

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

**Agenda Item Summary Sheet**

**Committee:** Finance, Facilities and Technology    **Date of Meeting:** April 20, 2010

**Agenda Item:** FY 2012-2013 Biennial Operating Budget Request

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 report is to seek direction from the Finance, Facilities and Technology Committee regarding development of a 2012-2013 biennial operating budget request.

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

**Outline of Key Points/Policy Issues:** A significant state budget deficit is projected for 2012-2013. The state's economic outlook has a significant influence on the system's economic future. The financial outlook for the system for 2012-2013 is more than likely one of reduced state resources.

**Background Information:** Every other year the system develops a biennial operating budget request. Input is being sought from the Committee regarding interest in developing a biennial operating budget request for new state resources.

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

|   |
|---|
| <b>INFORMATION ITEM</b>                               |
| <b>FY 2012-2013 Biennial Operating Budget Request</b> |

**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 2012-2013 biennium is due to the Governor and Minnesota Management and Budget in the fall of this year. Direction from the Finance, Facilities, and Technology Committee is sought to determine if the system should move forward with development of an operating budget request in light of the state’s projection of a significant budget deficit for the 2012-2013 biennium.

**Financial outlook for 2012-2013 biennium**

The state’s most recently released planning estimates for the 2012-2013 biennium projects a structural shortfall of \$5.789 billion. As specified in current law, projected spending does not include general expenditure inflation which would add an additional \$1.181 billion to spending estimates for the next biennium assuming a 2.1 percent increase in fiscal year 2012 and a 1.9 percent increase in fiscal year 2013. (Table 1) With a projected \$5.789 billion deficit before consideration of general expenditure inflation, the 2011 legislative session will be a difficult one. The November 2010 and February 2011 revenue forecasts will set the stage for deliberations.

**Table 1** **State of Minnesota  
FY2012-2013 Planning Estimates**

| (\$ in millions)                | February Forecast |
|---------------------------------|-------------------|
| Revenues                        | \$32,906          |
| Expenditures                    | \$38,695          |
| <b>Difference</b>               | <b>(\$5,789)</b>  |
| <i>Inflation estimate (CPI)</i> | <i>\$1,181</i>    |

*Planning assumptions assume:*

- Complete repayment of the K-12 aid deferral. Delaying repayment would save \$1.163 billion.
- No repayment of the K-12 property tax recognition shift. Repayment would cost \$564 million.
- No continued GAMC spending. Restoring the program would cost \$928 million.

Source: Minnesota Management and Budget, February 2010 Forecast.

The state’s economic outlook has a significant influence on the system’s economic future. With the system’s relationship between state appropriation and tuition of 45 percent appropriation and 55 percent tuition, a large portion of its general fund revenue comes from the state of Minnesota. The financial outlook for the system also shows a structural shortfall for the 2012 and 2013 biennium. The system’s fiscal year 2011 general operating fund expenses are projected to be \$1.5 billion (adjusted to exclude the use of fund balance). After factoring in the governor’s planning assumption of \$594.4 million of appropriation, expenditure inflation assumptions at the CPI level of 2.1 percent and 1.9 percent, the system is projecting a \$91.9 million shortfall over the next biennium. This estimate is prior to consideration of any further appropriation reductions, additional tuition revenue as a result of rate increases or enrollment change, and labor settlement costs above the CPI inflation assumptions. (Table 2)

**Table 2 Minnesota State Colleges and Universities  
General Fund Planning Outlook**

| (\$ in millions) | <u>FY2011</u>    | <u>FY2012</u>    | <u>FY2013</u>    |
|------------------|------------------|------------------|------------------|
| <b>REVENUES</b>  |                  |                  |                  |
| Appropriation    | \$605.5          | \$594.4          | \$594.4          |
| Tuition          | \$789.6          | \$789.6          | \$789.6          |
| Other revenue    | \$128.0          | \$128.0          | \$128.0          |
| <b>Total</b>     | <b>\$1,523.1</b> | <b>\$1,512.0</b> | <b>\$1,512.0</b> |
| <b>EXPENSES</b>  |                  |                  |                  |
| Compensation     | \$1,097.2        | \$1,120.3        | \$1,118.2        |
| Other operating  | \$414.6          | \$423.3          | \$422.6          |
| <b>Total</b>     | <b>\$1,511.9</b> | <b>\$1,543.6</b> | <b>\$1,540.8</b> |
| <b>GAP</b>       | <b>\$11.3</b>    | <b>(\$31.6)</b>  | <b>(\$28.7)</b>  |

Note:

1. Biennium budget gap is equal to the 2012 gap times 2 plus the 2013 gap = \$91.9 million.
2. The model assumes the previous year's budget gap is solved before calculating the following year's budget gap.
3. Model does not contain a tuition rate increase or change in volume in 2012 or 2013.
4. Model assumes labor costs increase at CPI only.

In the supplemental higher education bill, the legislature set the system’s base for the next biennium at \$632.4 million per year. However, for planning purposes the system is continuing to use the governor’s planning assumption of \$594.4 million which recognizes the unallotment as a permanent base reduction.

The financial outlook for the system is more than likely one of reduced state resources, assuming spending reductions are part of the legislative solution to the 2012-2013 deficit. The system represents 3.9 percent of the state's general operating budget. If half of the state's projected deficit was solved through spending reductions, the impact on the system could be at least a \$100 million reduction over the next biennium. Assuming a base appropriation reduction of \$35 million from the governor's planning estimate in fiscal year 2012 and an additional \$35 million base reduction in FY2013, the system would have a budget gap of \$196.3 million over the biennium. This shortfall is before any additional tuition revenue as a result of rate increases or enrollment growth and without consideration of labor contract settlements above CPI inflation assumptions. (Table 3)

**Table 3** **Minnesota State Colleges and Universities**  
**General Fund Planning Outlook**  
**Model for Forecasting Appropriation Reductions**  
**Fiscal Years 2012-2013**

| (\$ in millions) | <u>FY2011</u>    | <u>FY2012</u>    | <u>FY2013</u>    |
|------------------|------------------|------------------|------------------|
| <b>REVENUES</b>  |                  |                  |                  |
| Appropriation    | \$605.5          | \$559.4          | \$524.4          |
| Tuition          | \$789.6          | \$789.6          | \$789.6          |
| Other revenue    | \$128.0          | \$128.0          | \$128.0          |
| <b>Total</b>     | <b>\$1,523.1</b> | <b>\$1,477.0</b> | <b>\$1,442.0</b> |
| <b>EXPENSES</b>  |                  |                  |                  |
| Compensation     | \$1,097.2        | \$1,120.3        | \$1,092.3        |
| Other operating  | \$414.6          | \$423.3          | \$412.8          |
| <b>Total</b>     | <b>\$1,511.9</b> | <b>\$1,543.6</b> | <b>\$1,505.1</b> |
| <b>GAP</b>       | <b>\$11.3</b>    | <b>(\$66.6)</b>  | <b>(\$63.1)</b>  |

Note:

1. Biennium budget gap is equal to the 2012 gap times 2 plus the 2013 gap = \$196.3 million.
2. The model assumes the previous year's budget gap is solved before calculating the following year's budget gap.
3. Model does not contain a tuition rate increase or change in volume in 2012 or 2013.
4. Model assumes labor costs increase at CPI only.

As shown below in Table 4 below, a one percent increase in the tuition rate would reduce the budget gap by \$7.9 million. A four percent tuition increase would generate an additional \$31.6 million in revenue, reducing the budget gap by half. A one percent increase in compensation above the CPI assumption would increase expenses by an additional \$11.2 million.

**Table 4**

**Minnesota State Colleges and Universities  
Tuition and Compensation Impact on Budget Gap**

| (\$ in millions)                | <u>FY2012</u>   | <u>FY2013</u>   |
|---------------------------------|-----------------|-----------------|
| <b>GAP</b>                      | <b>(\$66.6)</b> | <b>(\$63.1)</b> |
| 1 percent tuition rate increase | \$7.9           | \$7.9           |
| 1 percent compensation increase | \$11.2          | \$11.2          |

**Development process of the biennial operating budget request**

The development of the system’s biennial budget request is a collaborative process between the Board, the Leadership Council, and constituent groups. The development process used to generate the operating budget request would seek input over several months from the system’s stakeholders regarding the content of the operating budget request. Conversations with stakeholders would occur at scheduled meet and discuss with students, meet and confer sessions with bargaining groups, Leadership Council, and other venues with system constituents. Based on the input from the stakeholders, the chancellor would develop and release his recommendation for the biennial operating budget request to the Board for its action in late fall.

Historically, the biennial operating budget request seeks resources for inflationary costs and for advancement of the strategic priorities of the Board. The funding of a biennial operating budget request is typically structured as a shared responsibility between the state, students, and the system. The operating budget request would include additional state resources (state responsibility), a tuition expectation (student responsibility), and reallocation of current resources (system responsibility).

In the current biennium, the operating budget requested approved by the Board sought new funds totaling \$71.7 million, a 5.3 percent increase over the 2010-2011 base appropriation of \$1,363.4 million. The budget request was for inflationary costs only. Although the system requested new state resources, the final Omnibus Higher Education bill reduced the system by \$92.7 million, a 6.8 percent reduction. In addition, a governor’s unallotment and the 2010 supplemental higher education budget bill reduced the system’s fiscal year 2011 appropriation by another \$60.5 million. The total reduction

in this biennium will be \$153.2 million (11 percent). However, the system received \$79.2 million of one-time federal stimulus aid through the American Recovery and Reinvestment Act (ARRA) of 2009, for a net reduction of \$74 million, 5.4 percent.

With the exceptions of the 2004/2005 and 2010/2011 biennia when the state was dealing with large budget deficits, the legislature has funded from 34 percent to 86 percent of the system’s biennial operating budget requests. Table 5 shows the success of the system in receiving new operating budget resources from the Legislature.

**Table 5** **Minnesota State Colleges and Universities**  
**Biennial Budget Request Versus Funded**  
**Fiscal Years 1996 to 2011**  
**(\$ in millions)**

| <u>Fiscal Years</u>                            | <u>New Funds Requested</u> | <u>Funded</u> |
|--|----------------------------|---------------|
| 1996/1997                                      | \$115.7                    | \$42.5        |
| 1997 Supplemental                              | \$29.7                     | \$4.9         |
| 1998/1999                                      | \$127.9                    | \$110.5       |
| 1999 Supplemental                              | \$42.0                     | \$36.0        |
| 2000/2001                                      | \$253.0                    | \$104.4       |
| 2001 Supplemental                              | \$21.6                     | \$13.2        |
| 2002/2003                                      | \$310.9                    | \$105.0       |
| 2003 Supplemental                              | \$0                        | (\$22.7)      |
| 2004/2005                                      | \$107.6                    | (\$189.0)     |
| 2006/2007                                      | \$197.3                    | \$107.5       |
| 2008/2009                                      | \$177.0                    | \$151.8       |
| 2009 Supplemental                              | \$0                        |               |
| 2010/2011                                      | \$71.7                     | (\$92.7)      |
| 2010 Supplemental (and governor’s unallotment) | \$0                        | (\$60.5)      |

With the state’s lack of resources and competing legislative priorities, the system will most likely find itself in the position of making a strong case for maintaining its current base funds in an environment where the legislature will be making spending reductions. Such a prospect is a daunting challenge to the system which provides services that are indisputably critical to the future of the state and its citizens. The colleges and universities will be pressured to balance a decrease in state resources while trying to provide affordability and accessibility for students.

**Summary**

Direction will be sought from the Finance, Facilities, and Technology Committee regarding consideration of the formulation of a 2012-2013 biennial operating budget request. The Committee will need to consider the state's economic outlook and its desire to further advance the Board's strategic plan. If it is the Committee's desire for the system to pursue development of a biennial budget request that seeks new resources above the forecast base, the Chancellor and Vice Chancellor – Chief Financial Officer will seek advice as to the content, size, and role of tuition in the budget request that would move forward.

*Date Presented to the Board of Trustees: April 21, 2010*