

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

**Agenda Item Summary Sheet**

**Committee:** Finance and Facilities

**Date of Meeting:** March 15, 2010

**Agenda Item:** Minnesota State Colleges and Universities System and State Economic Outlook for FY2011-2013

- Proposed Policy Change       Approvals Required by Policy       Other Approvals       Monitoring
- Information

**Cite policy requirement, or explain why item is on the Board agenda:** The system is continuing budget planning for the 2012-2013 biennium. The budget planning is incorporating a set of assumptions about appropriation reductions, tuition rate increases, and inflationary cost increases.

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

**Outline of Key Points/Policy Issues:** The purpose of this report is to continue a discussion with the Finance and Facilities Committee regarding the budget outlook for 2012-2013 biennium. For the past few years, the system has been engaged in multi-year budget planning. The governor has released a biennial operating budget request as well as an updated economic forecast for the state of Minnesota.

**Background Information:** The Office of the Chancellor and the colleges and universities are continuing with their multi-year budget planning process, with consultation with campus communities, and with making budget reduction decisions. Colleges and universities have taken strong budget actions over the past few years and are continuing to make decisions on staff reductions and closure of academic programs and offerings. To date, 27 colleges and universities have announced position reductions (approximately 680 positions), 17 have implemented early separation programs, 14 have announced planned closure of 81 programs, and 21 have preliminary fiscal year 2012 budget plans that utilize fund balance.

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

<b>INFORMATION ITEM</b>
<b>Minnesota State Colleges and Universities System and State Economic Outlook for FY2012-2013</b>

**BACKGROUND**

The purpose of this report is to continue a discussion with the Finance and Facilities Committee regarding the budget outlook for 2012-2013 biennium. For the past few years, the system has been engaged in multi-year budget planning. The governor has released a biennial operating budget request as well as an updated economic forecast for the state of Minnesota.

**Governor’s biennial operating budget recommendation**

Governor Dayton released on February 15, 2011 his proposed 2012-2013 budget recommendation to address a \$6.2 billion forecast shortfall. The budget recommendation contains a total reduction of \$170.9 million to higher education. The Minnesota Office of Higher Education receives a reduction of \$18.2 million, the University of Minnesota a \$77.1 million reduction, and the Minnesota State Colleges and Universities a \$75.6 million (6 percent) from forecast base. Going forward into the 2014-2015 biennium, the governor is recommending \$75.6 million as a permanent base reduction and a beginning base of \$592.5 million for the system. Table 1 shows the impact of the governor’s budget recommendation on the system.

**Table 1**                      **Minnesota State Colleges and Universities  
FY2012-2013 Governor’s Budget Recommendation  
(\$ in millions)**

	<b>FY2012</b>	<b>FY2013</b>	<b>Biennium</b>
Base forecast	\$630.4	\$630.4	\$1,260.7
Governor's recommendation	\$592.5	\$592.5	\$1,185.1
Reduction	(\$37.8)	(\$37.8)	(\$75.6)

The governor’s budget balances the \$6.2 billion deficit with \$4.129 billion in tax increases and net \$1.94 billion in spending reductions. Included in the Governor’s budget are a fourth tier income tax at 10.95 percent, a 3 percent surtax on incomes over \$500,000, and various other tax increases. On the spending side, most of the \$1.904 billion of reductions comes from the K-12 shift; specifically the \$1.455 billion shift would not be repaid in the 2012-2013 biennium. Table 2 shows the impact of the governor’s budget recommendations.

**Table 2 Governor's 2012-2013 Budget Recommendations**  
(\$ in millions)

<b>General Fund</b>	<b>November Forecast FY2012-2013</b>	<b>Governor's Proposed Actions</b>	<b>Governor's Budget FY2012-2013</b>
<b>Beginning balance</b>	<b>\$674</b>	<b>(\$14)</b>	<b>\$660</b>
Revenues	\$32,443	\$4,129	\$36,572
Expenditures	\$39,030	(\$1,940)	\$37,090
Reserves	<u>\$275</u>	<u>(\$136)</u>	<u>\$139</u>
<b>Budget balance</b>	<b>(\$6,188)</b>	<b>\$6,191</b>	<b>\$3</b>

Source: Governor Mark Dayton FY2012-13 Biennial Budget, February 15, 2011

The Legislature will consider the Governor's budget recommendation when developing its budget for the state of Minnesota.

### State economic outlook

On February 28, 2011 Minnesota Management and Budget released the state's February 2011 economic forecast. The February forecast is showing more than a billion dollar improvement from a \$6.2 billion budget deficit to a \$5.028 billion deficit for the 2012-2013 biennium. The state will end the current fiscal year with a \$663 million surplus.

In the current biennium, general fund revenues are \$97 million higher due to modest increases in income, sales, and corporate tax. The expenses are \$167 million lower than the November forecast primarily due to changes in the implementation of the early Medicaid Assistance expansion. As shown in Table 3, the net change is an additional \$264 million added to the budget balance.

**Table 3 State of Minnesota**  
**Fiscal Years 2010-2011 Forecast**  
(\$ in millions)

	<b>November Forecast</b>	<b>February Forecast</b>	<b>Difference</b>
<b>Beginning balance</b>	<b>\$447</b>	<b>\$447</b>	<b>\$0</b>
Revenues	\$30,565	\$30,662	\$97
Expenditures	\$30,338	\$30,171	(\$167)
Cash flow account	\$275	\$275	\$0
<b>Balance</b>	<b>\$399</b>	<b>\$663</b>	<b>\$264</b>

Source: Minnesota Management and Budget, February 2011 Forecast

For the 2012-2013 biennium, general fund revenues are now forecast at \$33.33 billion, an increase of \$887 million (2.8 percent) over the November forecast. More than half of the projected increase in revenues is attributed to individual income tax (most of which is growth in capital gains), and an increase in sales tax revenue accounts for another 30 percent of the growth. Expenses are projected to be \$39.021 billion, just slightly below the November forecast. (Table 4)

**Table 4**

**State of Minnesota  
Fiscal Years 2012-2013 Forecast  
(\$ in millions)**

	<u>November Forecast</u>	<u>February Forecast</u>	<u>Difference</u>
<b>Beginning balance</b>	<b>\$674</b>	<b>\$938</b>	<b>\$264</b>
Revenues	\$32,443	\$33,330	\$887
Expenditures	\$39,030	\$39,021	(\$9)
Cash flow account	\$266	\$266	\$0
Budget reserve	\$9	\$9	\$0
<b>Balance</b>	<b>(\$6,188)</b>	<b>(\$5,028)</b>	<b>\$1,160</b>

Source: Minnesota Management and Budget, February 2011 Forecast

### System budget planning 2012-2013

The system has been planning for the 2012-2013 biennium for the past 18 months. The Finance and Facilities Committee has been periodically updated on the budget planning framework surrounding appropriation, tuition and inflation. Appropriation planning scenarios were developed during the spring of 2010 and provide the “bookends” to appropriation reduction. One assumption was that half of the state’s budget deficit would be solved with spending reductions and the other assumption was that the entire deficit would be solved with spending reductions. Table 5 below has been updated to reflect the change in the state’s budget deficit (related to the 50 percent/100 percent scenarios) and to show the impact of the Governor’s budget recommendation.

**Table 5**

#### Minnesota State Colleges and Universities 2012-2013 System Planning Assumptions Compared to Forecast Base and Current Funding Level

	Fiscal Year 2012	Fiscal Year 2013	Biennium Total	Change 2012	Change 2013	Biennium Change
Fiscal year 2011 funding level	\$605.5	\$605.5	\$1,211.0			
Supplemental Omnibus Higher Education Bill (2012-2013 forecast base)	\$630.4	\$630.4	\$1,260.7			
<i>change from fiscal year 2011</i>				\$24.9	\$24.9	\$49.7
Governor's budget recommendation	<b>\$592.5</b>	<b>\$592.5</b>	<b>\$1,185.0</b>			
<i>change from forecast base</i>				(\$37.9)	(\$37.9)	(\$75.7)
<i>change from fiscal year 2011</i>				-6.0%	-6.0%	-6.0%
<i>change from fiscal year 2011</i>				(\$13.0)	(\$13.0)	(\$26.0)
<i>change from fiscal year 2011</i>				-2.1%	-2.1%	-2.1%
If 50% of state deficit solved with reductions (\$98 million from forecast base)	\$581.3	\$581.3	\$1,162.7			
<i>change from forecast base</i>				(\$49.0)	(\$49.0)	(\$98.0)
If 100% of state deficit solved with reductions (\$196 million from forecast base)	\$532.3	\$532.3	\$1,064.6			
<i>change from forecast base</i>				(\$98.0)	(\$98.0)	(\$196.1)
<b>System planning assumption (bookend 1)</b>	<b>\$559.4</b>	<b>\$524.4</b>	<b>\$1,083.8</b>			
<i>change from fiscal year 2011</i>				(\$46.1)	(\$81.1)	(\$127.2)
<i>change from forecast base</i>				-7.6%	-13.4%	-10.5%
<i>change from forecast base</i>				(\$71.0)	(\$106.0)	(\$176.9)
<i>change from forecast base</i>				-11.3%	-16.8%	-14.0%
<b>System planning assumption (bookend 2)</b>	<b>\$524.4</b>	<b>\$454.4</b>	<b>\$978.8</b>			
<i>change from fiscal year 2011</i>				(\$81.1)	(\$151.1)	(\$232.2)
<i>change from forecast base</i>				-13.4%	-25.0%	-19.2%
<i>change from forecast base</i>				(\$106.0)	(\$176.0)	(\$281.9)
<i>change from forecast base</i>				-16.8%	-27.9%	-22.4%

The above bookends are being utilized by colleges and universities in their local planning process.

Colleges and universities have incorporated into their budget planning process varying tuition rate increase scenarios, keeping in the forefront the expectation of reasonableness. It has been the Chancellor’s position that if the system were to receive its 2012-2013 biennial operating budget request totaling \$1,260.7 million, tuition rate increases would be held to five percent per year or lower. Just as a reminder, the tuition impact to a student in fiscal year 2012 will include the two percent mitigated tuition from fiscal year 2010 and any new rate increase approved by the Board.

As shown in Table 6 below, the impact of an average annual tuition increase of five percent for a college student would be \$224 and for a university student \$310. When factoring in the mitigated amount the impact would be \$307 (\$224 new increase plus \$83 mitigated amount) for a college student and \$420 (\$310 new increase plus \$110 mitigated amount) for a university student.

**Table 6**  
**Minnesota State Colleges and Universities**  
**Illustration of Tuition Rate Increase and Mitigation Impact**

	Colleges				Universities			
	Fiscal Year 2011	Fiscal Year 2012	%	\$	Fiscal Year 2011	Fiscal Year 2012	%	\$
Average Annual Tuition (Board-Approved)	\$4,480	\$4,704	5%	\$224	\$6,196	\$6,506	5%	\$310
Average Annual Tuition (Charged to Students)	\$4,397	\$4,704	7%	\$307	\$6,086	\$6,506	7%	\$420
Difference	(\$83)	\$0		\$83	(\$110)			\$110

The state’s \$5.028 billion budget deficit will more than likely result in an appropriation reduction for the system. Recently the system provided a financial overview to the House Higher Education Policy and Finance Committee specifically addressing the impact of a 15 and 20 percent reduction in state support. The Chancellor is deeply committed to accessibility and affordability to higher education. However, state appropriation reductions at the magnitude of 15 to 20 percent will require that all possible methods to solve the budget gap, including tuition, will need to be considered.

Colleges and universities have built into their budget planning assumptions “fixed” compensation cost increases that will occur in the next biennium if nothing else is done in

the next round of collective bargaining. The fixed cost increases include projected employer health insurance rate increases of 7.7 percent in January 2012 and another 16.2 percent in January 2013, an increase in employer retirement rate increases for TRA, tail cost for the fiscal year 2011 step increases for classified staff, and promotions/career steps for faculty. The health insurance rate increases are projected and could be revised due to any changes made to the state's health insurance program. Colleges and universities have also built into their budget planning assumptions for new inflationary cost increases at the CPI (projected at 1.7 percent for fiscal year 2012 and 1.8 percent for fiscal year 2013), modified for local conditions.

Table 7 below combines a set of assumptions regarding appropriation, fixed compensation costs, other operating cost inflation (at the projected CPI), and tuition and shows the budget challenge facing the system under a 15 and 20 percent reduction from forecast in state support. Under a 15 percent appropriation reduction, the system would have a remaining biennium budget challenge of \$140.1 million after a tuition assumption of 5 percent increase in each year of biennium. The challenge increases to \$203.2 million under a 20 percent appropriation reduction scenario.

**Table 7**

**Minnesota State Colleges and Universities  
2012-2013 Biennium Budget Challenge  
Illustration of State Appropriation Reduction**

	<b>2012-2013 biennium 15 percent reduction scenario</b>	<b>2012-2013 biennium 20 percent reduction scenario</b>
Transformational initiatives	\$50.0	\$50.0
Appropriation reduction (from forecast base of \$1,260.7 million)	\$189.1	\$252.2
Contractual benefit "fixed" cost increase	\$49.9	\$49.9
Other operating cost inflation (1.7 percent/1.8 percent)	<u>\$21.6</u>	<u>\$21.6</u>
Budget challenge	\$310.6	\$373.7
No transformational initiatives	<u>(\$50.0)</u>	<u>(\$50.0)</u>
Remaining budget challenge	\$260.6	\$323.7
Tuition @ 5 percent rate increase each year of biennium	<u>(\$120.5)</u>	<u>(\$120.5)</u>
Balance of budget challenge	\$140.1	\$203.2

If the system is faced with new compensation increases, the budget challenge will grow. For example, a 1 percent compensation increase each year would increase the budget challenge by approximately \$33 million over the 2012-2013 biennium.

**Next steps**

The Office of the Chancellor and the colleges and universities are continuing with their multi-year budget planning process, with consultation with campus communities, and with making budget reduction decisions. Colleges and universities have taken strong budget actions over the past few years and are continuing to make decisions on staff reductions and closure of academic programs and offerings. To date, 27 colleges and universities have announced position reductions (approximately 680 positions), 17 have implemented early separation programs, 14 have announced planned closure of 81 programs, and 21 have preliminary fiscal year 2012 budget plans that utilize fund balance.

Action on the fiscal year 2012 operating budget is scheduled for the May and June 2011 meetings of the Board of Trustees, at the close of the legislative session.

*Date Presented to the Board: March 16, 2011*