higher Education (Sixth Edition), jointly developed and sponsored by the firms of Prager, Sealy & Co., LLC, KPMG LLP and BearingPoint, Inc., a highly respected source for financial analysis in Higher Education, views 5.0 months of primary reserves as indicative of an institution with solid financial condition.

Moody's Investor Services (Moody's) annual report titled *Public College and University Medians 2007* contains primary reserve median values organized by credit rating level. The table directly below summarizes the various credit rating levels into two combined levels and presents the range of values within the summarized levels. Note that the median value for all institutions in the population is nearly constant at 5.0 months coverage of operating expenses. Although coincidental, it does match well with the value above from *Strategic Financial Analysis for Higher Education* (Sixth Edition). The system-wide median value is indicated in bold type.

Number of Months Primary Reserve – Moody's Median Values				
Credit Rating Level	# orgs	<u>2006</u>	<u>2005</u>	<u>2004</u>
Aaa/Aa1/Aa2/Aa3 (range)	58	5.6 - 12.1	5.8 - 9.5	5.5 - 8.8
A1/A2/A3/Baa (range)	144	2.8 - 4.8	2.3 - 4.8	2.5 - 4.7
MnSCU (2.5 in 2007)		2.3	2.1	2.1
Median for all	202	5.0	5.0	4.9

Moody's national data population includes a wide range of public institutions (202 institutions), including Research I institutions, and some institutions very large foundations as component units. Two-year colleges are not included (except for those included in a system) and certain of the organizations may only include discreet parts (e.g., MnSCU Revenue Fund). The presence of these significant variables suggests the results are not strictly comparable in all respects to the Minnesota State Colleges & Universities system. However, the relatively large population size should smooth some of the peculiarities such that the data is still informative.

5. Summarized Board and primary reserve values for the System's colleges and universities

A. Board required reserve -

- Fiscal year 2008 estimated Board required reserves, measured as a percentage of fiscal year 2007 general fund operating revenue, averages 5% and ranges from 2% to 7% across the colleges and universities.
- Increasing the Board required cash reserve from the current average 5 % to a 10 % level for all colleges and universities over a five year period would require adding approximately \$65.3 million of additional designated fund balance to the June 30, 2007 balance of \$63.1 million. The table below shows the additional \$65.3 million reserves summarized by current level.

Board Required Reserve Colleges/Universities at:	\$ (thousands) Needed to Reach 10%		
	<u>In 5 years</u>	<u>Per Year</u>	<u>C/U</u>
Two percent	\$2,973	\$595	1/0
Three percent	\$17,458	\$3,492	1/4
Four percent	\$6,730	\$1,346	2/1
Five percent	\$21,760	\$4,352	11/1
Six percent	\$10,290	\$2,058	4/1
Seven percent	\$6,082	\$1,216	6/0
Totals	\$65,293	\$13,059	25/7

Primary Reserves

- The fiscal year 2007 primary reserve in number of months operating expense coverage ranges from a low of 0.22 months to a high of 4.24 months.
 - Increasing the primary reserve from the current 2.5 months to 3.0 months at a consolidated system level would require additional net operating margin of approximately \$67.1 million
 - Increasing each additional month thereafter would require about \$128 million
- The table below shows four primary reserve value groupings and includes several measures assessing the degree of difficulty in moving to the next higher primary reserve level

Primary Reserve Groupings & (# C/U)	2007 Avg	FTE	3 Yr Average Annual (\$000)	Total (\$000) need for	Total \$ need at left as average % of:	
	# Mos	Students	Op. Margin	Next Level	Oper. Exp	Tuition/Fee
< 1.0 mo (10/0)	0.70	17,918	\$ (970)	\$ 5,213	2.6%	6.4%
> 1.0 and < 2.0 mo (6/2)	1.47	27,748	\$ (833)	\$ 14,012	4.6%	10.2%
> 2.0 and < 3.0 mo (6/4)	2.34	58,873	\$ 16,024	\$ 36,029	5.8%	11.7%
> 3.0 and < 4.4 mo (7/1)	3.44	31,300	\$ 13,990			
System-wide @ 3.0 *				\$67,000		
Each additional 1.0 month*				\$128,000		

* Inclusive of system primary reserve balance

6. Dynamics associated with increasing Board reserves and primary reserves.

- Revenue increases vs. affordability and access
- Cost decreases vs. maintaining quality, innovation, deferred maintenance, etc.
- Structural or near-structural deficits at some institutions vs. few realistic options
- Perception of and resistance to assets held as a reserve, primarily cash

7. Next Steps

- The Office of the Chancellor Finance Division will work with the nine colleges and universities, who are currently below the general fund reserve minimum, to assess their plans to replenish reserves to the Board required level of 5% to 7%. An update will be presented to the Board of Trustees at the time the FY2010 operating budget is presented for approval.
- The Office of the Chancellor Finance Division will work to establish a guideline formulating accrual-based financial measures building on the Division's yearend Financial Trends and Highlights reporting for all colleges and universities through continuous improvement. This will include:
 - Operating margin targets and related definitions
 - Primary reserve targets and related definitions
 - Other accrual based measures and definitions for financial condition or operations as determined appropriate

Date presented to the Board of Trustees: September 17, 2008

Financial Trends and Highlights

Starting with the fiscal year 2006, the twelve audited colleges and universities have been preparing a “Financial Trends and Highlights” document using common guidelines and performance measures applied to the full-accrual statements. This annual “financial check-up” has been and continues to be presented by the institutions’ leadership teams at the audit exit meetings. The colleges not subject to external audits of financial statements prepared this document for fiscal year 2007 and the respective CFOs presented the information to campus and system office peers at one of two informal meetings held this past January. The fiscal year 2008 presentations will include the respective presidents of the non-audited colleges.

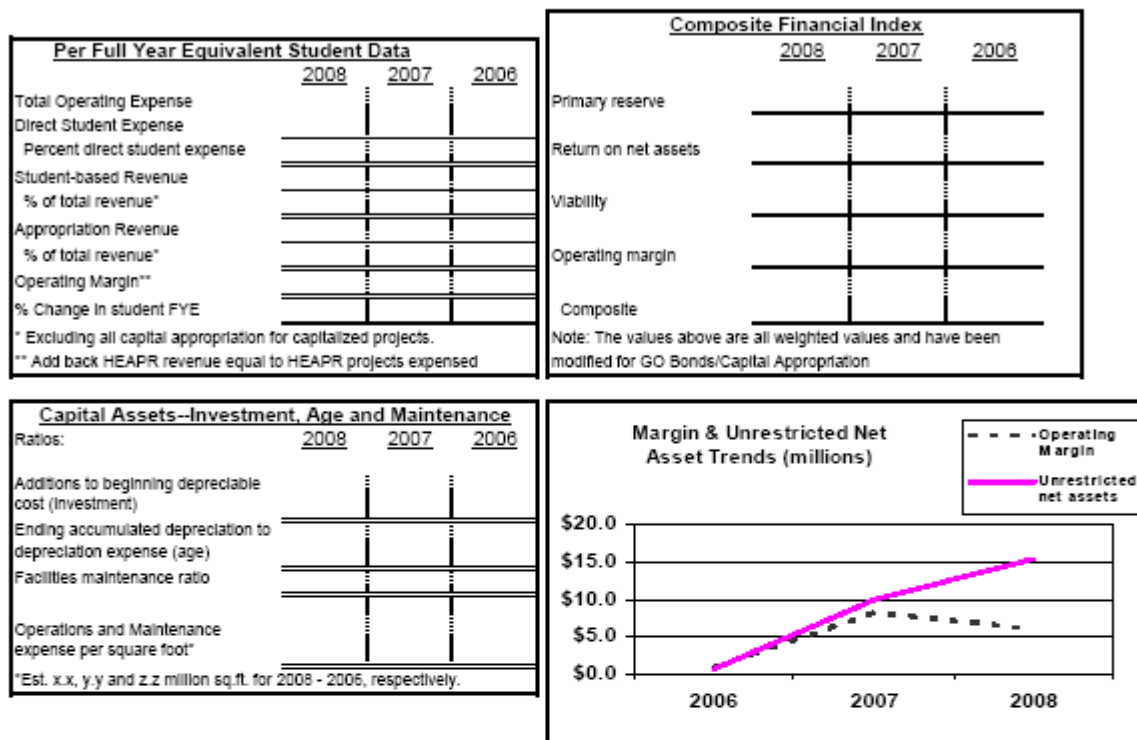
Financial Trends and Highlights reporting of common and supplemental measures across system institutions over a period of comparative years will allow us to 1) establish individual benchmarks by institution to assess financial health, 2) develop a common understanding of the measures themselves, including the economic factors most prone to produce significant positive or negative change, and perhaps most important, 3) link college and university strategic and programmatic planning to long-term financial planning and financial health. It is this last objective that will facilitate the identification and planning of the future actions necessary to achieve the level of financial health required to support the college’s or university’s mission.

The following page includes the generic Financial Trends and Highlights template; however, innovation as to format and supplemental content is encouraged.

Financial Trends and Highlights

[Insert college/university name]
Fiscal Year 2008 Financial Trends and Highlights

Template



Summary of Financial Expectations and Performance

Discuss Current Financial Health

Assess how the college's or university's current financial health has positively or negatively impacted core mission in fiscal year 2008. Did financial health, as measured by the Composite Financial Index performance indicators and other indicators on the financial trends and highlights summary, improve or deteriorate and why? See the *Fiscal Year 2008 Financial Trends and Highlights Preparation Guidelines* for additional suggestions.

Discuss Plans that will Impact Future Financial Health

Discuss the appropriateness of the college's or university's mission and strategic goals in light of current financial health, steps designed to increase financial health, programs expected to be funded by expendable net assets (i.e., reserves), etc. In other words, looking ahead from early fiscal year 2008, how well matched are mission, strategic goals, and financial resources? If necessary, what steps are planned to bring about better alignment? See the *Fiscal Year 2008 Financial Trends and Highlights Preparation Guidelines* for additional suggestions.



Reserves Discussion

**Finance, Facilities and Technology Committee
September 16, 2008**

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



Key Questions

- What levels of Board reserves and primary reserves are adequate and how should this be defined?
- What steps should be taken to move colleges and universities to a higher level of Board reserves and define a target level for primary reserves?

Slide 2



Next Steps

- The Office of the Chancellor Finance Division will:
 - Work with the nine colleges and universities, who are currently below the general fund reserve minimum, to assess their plans to replenish reserves to the Board required level of 5% to 7%. An update will be presented to the Board of Trustees at the time the FY2010 operating budget is presented for approval.
 - The Office of the Chancellor Finance Division will work to establish a guideline formulating accrual-based financial measures building on the Division's yearend Financial Trends and Highlights reporting for all colleges and universities through continuous improvement. This will include :
 - Operating margin targets and related definitions
 - Primary reserve targets and related definitions
 - Other accrual based measures of financial condition or results as determined appropriate

Slide 3



Goal of Financial Management Policies

- Provide direction for Financial Management action (e.g., steps to increase reserves)
- Allow assessment of financial condition (e.g., inadequate, adequate, strong, etc.)
- Provide a basis for setting specific goals and behavioral expectations (e.g., short-term actions and longer-term strategic directions)

Slide 4



Current System Policies

- Policy 5.10 sets a General Fund cash reserve requirement of 5% - 7% of prior year's general fund operating revenues.
- Current Board full external audit requirement is 12 colleges/universities, Revenue Fund and consolidated System.
- Balanced budgetary (cash) basis budgets are required; designated cash reserves may be used per delegated authority.
- Procedure 5.10.1 recognizes the full-accrual financial measure of net assets, but it does not set full-accrual reserve guidelines.

Slide 5



Missing Components

- Goals for improving financial condition (e.g., specific reserve milestones).
- Financial profile targets, specific components and value expectations.
 - Board reserves
 - Primary reserve
 - Operating margin
 - Direct/indirect spending on students
 - Other

Slide 6



Board Required Reserve Overview

- \$65.3 million additional designated cash reserves needed to bring all C/Us to 10% level from current \$63.1 million 5% average

Colleges/Universities	\$ (thousands) Needed to Reach 10%		
	In 5 years	Per Year	Number C/Us
Two percent Board reserves	\$2,973	\$595	1
Three percent Board reserves	\$17,458	\$3,492	5
Four percent Board reserves	\$6,730	\$1,346	3
Five percent Board reserves	\$21,760	\$4,352	12
Six percent Board reserves	\$10,290	\$2,058	5
Seven percent Board reserves	\$6,082	\$1,216	6
Totals	\$65,293	\$13,059	32

Slide 7



External view of Primary Reserve

- The Moody's Investor Services data in the table below shows a median value of 5.0 months but comparability is marginal

Number of Months Primary Reserve – Moody's Median Values				
Credit Rating Level	# orgs	2006	2005	2004
Aaa/Aa1/Aa2/Aa3 (range)	58	5.6 - 12.1	5.8 - 9.5	5.5 - 8.8
A1/A2/A3/Baa (range)	144	2.8 - 4.8	2.3 - 4.8	2.5 - 4.7
MnSCU (2.5 in 2007)		2.3	2.1	2.1
Median for all	202	5.0	5.0	4.9

- *Strategic Financial Analysis for Higher Education* (Sixth Edition), jointly developed and sponsored by the firms of Prager, Sealy & Co., LLC, KPMG LLP and BearingPoint, Inc., a highly respected source for financial analysis in Higher Education, views 5.0 months of primary reserves as indicative of an institution with solid financial condition.

Slide 8



Primary Reserve Overview

- System C/Us range from 1 week to > 4 mos
- Raising the system-wide average to 3.0 months would take \$ 67 million; each additional 1.0 month about \$128 million.*

Primary Reserve Groupings & (# C/U)	2007 Avg	FTE	3 Yr Average Annual (\$000)	Total (\$000) need for	Total \$ need at left as average % of:	
	# Mos	Students	Op. Margin	Next Level	Oper. Exp	Tuition/Fee
< 1.0 mo (10/0)	0.70	17,918	\$ (970)	\$ 5,213	2.6%	6.4%
> 1.0 and < 2.0 mo (6/2)	1.47	27,748	\$ (833)	\$ 14,012	4.6%	10.2%
> 2.0 and < 3.0 mo (6/4)	2.34	58,873	\$ 16,024	\$ 36,029	5.8%	11.7%
> 3.0 and < 4.4 mo (7/1)	3.44	31,300	\$ 13,990			
System-wide @ 3.0 *				\$67,000		
Each additional 1.0 month*				\$128,000		

* Inclusive of system primary reserve balance

* Based on June 30, 2007 expendable net assets of \$318 million; this ignores increases in operating expenses.

Slide 9



Example: Board VS Primary Reserve

- Comparative example: Assume that at 6/30/08 XYZ Community College had only one asset, a cash balance of \$1,000,000, and only one liability, compensated absences payable of \$1,000,000. Further assume that XYZ designated \$500,000 of the cash balance as required reserve
 - Required reserve = \$500,000 (assume this is 5% of prior year general fund operating revenue)
 - Primary reserve = 0.0 months--XYZ has zero net assets (cash of \$1million minus compensated absence liability of \$1million) so the numerator in the primary reserve calculation is zero.

Slide 10

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

Agenda Item Summary Sheet

Committee: Finance, Facilities and Technology **Date of Meeting:** September 17, 2008

Agenda Item: Tuition and Fees Study Including the Cost of Attendance

☐

Proposed
Policy Change

☐

Approvals
Required by
Policy

☐

Other
Approvals

☐

Monitoring

☒

Information

Cite policy requirement, or explain why item is on the Board agenda: The tuition and fees study was undertaken during the spring and summer of 2008 by the Finance Division at the request of the Board of Trustees. A summary of the study as well as conclusions and next steps are being presented at the September meeting.

Scheduled Presenter(s): Laura M. King, Vice Chancellor – Chief Financial Officer

Outline of Key Points/Policy Issues: The tuition study addressed the following:

- current tuition and fees policy,
- gross/net tuition and fee comparisons at a regional and nationwide level and by type of learner, program of study and institution,
- dependency on tuition revenue,
- the role of financial aid in the cost of attendance, and
- total spending per student with comparisons at a regional and nationwide level.

Background: The Board of Trustees had identified four priority efforts for action in FY2008-2009. One of the priority efforts is titled “Economic Model” and is focused on the price of attendance and the cost to educate students. This special project was incorporated into the tuition and fees study concerning tuition policies.

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

INFORMATION ITEM
Tuition and Fees Study Including the Cost of Attendance

BACKGROUND

The Board of Trustees has identified four priority efforts for action in FY2008-2009. One of the priority efforts is titled “Economic Model” and is focused on the cost of attendance and the cost to educate students. This special project was incorporated into a larger study concerning tuition and fees policies. The tuition and fees study was to address, at a minimum:

- the current tuition and fees policy,
- gross/net tuition and fee comparisons at a regional and national level and by type of learner, program of study and institution,
- dependency on tuition revenue,
- the role of financial aid in the cost of attendance, and
- total spending per student with comparisons at a regional and national level.

The tuition and fees study was undertaken during the spring and summer of 2008 by the Finance Division. A summary of the study as well as conclusions and next steps are being presented to the Board. The complete tuition and fees study is included in the Board materials following this report.

SUMMARY OF TUITION STUDY

The Association of Governing Boards of Universities and Colleges released a report titled *Setting Tuition* in 2001. The report states that:

“deciding how much to charge for the institution’s “product” ultimately is the responsibility of the board. Few other board decisions affect so many, are watched so closely, and are so vulnerable to comment and criticism.”

Tuition setting is a business decision – as much art as science and dependent on many variables. Some of the variables include the level of state resources, dependency on tuition revenue, academic program mix, labor contract settlements, other inflationary pressure, level of services provided to students, enrollment outlook, and availability of financial aid/subsidy.

The Board and Chancellor made a commitment to the principle of “decentralization with accountability. This principle is laced throughout Board policies and practices. In the matter of tuition, the Board allowed institutions the flexibility to determine their tuition pricing structure tailored to their mission, geographic location, individual market and competitive circumstances and submit annual rate change recommendations to the Chancellor and Board for approval. This historical tuition strategy supported the strategic plan goals of greater institutional autonomy, flexibility within an overall framework, and a focus on outcomes and results with presidential accountability. Although the Board continues to operate within this tuition strategy, a greater emphasis is being placed on affordability and accessibility.

Board Approaches to Tuition-Setting. The Board has used two tuition setting approaches: (1) the colleges and universities submitting proposals to the Chancellor and the Board responding and approving the final rates, or (2) the Board setting broad parameters, the colleges and universities responding with specific increases within the parameters, and the Board approving the final rates. Numerous factors impact tuition decisions such as inflation, level of government appropriations, and labor contract settlements. The current tuition policy provides flexibility to colleges and universities by allowing for numerous methods of tuition assessment that include per credit, banding, program/course differential, and market-driven.

State Appropriation-Tuition Reliance. The System’s colleges and universities have two primary sources of revenue within the general operating fund: state appropriation and tuition. The System’s reliance on appropriation has decreased over the past decade from 69.7 percent in the late 1990’s to the current 50.5 percent. At the same time, tuition reliance has increased from 30.3 percent to 49.5 percent. On a per full-year equivalent (FYE) student basis, appropriation increased overall just 3.7 percent during the past decade, while tuition increased 105 percent. The System’s purchasing power is declining; in actual dollars total appropriation and tuition per FYE student over the past 10 years increased overall 37 percent; adjusted for inflation the increase was 6 percent.

The reliance on appropriation and tuition varies greatly by college and university from 42 percent to 67 percent. Institutions with a greater reliance on appropriation are technical and comprehensive colleges located in greater Minnesota. Institutions with a greater reliance on tuition are predominately large stand-alone community and comprehensive colleges (with a predominance of non-technical programs) and the state universities. The Board’s desire to limit tuition rate increases has collided with the reallocation of state appropriation occurring by policy through the allocation framework. Some institutions that are more heavily reliant on appropriation support are seeing that decline at the same time tuition increases are also being held down.

Comparisons of State-Local Appropriation Support to Similar Public Two- and Four-Year Institutions. Comparisons of appropriation support, tuition and fees, average grant award, and spending were made to similar two- and four-year institutions, regionally and nationwide throughout this study. The Integrated Postsecondary Education

Data System (IPEDS) was used to compile the data set used in the comparisons. The data set contained two- and four-year public institutions within the same Basic Carnegie Classification Code as the System's colleges and universities. The regional comparison includes two- and four-year public institutions located in Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin.

The fiscal year 2006 average state appropriation per FYE student of \$4,278 at the System's colleges was below both the regional and nationwide averages for similar public two-year institutions; 27 percent and 15 percent respectively. The state appropriation per FYE student of \$4,357 at the System's universities was comparable to the regional average and 28 percent below the nationwide average for similar public four-year institutions.

Student Enrollment and Demographics. The System has seen enrollment grow 7.6 percent between fiscal years 2002 and 2007 from 126,215 FYE students to 135,839, with colleges growing 10 percent and universities 4 percent. Approximately 59 percent of the students were full-time compared to 41 percent part-time. Ninety-eight percent of students originated from either Minnesota or its Border States.

Minnesota's student participation rate in higher education among the 18-24 year old population is 41.4 percent (rank 17th in the nation), slightly above the national average of 39.7 percent. Among the 25-34 year old population, Minnesota's 10.5 percent is below the national average of 11.4 percent (rank 34th in nation). Minnesota has 44.1 percent of its adults aged 25-64 with at least an associate in arts degree, tied for 5th in the nation. Minnesota ranked 4th in terms of the percentage of median family income (among the poorest adults aged 25-44) needed to pay tuition and fees within the public community college sector; it ranked 16th within the public four-year undergraduate institutions.

Tuition and Fees. The Board's past commitment to delegated decisions was designed to allow for flexibility in the tuition pricing structure tailored to individual mission, geographic location, individual market and competitive circumstances. Based on fiscal year 2008 undergraduate resident annual tuition, there is a dispersion of \$869 (25 percent) among the colleges and \$920 (18 percent) among the universities. Tuition dispersion among the System's colleges is not increased due to geographic location or type of college. There is variation among tuition rates for non-resident/non-reciprocity, graduate level, online instruction, and program/course differentials. Tuition rate dispersion has occurred incrementally since merger. Tuition dispersion is not unique to the Minnesota State Colleges and Universities. It exists within other higher education state systems with public two- and/or four-year institutions.

Comparisons of Tuition and Fees to Similar Public Two- and Four-Year Institutions. Fiscal year 2006 average resident gross and net tuition and fees at the System's colleges and universities were above the regional and nationwide averages.

System colleges. The average resident gross tuition and fees of \$4,021 was 11 percent (\$412) higher than the regional and 63 percent (\$1,550) higher than nationwide averages. The gross tuition and fees at the System's colleges was reduced by an average grant award (federal, state, and institution grants) of \$1,622, resulting in net tuition and fees of \$2,399. Net tuition and fees was 15 percent (\$310) higher than the regional and 125 percent (\$1,333) higher than nationwide averages.

System universities. The average resident undergraduate gross tuition and fees of \$5,252 was 2 percent (\$99) higher than the regional and 11 percent (\$507) higher than nationwide averages. The gross tuition and fees at the System's universities was reduced by an average grant award of \$2,095, resulting in average net tuition and fees of \$3,157. Net tuition and fees was 5 percent (\$150) higher than the regional and 56 percent (\$1,138) higher than the nationwide averages.

When compared nationally, the System's colleges have among the highest gross and net tuition and fees (ranked 3rd for both) among states with similar public two-year institutions. The System's universities ranked 17th for gross and 12th for net tuition and fees among states with similar public four-year institutions. The IPEDS data set was used to determine the national ranking of the System's colleges and universities undergraduate tuition and fees compared to the other states. The System's accountability measures are built on the IPEDS data set and will be used for comparison purposes. It is worth noting that national data sets have different characteristics (i.e., size of sample and mix of institutions) and produce different conclusions.

Net Costs to Students after Financial Aid. Most financial aid is money provided to help students pay college costs that exceed the amount the federal government has determined they and their families can pay. Families are expected to bear the primary responsibility of paying for college. When they cannot pay all of the costs, financial aid programs help with the difference between what it costs and what the family can be expected to pay. In fiscal year 2007 students enrolled in the Minnesota State Colleges and Universities received \$733.4 million of financial aid. A majority of the financial aid was in the form of grants (\$231.7 million) and loans (\$449.0 million) with the balance in scholarships and employment/work study. In fiscal year 2007, 51 percent of students enrolled at the colleges received at least one type of financial aid award (including loans) with an average award of \$4,614. Within the universities, 58 percent (45,466) of students received at least one type of financial aid award with an average award of \$7,583.

The student's total cost of attending a college or university includes tuition, fees, room and board, books, supplies, transportation and miscellaneous expenses. The net cost of attendance can vary depending on a student's full-time or part-time status, institution of attendance, academic program choice, income, assets and financial aid coupled with the family's determination of what it wants to invest in the student's education. For students enrolled at least half-time, the lowest income, half-time students within the System paid a higher share of their costs – 67 percent. A full-time student (taking 12+ credits a term) enrolled at the System's colleges in the lowest income quartile paid 54 percent of the

total cost of attendance compared to 72 percent for a student in the highest income quartile. A full-time student enrolled at the System's universities in the lowest income quartile paid 35 percent of the total cost of attendance compared to 58 percent for students in the highest income quartile. Generally, the percentage of the cost of attendance paid by a student increased as income increased and/or credit load decreased.

Cost of a Student's Educational Experience. Costs have been an issue in higher education for a very long time, and the focus on costs has increased considerably over the past few years due to the large increases in tuition. The System's colleges and universities are expected to provide a quality education at an affordable price with access to an increasing number of students. Costs differ by institution. Colleges and universities are complex entities with many cost drivers such as personnel (labor-intensive); faculty mix, number of courses taught, and average number of students taught; type of academic programs; support services offered to students; and age and expansion of facilities.

Higher education expenditures fall into broad functional spending categories of instruction, research, public service, academic support, student services, institutional support, and operation and maintenance of plant. Between fiscal years 2003 and 2006, the System's colleges and universities increased spending; 14.7 percent and 16.4 percent respectively. On a per FYE student basis, instruction had the largest increase in spending at the System's colleges and universities. However, as a proportion of total spending, a greater share of the increased spending occurred in non-instructional areas. The greater share of increased spending at the System's colleges occurred in academic support and student services. At the System's universities, the greater share of the increased spending was in academic support and physical plant. Although spending on instruction did not grow as a proportion of total spending, the System's colleges and universities continued to spend in excess of 61 percent of their operating budget in instruction and academic support; 3 percent higher for the colleges and 4 percent higher for the universities than both the regional and nationwide averages.

The total average spending per FYE student during fiscal year 2006 at the System's colleges was \$9,150 and at the System's universities was \$9,636. There are mission differences among the System's colleges and universities. Generally, spending per FYE student at a technical college would be higher in instruction due to the high-cost, equipment intensive technical programs with lower faculty-student ratios. Spending per FYE student at a community college would generally be lower in instruction due to the low-cost, predominately lecture-delivered liberal arts/sciences with higher faculty-student ratios. Spending per FYE student in physical plant would be higher at a technical college due to the instructional space needed to deliver technical programs compared to liberal arts/sciences, lecture-delivered courses.

Technical and comprehensive colleges on average spend more in instruction/academic support compared to community colleges. The mission (academic program mix and instructional space needs) of institutions has an impact on spending per FYE student.

Comparisons of Spending to Similar Public Two- and Four-Year Institutions. The \$9,150 spending per FYE student at the System's colleges during fiscal year 2006 was higher than both the regional and nationwide averages; 11 percent and 18 percent respectively. When compared to the nationwide average, the higher spending at the System's colleges was concentrated in three areas: instruction, academic support, and student services. The System's universities on average spent \$9,636 per FYE student which was approximately 15 percent less than both the regional and nationwide averages. When compared to the nationwide average, the functional areas with the greatest difference in spending at the System's universities were instruction, institutional support, and public service.

Student Share of Educational Costs. A recent report of the Delta Cost Project, *The Growing Imbalance – Recent Trends in U.S. Postsecondary Education Finance*, states that “the sticker tuition price is increasingly meaningless as a measure of institutional revenues or prices charged to students. The more accurate measure is the student share of educational costs.” The revenue from students (tuition/fees net of financial aid) covers just a portion of what colleges and universities spend to educate a student; the balance is subsidized by the institution. With the System's colleges and universities being public institutions, the balance (institution subsidy) predominately comes from state appropriation. The student share of total expenses was 26 percent at the System's colleges which was comparable to the regional average (25 percent) and higher than the nationwide average (14 percent). The 33 percent at the System's universities was higher than both the regional and nationwide averages; 27 percent and 18 percent respectively.

CONCLUSION AND NEXT STEPS

With limited new state resources and the Board's interest in controlling tuition rate growth, colleges and universities are managing costs by cutting operations, increasing class size, reallocating resources from lower to higher priorities, downsizing, or finding new sources of revenue. Many costs are difficult to control as institutions need to make technology investments, meet deferred maintenance needs, increase salaries to remain competitive, and offer a broad array of services to a diverse student population.

Moody's Investors Service noted that the core, long-term driver of financial health for most higher education institutions is “enrollment trends and tuition flexibility.” The System has become more reliant on tuition as state appropriation support has declined from 69.7 percent to the current 50.5 percent over the past decade. The System's colleges and universities on average have less appropriation per FYE student than the regional and nationwide averages. The System's colleges have among the highest tuition and fees nationally, ranked 3rd, and on average spent 18 percent more per FYE student than the nationwide average. The System's universities ranked 17th nationally for tuition and fees and on average spent 17 percent less than the nationwide average.

Students in the lowest income quartile and enrolled at least half-time (6 credits or greater per term) paid a higher share of their total cost of attendance – 67 percent. Generally, the

percentage of the cost of attendance paid by a student increased as income increased and/or the credit load decreased.

Mission differences among the System's colleges and universities impact the cost structure – average spending per FYE student. Technical colleges that have predominately high-cost, equipment intensive technical programs with low faculty-student ratios spend more per student than community colleges that have predominately lower-cost, liberal arts/sciences offerings, with higher faculty-student ratios. Physical plant needs are impacted by the academic program mix. Instructional space needs for technical programs would be very different from instructional space needs for liberal arts/sciences.

The Board will need to balance the conflict between controlling tuition rate growth, potential eroding of state appropriation, investments in quality and innovation, interest in cost containment, impact of academic program mix on cost structure (technical programs compared to liberal arts/sciences), the desire for competitive faculty salaries, the 60/120 degree credit cap (impact on enrollment, revenue, expenses, and cost savings to students), the current structure of 32 colleges and universities (53 campuses) serving the higher education needs of Minnesota, and high gross and net tuition and fees at the System's colleges compared to nationwide averages.

The chancellor has identified the following areas as the right policy approach for a tuition program for the System. The Chancellor is seeking the Board's concurrence regarding the following:

1. Overarching principles concerning the role of tuition and its relationship to mission/vision and strategic plan:
 - Commitment to “decentralization with accountability”
 - Keep central the goal of increasing access and success – seek to balance educational quality, access and ability to pay
 - Seek the state's commitment to its partnership of financial support
 - Respect and support the diverse needs of each college and university – academic program mix and type and level of support services offered
 - Strive for moderate and predictable tuition increase
 - Ensure colleges and universities have the ability to generate sufficient revenue to provide a quality and competitive educational experience
 - Tuition program that is transparent and understandable to students and parents

The Board's tuition setting guidelines should consider factors that impact budgets of the colleges and universities including:

- Revenue composition (appropriation/tuition mix)
- State appropriation support, including outlook
- Distribution/redistribution of appropriation through the allocation framework

- Collective bargaining strategies/settlements
- Enrollment outlook
- Academic program mix
- Mission expansion
- Student demographics that drive the need for services not historically offered

Next steps: The overarching principles and tuition setting guidelines would be incorporated into the operating budget process beginning fiscal year 2010 (March-June 2009).

2. Tuition program that is transparent.

- Early Board direction on tuition setting parameters
- Communication that is clear and complete, includes policies, procedures, and guidelines

3. Tuition rate dispersion.

The Board's commitment to the principle of "decentralization with accountability" allows colleges and universities the flexibility to determine pricing structures tailored to their mission, geographic location, individual market, academic program mix, student demographics, competitive circumstances, and mix and level of services offered to students. Currently, undergraduate resident annual tuition dispersion among the colleges is 25 percent (\$869) and 18 percent (\$920) among the universities. Generally, students do not make a decision on which institution to attend solely on cost but more on academic program or geographic location. However, it is worth noting that students may choose to attend a two-year college as a means to save dollars before transferring to a four-year institution.

The dispersion that exists among the System's colleges and universities is similar to what exists in other higher education state systems. A majority of two-year institutions within other state systems had tuition and fee dispersion in the 40 percent range. Among four-year institutions, dispersion was under 30 percent for a majority of the state systems.

The System's colleges and universities have been provided institutional autonomy and broad discretion for determining academic program mix and type and level of support services provided to students. These decisions impact the level of resources needed to maintain their standards of quality. Tuition revenue supports a portion of the total educational costs. It is a balance between the cost of academic programs and services provided to students, available state appropriation, and level of tuition support. Colleges and universities are aware of the point at which tuition rates negatively affect enrollment.

There are mission differences among the System's colleges and universities. The technical colleges have predominately high-cost, equipment intensive technical programs with low faculty-student ratios. The community colleges have predominately lower-cost, liberal arts/sciences offerings, with higher faculty-student ratios. The universities offer lower and upper division as well as graduate level instruction. Enrollment among the colleges ranges from 300 to more than 6,500 FYE students and from 3,670 to more than 14,400 at the universities. On a per student basis, expenses in instruction would be greater at an institution with predominately technical programs compared to liberal arts/sciences. Expenses in non-instructional areas (institutional support, physical plant, etc.) that tend to have more fixed costs generally would be greater at an institution with lower enrollment.

Institutional autonomy and flexibility in determining pricing structures are strengths of this System. Students can choose from a broad range of educational experiences – small enrollment versus large enrollment institution; academic programs focused on technical fields versus liberal arts/sciences; commuter institution versus residential experience; state-of-the-art science labs and instructional technology; and a breadth of student support services – which require sufficient financial resources. The choices available to students differ at each college and university resulting in a different cost to offer those choices. The differing choices at each college and university result in tuition rates that vary.

The tuition setting method that sets a maximum percentage increase results in a differing level of tuition support on a per student basis. This shift has increased the dispersion of rates across colleges and universities and locked in some of the revenue disparities present at the time of the merger. An option of recommending a maximum dollar amount per FYE student increase should be considered for colleges and universities that charge relatively low tuition compared to similar institutions within the System. This method would provide specific colleges and universities with the ability to “catch up.”

Next steps: The Chancellor will continue to monitor the tuition dispersion among the System's colleges and universities. The Board will be advised of the impact of tuition increases on dispersion as part of the annual tuition setting process beginning with fiscal year 2010.

The option of recommending a maximum dollar amount per FYE student increase for colleges and universities that charge relatively low tuition compared to similar institutions within the System will be considered in the tuition setting process for fiscal year 2010.

4. Tuition structure

- Maintain the current tuition structure that provides numerous tuition pricing options for colleges and universities, cost-based and market-based. The current tuition structure recognizes the diverse academic universe within the System and provides flexibility for a college or university to consider other pricing options such as cohort, student status or income-based. The current tuition structure recognizes that different academic courses and programs have different cost profiles and different market niches, and they need not be priced identically.
- Recommend that graduate level tuition (master's and doctoral) be market-driven. The universities would have discretion in setting tuition for graduate level instruction considering such factors as student demand, cost of program, or competitor pricing.
- Guidelines should be developed for program and course differential tuition.

Next steps: The tuition structure will be incorporated into the tuition setting process for fiscal year 2010. A workgroup will be formed to develop the program and course differential tuition guidelines for implementation in the fiscal year 2010 tuition setting process.

5. Strategies for conflict between financial access and the student's net cost of attendance.

- Consider a tuition assistance grant program for financially needy students enrolled part-time. In fiscal year 2006, the lowest income, half-time students paid a higher share of their educational costs – 67 percent.
- Seek the state's commitment to fund the System at the 67/33 relationship to reduce the burden placed on students.
- The Board should develop a System position on financial aid.
- The System should lobby for changes in the state grant program for part-time students and for various loan forgiveness programs.

Next steps: A part-time student tuition assistance program would be incorporated into the 2010-2011 biennial operating budget request.

Date Presented to the Board of Trustees: September 17, 2008

MINNESOTA STATE COLLEGES AND UNIVERSITIES BOARD OF TRUSTEES

Agenda Item Summary Sheet

Committee: Finance, Facilities and Technology **Date of Meeting:** September 17, 2008

Agenda Item: FY2010-2011 Biennial Operating Budget Request (First Reading)

☐ Proposed Policy Change ☒ Approvals Required by Policy ☐ Other Approvals ☐ Monitoring

☐ Information

Cite policy requirement, or explain why item is on the Board agenda: Every other year, as part of the state's operating budget process, the Minnesota State Colleges and Universities develops a biennial operating budget request. Board Policy 5.9 Biennial and Operating Budget Planning and Administration Including Revenue Fund, Part 3, states that the Board of Trustees shall approve the biennial budget requests and systemwide allocations.

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

Outline of Key Points/Policy Issues: The Board is being asked to consider a budget request recommended by the Chancellor that is focused on infrastructure needs, access and affordability, and strategic plan advancements. The request would be financed by two sources of new revenue: increased state appropriation and additional tuition revenue plus reallocation of current resources.

The requested increase in state appropriation totals \$126.7 million, with a 4 percent (\$222 per year) average tuition increase at the universities and a 3 percent (\$122 per year) average increase at the colleges generating an additional \$68.0 million for total new revenues of \$194.7 million. In addition, the Chancellor is recommending that the System reallocate \$30.0 million of existing resources to generate the necessary resources to support a total package of \$224.7 million.

Background Information: The development of the biennial operating budget request has been guided by the 2008-2012 strategic plan and the 2009 action plan and tempered by the financial outlook of the State of Minnesota.

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

First Reading

BOARD ACTION
Fiscal Years 2010-2011 Biennial Operating Budget

BACKGROUND

Every other year, as part of the state's operating budget process, the Minnesota State Colleges and Universities develops a biennial operating budget request. The request for the 2010-2011 biennium is due to the Department of Finance and Employee Relations and the Governor on October 15, 2008. The following proposal is submitted for the committee's consideration. A public hearing will be scheduled in October 2008 at which time campus constituents and the public will be invited to comment to the committee about the proposal. The committee and the Board will be asked to adopt a final proposal at the Board meeting scheduled for November 18 and 19, 2008. The Department of Finance and Employee Relations has been apprised of the later date for approval and will accommodate it in their process.

STRATEGIC OUTLOOK

In March 2008, the Board adopted its strategic plan for 2008-2012, *Designing the Future*, with the following four strategic directions:

1. Increase access and opportunity.
2. Promote and measure high-quality learning programs and services.
3. Provide programs and services that enhance the economic competitiveness of the state and its regions.
4. Innovate to meet current and future educational needs

The following five strategic priorities are included in the adopted 2009 action plan:

1. Reaching the Underrepresented
2. Science, Technology, Engineering, and Mathematics (STEM)
3. Tuition Study and Price of Attendance
4. Succession Planning
5. Workforce of the Future

The development of the biennial operating budget request has been guided by the 2008-2012 strategic plan and the 2009 action plan and tempered by the financial outlook of the State of Minnesota.

I. THE ECONOMIC ENGINE

The Minnesota State Colleges and Universities serve 6,000 employers across the state, providing workforce development opportunities to 151,000 employees each year. The training is tailored to the needs of employers, so employees get exactly the skills they need for the job, with training often provided at the workplace. The System also responds to dramatic changes in the state economy by providing retraining opportunities to displaced workers.

The 34,000 state college and university students who graduate each year make Minnesota work: business owners and teachers, nurses and carpenters, social workers and electricians, journalists and lab technicians, city managers and police officers, accountants and computer programmers and more. Statewide, the colleges and universities contribute to successful communities by providing education and training for:

- More than half of the state's new teaching graduates;
- 82 percent of the state's new nursing graduates;
- 89 percent of the state's law enforcement officers;
- 41 percent of new business graduates;
- 89 percent of new graduates in the construction trades; and
- 9,000 of the state's "first responders" – those first on the scene when disasters and emergencies strike – each year.

Almost 87 percent of these graduates land jobs related to their field of study within a year of graduation. Of critical importance to the state's investment in these students is that 83 percent of all graduates stay in Minnesota to work or to continue their education.

Companies of all sizes in every region of the state depend on the Minnesota State Colleges and Universities System to prepare and maintain a qualified workforce, increase workplace productivity and support new business growth. The System's colleges and universities provide career preparation and continuing career education for more Minnesotans than any other organization in the state. The institutions work closely with business and industry to develop and deliver skill-based instruction identified as essential by employers and executives.

There has been a broad range of skill-based instruction provided to business and industry. Training has occurred in advanced packing automation and motion control; environmental and safety issues for the ethanol industry; composite technology; lean manufacturing; Six Sigma; and web offset press and bindery training.

The continuing education component of the System's efforts to serve training and development needs of the workforce makes training possible through non-credit instruction. The System's colleges and universities can provide coursework that leads to skill advancement and increased employability. Individuals who enroll in continuing education

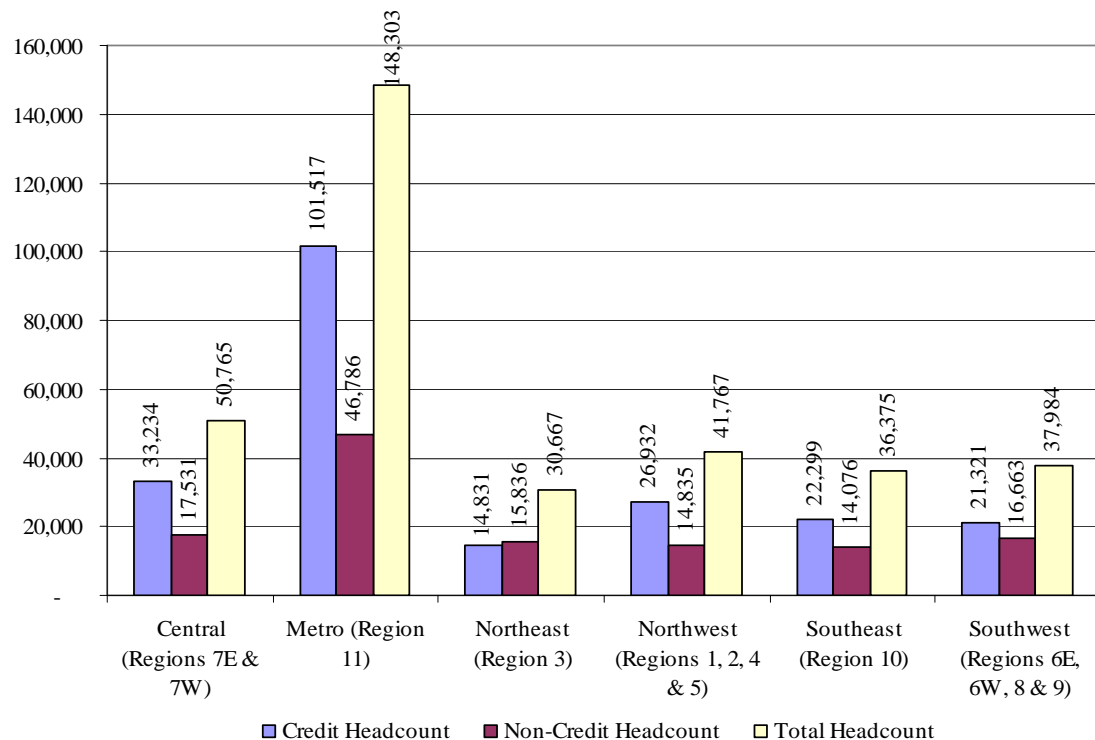
are generally seeking skill-upgrades to retain an existing job, improve upon their skills to support a new job or advance in their current position.

There are 47 workforce development centers located throughout Minnesota, with 8 centers located onsite at the System colleges. In fiscal year 2008, System colleges partnered with local workforce development centers and workforce investment boards, as well as business and industry partners, to win \$6 million in competitive grants from the U.S. Department of Labor. The four projects funded will increase the number and quality of workers prepared for employment in Minnesota's construction, health care, and energy industries.

The System educates about 382,000 students each year at 32 institutions on 53 campuses in 46 communities across the state; about 242,000 of those students are enrolled in credit-based courses. All economic development regions in the state directly benefit from the education and training provided to the students enrolled in credit and non-credit courses at the System's colleges and universities. Students enrolled in non-credit courses (approximately 125,000) are predominately individuals in the current workforce. Graph A shows student headcount in credit and non-credit courses by the Minnesota Department of Employment and Economic Development regions.

Graph A

**Minnesota State Colleges and Universities
Fiscal Year 2007 Credit and Non-Credit Headcount
By Department of Employment and Economic Development Regions**



Employment in the Minnesota State Colleges and Universities System is spread over 53 campuses in 46 communities across the state. The System is the largest state agency and comprises 38 percent of its workforce. The System is larger than the next three state agencies combined. Over 67 percent of the workforce is employed in communities outside of the Minneapolis-St. Paul metropolitan area. As a significant employer throughout the state, the Minnesota State Colleges and Universities are vital components of local economies.

Faculty members comprise 63 percent of the 19,486 total employees. Staff makes up 34 percent of the total and administrators make up 3 percent. On a full-time-equivalent basis, the total number of employees system wide was 14,903 for fiscal year 2007.

II. SHARED FINANCING RESPONSIBILITY

Measured on a full year equivalent (FYE) basis, enrollment is about 140,000 students per year. The vast majority – 86 percent – of those students are Minnesota residents; however, more than 3,300 students come from other countries.

Full-time students comprise about 59 percent of the total. Undergraduate students make up about 97 percent of all enrollment. The System is the fifth largest system of two- and four-year colleges and universities in the country, based on student enrollment. All of the System's two-year community and technical colleges have an open admissions policy, which means that anyone with a high school diploma or GED may enroll.

The Minnesota State Colleges and Universities System educates students from diverse academic, financial, cultural, racial and ethnic backgrounds. The colleges and universities educate students who are looking for an opportunity to better their lives and those of their families. The colleges and universities educate students who rank at the top of their class. The System enrolls more students of color than any other higher education provider in Minnesota – close to 33,000 in fiscal year 2007, not including international students. In addition, the System educates more than 20,000 high school students taking college courses through the Post-Secondary Enrollment Options program. About 5,900 students with disabilities were enrolled in fiscal year 2007. Enrollment of women exceeds that of men by 56 percent to 44 percent. The average age of students is 25.4 years. About 35 percent of all students are over age 25.

The colleges and universities offer over 3,900 academic programs that result in a credential – a degree, a diploma or a certificate. These programs are dynamic; from year to year, new programs are created and other programs are suspended or closed in response to declining enrollment or reduced labor market demand. In the past two years, our System has introduced 352 new programs, redesigned 563 programs, and closed or suspended 362 programs. Academic program declines in areas such as agricultural business and management, general sales, merchandising and related marketing operations, business operations support and assistant services, and vehicle maintenance and repair technologies have been offset by new programs in computer software and media applications, computer engineering technologies, nursing, and business administration and management. Almost 60,000 students each year are able to complete part of their education through online course

work. The System's colleges and universities now offer more than 230 programs completely or predominately online and more than 8,000 credit and non-credit course sections online.

For many years Minnesota has led the nation with a policy of "Shared Responsibility." The principle behind the policy is that both a public and a private benefit are derived from investment in post secondary education. The state's policy has been to value the public investment at 2/3 of the cost of the education and the private investment at 1/3 the cost. The policy was expressed both in state funding levels for the System and in the development and administration of the state's financial aid program.

The state has not been able to fund its commitment to this policy for many years. While the policy statement remains in statute, the funding levels have declined over time. In the last decade, the System has seen revenue from tuition increase faster than state appropriation. Between fiscal years 1997 and 2007, the System saw an overall increase of 3.7 percent in state appropriation per FYE student, while tuition increased 105 percent during that same time period. (Graph B) Tuition has financed the state and student share of inflation.

Graph B

**Minnesota State Colleges and Universities
State Appropriation and Tuition
Per Full-Year Equivalent Student
Fiscal Years 1997 to 2009**



Despite increases in tuition and more recent increases in state appropriation, the System's purchasing power is declining. Between fiscal years 1997 and 2007, actual appropriation and

tuition per FYE student increased overall 37 percent (\$6,396 to \$8,784); when adjusted for inflation, the increase was just 6 percent (\$6,396 to \$6,801). (Graph C)

Graph C

**Minnesota State Colleges and Universities
Total State Appropriation and Tuition Funding Per
Full-Year Equivalent Student
Fiscal Years 1997-2009**



The System has responded to the declining purchasing power with aggressive cost controls, cost re-allocations and tuition increases. Even with the aggressive cost controls of the past ten years, the increased burden on students has been substantial.

III. AGENT OF CHANGE

The Minnesota State Colleges and Universities leads public colleges and universities across the nation in the establishment of a very exacting process of strategic planning, goal setting, measurement, and accountability for results. The 2008-2012 strategic plan guides the efforts of 32 colleges and universities and the staff in the Office of Chancellor. An annual action plan is adopted by the Board of Trustees which includes measurable goals with targets for each specific strategy. The goals are then translated to the work plan for the System leadership and measured as part of the annual performance evaluation process.

The Accountability Dashboard is a part of the change that has taken place in the past years. The Dashboard, which has received national attention, allows members of the public access in a transparent, accessible manner to key performance measures for each of the colleges and

universities and the System overall. The following ten key performance measures are tied to the four strategic directions within the strategic plan:

Access and Opportunity

- Percent change in enrollment
- Net tuition and fees as percent of median income

Quality Programs and Services

- Licensure exams pass rate
- Persistence and completion rate
- High quality learning
- Student engagement

Meet State and Regional Economic Needs

- Partnerships
- Related employment of graduates

Innovation and Efficiency

- Innovation
- Facilities condition index

Data is available and displayed on six of these measures, and data collection for a seventh is underway. The remaining three (learning outcomes, partnerships and innovation) are under development and will be completed in 2009. Substantial effort will be devoted to improving these performance measures. For example, each presidential work plan includes strategies to support these measures as well as other priorities of the System's strategic plan

IV. PROCESS SUMMARY

It was important that development of the System's biennial operating budget be a collaborative process between the Board, the Leadership Council, and constituent groups. The development of the 2010-2011 biennial budget request began in May 2008 with a report to the Board regarding a proposed budget development process. All of the System's constituent groups have participated in multiple discussions concerning the proposal and were invited to propose elements for inclusion. The Leadership Council has been providing oversight and input as the proposal took shape. Information about the biennial operating budget process has been shared with the Board of Trustees at several meetings. Trustee input was also requested in order to frame the request in accordance with the goals of the Board. Most of the colleges and universities and constituent groups submitted items for consideration in the biennial operating budget request.

The state's most recently released planning estimates for 2010-2011 were considered as the System developed its 2010-2011 biennial operating budget request. The state has estimated, after 2008 legislative session adjustments, a \$940 million deficit in the 2010-2011 biennium before consideration of cost inflation. The deficit would increase by an additional \$1.04 billion assuming the Department of Finance and Employee Relation's initial inflation

planning estimate of 1.9 percent increase per year. The state's economic outlook has a significant influence on the System's economic future. Slightly more than half of the System's general fund is supported by state appropriation. The System moves into the 2010-2011 biennium with a \$7.7 million reduction in appropriation as a result of 2008 legislative adjustments. In addition, the System will experience inflationary cost increases. This budget request represents a balanced approach to financing public higher education. It asks the Legislature and the people of Minnesota to invest in students, it asks students to continue to invest in their own education, and it anticipates reallocating \$20.0 million in existing resources to fund a share of the inflationary costs and academic initiatives.

A public hearing will be scheduled in October 2008 to allow additional input before the Board is asked to vote on the proposal at the November Board meeting.

V. PROPOSAL

The Board is being asked to consider a budget request recommended by the Chancellor that is focused on infrastructure needs, access and affordability, and strategic plan advancements. The request would be financed by two sources of new revenue: increased state appropriation and additional tuition revenue plus reallocation of current resources.

The requested increase in state appropriation totals \$126.7 million, with a 4 percent (\$222 per year) average tuition increase at the universities and a 3 percent (\$122 per year) average increase at the colleges generating an additional \$68.0 million for total new revenues of \$194.7 million. In addition, the Chancellor is recommending that the System reallocate \$20.0 million of existing resources to generate the necessary resources to support a total package of \$214.7 million. (Table 1).

Table 1

**Minnesota State Colleges and Universities
Fiscal Years 2010-2011 Biennial Operating Budget
Request Components**

(\$ in millions)				
Request Components		FY2010	FY2009	Biennium
Inflation		\$15.9	\$32.2	\$48.1
Tuition Assistance		\$15.0	\$19.5	\$34.5
Academic Initiatives		\$9.5	\$16.7	\$26.2
State University Faculty Compensation Special		\$5.9	\$12.0	\$17.9
Total New State Appropriation Request		\$46.3	\$80.4	\$126.7
Tuition Assumption: 4% universities; 3% colleges		\$22.4	\$45.6	\$68.0
Total New Revenues		\$68.7	\$126.0	\$194.7
Reallocation Commitment		\$7.0	\$13.0	\$20.0

A. Inflation. In accordance with the Department of Finance and Employee Relations guidelines, inflation is assumed at 3 percent each year for total compensation and other operating expenses. Overall, the inflation assumptions incorporated into this budget request total \$133.6 million. The inflation costs would be covered by a combination of increased state resources and tuition dollars as follows:

- State appropriation: \$48.1 million
- Tuition: \$68.0 million. The package assumes a 4 percent (\$222 per year) average annual tuition increase at the universities and a 3 percent (\$122 per year) average increase at the colleges.
- Tuition buy down: The \$10.6 million of state resources requested to replace 1 percent of college tuition
- Reallocation: \$6.9 million of existing resources will be reallocated to supplement the amount available to cover inflation.

The inflationary funds would allow the System to invest in its workforce, strengthen its ability to recruit and retain a high quality workforce that delivers exceptional services, and reward exceptional performance.

B. Tuition assistance. The request includes \$34.5 million for tuition assistance. The

state resources would be used to fund the following tuition assistance programs:

- 1. Tuition buy down:** The tuition buy down would be supported by \$10.6 million of state resources to replace 1 percent of college tuition. The Board of Trustees is concerned with the national ranking of tuition and fees at the System's two-year colleges. The Chancellor's budget request assumes a 3 percent average tuition increase at the System's colleges. The additional state resources would ensure that the colleges have revenue that equals a 4 percent average increase in tuition; 3 percent from students and 1 percent from state resources.
- 2. Power of You:** The request includes \$5.3 million of state resources to be used to continue the successful program, Power of You, and expand the program to 4 institutions, 2 located in the metropolitan area and 2 located in greater Minnesota. The current Power of You program provides high school graduates of Minneapolis or Saint Paul public schools, who are residents of Minneapolis or Saint Paul, the chance to attend Metropolitan State University, Minneapolis Community and Technical College or Saint Paul College tuition-free for 2 years or 72 credits. The Power of You program also provides support services to ensure the academic success of the Power of You students. The additional state resources would ensure that the tuition assistance and support services continue at the current locations and would be expanded to new locations.
- 3. Part-Time Student Grant Program:** The request includes \$18.6 million of state resources for a new part-time student grant program. This grant program would be campus-based with grants awarded to financially needy Minnesota resident undergraduate students enrolled between 4 and 14 credits per term. A special focus would be on financially needy students who are enrolled part-time and who also work part-time (as these students are most often disadvantaged by the Minnesota State Grant proration formula for part-time students).

C. Academic initiatives. The request includes \$26.2 million of state resources to enable the System to move forward and make significant progress toward its strategic goals. The Chancellor is also recommending that the System reallocate \$13.1 million of existing resources to be used for the Workforce 2020 initiatives. The requested funds would support the following initiatives:

1. Workforce 2020 - \$21.2 million

- **Healthcare and manufacturing education (\$10.0 million):** These are the state's first- and second-largest industries facing the most critical workforce and skills shortage in the future. The funds would be used to support the following:
 - Increase the number of bachelor's prepared nurses
 - Focus on innovation, patient safety, and program accreditation
 - Support students who serve rural Minnesotans
 - Address the greater bottleneck – availability of nursing faculty

- Expand programs that develop skills in underrepresented students
- **Science, technology, engineering and math (STEM) education (\$10 million):** The funds would be used to continue support for the following:
 - Improve student preparation for college (e.g., bridge programs, K-12 outreach)
 - Increase student engagement and success (e.g., undergraduate research opportunities, faculty professional development)
 - Increase student knowledge of career opportunities and skill requirements (e.g., internships, curriculum developed in partnership with industry)
 - Develop and recruit effective STEM teachers and faculty
 - Provide infrastructure for effective STEM education (e.g., leveraged equipment program)
- **Entrepreneurship and small business education (\$1.2 million):** The entrepreneurship and small business education disciplines are most critical to fueling Minnesota's innovation economy. The funds would be used to establish ten new entrepreneurship and business management education programs that will serve 350-450 new entrepreneurs and small business owners including underrepresented populations.

2. Capacity building for the Metropolitan area - \$5.0 million: The \$5.0 million of state resources would be used to support the metropolitan area planning initiative to aggressively expand the capacity to provide baccalaureate and graduate education within the metropolitan area.

D. State university faculty compensation special. The request includes \$17.9 million to further the System's efforts to improve the relative competitiveness of the base salaries of university faculty in order to improve the System's ability to attract and retain outstanding faculty. Any salary increase will be the product of good faith collective bargaining in which the state universities will continue its efforts to develop a work environment that facilitates the delivery of high quality, high value educational opportunities that our students expect.

The tuition assumption in this request is predicated on receipt of the full \$126.7 million in requested new state appropriation resources. The tuition assumption incorporated into this request recognizes the Chancellor and Board's interest in limiting the growth of tuition rates. If state resources are appropriated in an amount other than the request, the Chancellor would return to the Board after the conclusion of the legislative session for additional discussion regarding tuition.

VI. SUMMARY

The 2010-2011 biennial operating budget request is dedicated to supporting the System's infrastructure and advancing the strategic plan. This biennial operating budget requests adds an additional \$126.7 million (9.3 percent increase) of state appropriation to the System's current base of \$1,364.8 million for a 2010-2011 biennium total appropriation of \$1,491.5 million. (Table 2)

Table 2

Minnesota State Colleges and Universities Fiscal Year 2010-2011 Biennial Operating Budget Request

(\$ in millions)	Fiscal Years 2010-2011	Percent Change
Base Appropriation	\$1,364.8	
Appropriation Request	\$126.7	9.3%
Total Fiscal Years 2010-2011 State Appropriation	\$1,491.5	

VII. RECOMMENDED COMMITTEE ACTION

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

RECOMMENDED MOTION:

The Board of Trustees is committed to providing high-quality, accessible education at all Minnesota State Colleges and Universities. The Board strongly urges the state of Minnesota to support the Minnesota State Colleges and Universities 2010-2011 biennial operating budget request as illustrated in Table 2. This budget request builds in a modest tuition increase that supports the Board of Trustees' interest in affordability and accessibility. The Board of Trustees is committed to providing the System's colleges and universities with the ability to generate sufficient financial resources to provide a quality and competitive education to the learners of today. Final tuition decisions will be made at the conclusion of the 2009 legislative session.

The Minnesota State Colleges and Universities' Board of Trustees approves the final 2010-2011 Minnesota State Colleges and Universities biennial operating budget request for transmittal to the Department of Finance and Employee Relations. The Chancellor is requested to provide periodic updates on the progress of the budget through the executive and legislative branch review and approval process.

Date Presented to the Board: September 17, 2008