

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
BOARD OF TRUSTEES STUDY SESSION  
LONG-TERM FINANCIAL SUSTAINABILITY WORKGROUP  
JUNE 21, 2016  
McCORMICK ROOM  
30 7TH STREET EAST  
ST. PAUL, MN**

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**Present:** Chair Michael Vekich, Trustees Ann Anaya, Margaret Anderson Kelliher, Duane Benson, Elise Bourdeau, Kelly Charpentier-Berg, Alex Cirillo, Dawn Erlandson, Robert Hoffman, Philip Krinkie, Maleah Otterson, Thomas Renier, Louise Sundin, and Chancellor Steven Rosenstone

**Absent:** Trustee Erma Vizenor

**Presenters:**

Steven Rosenstone, Chancellor

Phil Davis, Associate Vice Chancellor and Director of the Campus Service Cooperative

Laura M. King, Vice Chancellor for Finance

Jim Schowalter, former Minnesota Commissioner for Finance and current CEO of MN Council of Healthplans

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**Convene and Introduction**

Chair Vekich convened the study session on the Long-Term Financial Sustainability Workgroup at 10:00 a.m.

**Chair Vekich's Introduction**

The success of the Minnesota State Colleges and Universities depends in large measure on our fiscal sustainability over time. The board fully appreciates that new revenue is not keeping up with costs, and therefore our ability to succeed is hampered, putting innovation and excellence at risk. The Long-Term Financial Sustainability workgroup was established to study and recommend strategies for long-term financial sustainability, to ensure the colleges' and universities' ability to serve students and communities across the state.

At the retreat last fall, the chancellor's charge to appoint a workgroup was endorsed. The Long-Term Financial Sustainability workgroup was established to study and recommend strategies for long-term financial sustainability to ensure that the colleges and universities can fulfill their mission over the next decade and beyond. The current financial model is not sustainable. If changes are not made, the ability to serve students and communities across the state is at risk. The workgroup notes that the situation is urgent and demands development of strategies that will enable improved services to students, the state, citizens and its communities.

First, the co-chairs of the workgroup will present the group's findings. Jim Schowalter, former Minnesota Commissioner for Finance and current CEO of MN Council of Health Plans, and a

member of the workgroup, will join them. Following that presentation, there will be an opportunity for clarifying questions. After the clarifying questions have been asked, consideration will be given to the recommendations. The board will again consider this work in September, after consultation has been thoroughly accomplished.

### **Chancellor Rosenstone's Introduction**

Chancellor Rosenstone thanked all members of the workgroup, students, faculty and staff and provided the board with an explanation of the breadth and depth of the charge to this group. The workgroup was asked to develop recommendations that are bold, innovative, and transformative. Consultation will take place over the next four months; both formally and informally in order to ascertain opinions on the recommendations.

The recommendations are substantial and call for transformational leadership. The recommendations, if implemented, will have profound implications on the financial strategy of the system going forward, figuring out how the work is done to protect educational excellence, service to students across the state, the system workplan for 2017 and beyond, and development of the FY208-FY2019 biennial budget and legislative requests.

The next steps unfold over a four month consultation period. From July through October there will be informal consultations with bargaining units and student associations. Between August and October, there will be formal consultations at Meet and Confer sessions and meetings with the Minnesota State College Student Association and Students United. Discussions will also take place at the August Leadership Council meeting, with the board at the retreat in September, and there will be a meeting with presidents and cabinet. The vice chancellor - CFO, vice chancellor for human resources, and vice chancellor for academic and student affairs will consult with their colleagues throughout the system. Ultimately, a system work plan will be brought to the Board of Trustees meeting in October of 2016. The situation is urgent, and there must be a path that enables the future health as a system.

### **Report of the Long-Term Financial Sustainability Workgroup**

Associate Vice Chancellor Davis reported that the members of the workgroup came together largely as strangers to each other. There was hard work to make sure all voices were heard and to chronicle differences of opinions about what to recommend. After group learning and analysis of what was learned, the group arrived at a consensus about some bold, creative, even controversial options for the board, the chancellor, and other stakeholders to consider. The eight months spent together represented one of the best examples of a learning community.

The financing model for public higher education in Minnesota and across the nation has broken down. It is not something that can be fixed with incremental changes. Achieving long-term financial sustainability requires systemic change. Without systemic changes to the way colleges and universities operate and deliver education, the financial future is unsustainable.

The workgroup was a diverse representation of the students, faculty, and staff of our colleges and universities, as well as community leaders who brought a wealth of experience and unique

perspectives. Associate Vice Chancellor Davis acknowledged the members present and asked them to stand for recognition.

A powerful charter was drafted by the workgroup early on. It served as a guide and frame to the research. The workgroup spent the first several months consuming information presented by internal and external experts and considering questions about the presentations as a way of developing deeper understanding about the information. All the information is posted on a SharePoint site and will soon be posted to the public website, making it available to all interested parties. Several members of the workgroup commented that the benefits of these thoughtful presentations were amplified when viewing them together, in one place, and thinking about potential solutions from the perspective of an eco-system rather than as discrete strategies that responded to distinct pieces of information.

Associate Vice Chancellor Davis welcomed Mr. Jim Schowalter and asked him to share the lessons learned and the framework provided for the recommendations. Mr. Schowalter stated that the process for groups like this is difficult to get right but this group did a good job. There must always be space for welcoming information even when it's uncomfortable information. There has to be leadership that allows for different thinking. The workgroup always felt like the opportunity to think differently was afforded. There was an opportunity given to step back and look at the bigger picture rather than just the incremental information. The long term trends are evident in the data when viewed in whole.

It all boils down to who is being served. In healthcare, there are lots of changes happening in the delivery system. This is also a common element in higher education. The recommendations were packaged in a way that raises the question of how to approach long-term financial sustainability in order to ensure students success. The team was thoughtful about recognizing things that have higher value than others, and things that have longer lead times.

Vice Chancellor King provided a roll-up of the research that was collected and its conclusions. Whether optimistic or conservative assumptions are used, the system's financial outlook hits a deficit within a year. The size of the deficit depends on assumptions about enrollment growth and operating cost inflation. This deficit is built into the revenue and expense structure. In general terms, there needs to be an increase in enrollment up to 6.3% per year to close the deficit, or an annual tuition increase of up to 7.3 % per year, or the system could look to the state for an increase in state funding of 7% per year. The workgroup decided that none of these options are a reasonable approach or address the underlining fundamental imbalance in the system's financial structure.

The graph in the board material models two scenarios of revenues and expenses projected over 10 years. The results are Case A which projects a \$66 million deficit and Case B which projects a \$475 million deficit. The difference in the assumptions used to build these outlooks relates to enrollment, state support, and tuition and cost inflation. The workgroup members may have had a general awareness of the data, but the work provided them with an opportunity for a deeper dive and a stronger understanding of this information. The workgroup brought a new set of eyes and new thinking to the problem. The graphs provided in the board packet shows that tuition has

grown from 33% of revenues to 50% of revenues over the years while state appropriation has declined from 67% to 47%. State support has fallen from 5.5% of the state budget in 1995 to 3.2% in 2017 for MnSCU. There would need to be an increase in state appropriation of over \$200 million a year in order to return this relationship to its historic place.

The workgroup also looked at other historical factors. It is notable that colleges and universities received most of their revenue from two sources; state appropriation and tuition. The workgroup took a look at other revenue sources to see what potential they held. Some of the items looked at were customized training and continuing education. There are efforts underway to grow that work. Another option examined was the benefit of growing graduate education. Enrollment growth overall holds great potential. Increasing retention alone would generate \$8 million a year. These strategies are worth pursuing and there are efforts underway to pursue all of them.

One of the most powerful presentations to the workgroup concerned the demographics of current and future students. There is strong growth among students of color and American Indian students, and the average age is over 26 years. The students are substantially eligible for Pell grants which are used as a proxy for income status. Typical enrollment is on a part-time basis and the students come from families that do not have a college attendance history.

The workgroup spent significant time trying to understand our environment and how student needs continue to change. The demographic shifts create an increase in cost because the range and scope of services have increased. The incoming student population is increasingly price sensitive. In order to serve our changing student populations, our way of doing business must change. The workgroup's recommendations were designed to address the principles created as a guideline. They are bold and broad reaching. We have also attempted to categorize the recommendations to ascertain the contribution each of the recommendations can make. Establishing a long-term financial sustainability strategy is key to success. The data presented has led to a series bold set of recommendations. Vice Chancellors Anderson and Carlson were invited to join at the table.

### **Workgroup's Recommendations**

Associate Vice Chancellor Davis presented the recommendations:

#### **Recommendation One**

Captures the workgroup's belief that enormous benefits can be delivered to students when the collective wealth of colleges and universities is harnessed. This recommendation is related to work that is already underway—aligned curriculum, aligned online course and program offerings, customized training, transfer pathways, credentialing, branding efforts are all part of this recommendation.

#### **Recommendation Two**

Seeks to consolidate core business functions. This recommendation seeks to reconsider how we do business as a system—how to align our leadership to be economical and efficient while better serving students.

### **Recommendation Three**

Calls on the system to build and expand partnerships with K-12 and other external agencies and groups to meet the needs of our changing student population. Some strategies suggest that we work to ensure students are prepared to enter college, and to grow the numbers of students who see college as possible and practical in their lives.

### **Recommendation Four**

Asks the system to look at creative modifications to current labor practices in order to ensure that our students are able to access higher education where and when they need it.

### **Recommendation Five**

Asks the system to re-calibrate its physical plant and space capacity to ensure access and opportunity for all students.

Vice Chancellor King gave closing remarks noting the principles that animated the group's work were guided by the system's strategic framework and an underlying belief that improving student success is key to the long-term financial sustainability of the colleges and universities. At the end of the presentation Chair Vekich welcomed clarifying questions.

### **Discussion**

Trustee Anderson Kelliher asked if costs had been projected for all of the items. Vice Chancellor King referenced slide 13 and stated that the workgroup did not cost out the recommendations. After the work was completed and the report was compiled, the chairs took a look at the financial opportunities and the implementation requirements. That work will be done in the months ahead as the consultation process unfolds and the chancellor identifies the sequencing of the recommendations he's interested in pursuing.

Trustee Hoffman asked what is the state's role or commitment to higher education. Associate Vice Chancellor Davis responded that the workgroup does not see significant increases in the state's investment as a measurable contribution to the solution. Trustee Anderson Kelliher commented that it is disappointing that we are not asking for more from the state. Vice Chancellor King responded that the full report shows what has been happening and there can't be a focus on incremental change.

Trustee Benson thanked Mr. Schowalter for his participation and pointed out that there are a lot of similarities between healthcare and higher education and he would like to see a more brutal, deep review. Associate Vice Chancellor Davis pointed out that the report was cautious about diving too deeply into metrics in order to avoid being presumptive about decisions but recognizing frustration about not having some of the details. These are the kind of conversations that it was hoped that the report would elicit.

Trustee Renier asked whether, in reference to the share of the state's budget, it would be instructive to know what happened to the state budget during the examined time period in order to understand how state priorities have shifted. Vice Chancellor King responded that the chart provided in the board materials shows the operating budget data not only in percentages but also

in absolute dollars. It is more difficult to line up the state's priorities with the spending—there have been some significant policy changes referencing K-12 and healthcare as an example.

Mr. Schowalter appreciated the great question about how healthcare and education spending is an expanding portion of the general fund budget. It is best to start with the highest authorization and put it in K-12 as well as healthcare; not all healthcare but Medicaid and Medicare assistance through the state. Both have grown considerably over time. In looking at the graph from the board packet material, if 40% of the state's budget is K-12 and 30% is healthcare there are not a lot of slices left. If those keep growing, money will have to come from somewhere. There are only two other material budget elements: local government aid and higher education. What is seen as the slowly diminished share of the budget in higher education is not because of the policy shift as much as a series of smaller decisions over time of shifting where the state's resources go. The board can make assumptions about the state funding side, but the board's impact and control is in the area of tuition and enrollment management.

Trustee Anderson Kelliher expressed concern about enrollment and retention as it relates to revenue growth. This story is the same in a company, organization, and in nonprofit. If the only focus is on controlling expenses and there is no way of bringing in significantly more revenue or diversified revenue then the ideas presented will only go so far to fix the budget without coming to the next six or seven years and being at the same place.

Mr. Schowalter responded that if this report was just about cutting costs or raising revenues, he wouldn't be here. The goals of serving broader populations is significant. The workgroup attempted to figure out if there was something beyond lobbying a third party for more money and cutting costs.

Trustee Renier commented that during his twelve years on the board, he has witnessed presidents cutting and trying to rein in costs. We cannot continue to chip around the edges. We need across the board, system-level change to find any growth savings opportunities that will make an impact. We discuss capacity inequity across the state, but we cannot pick up buildings and move them. He cautioned the board to not decrease access in the name of 'right sizing' space. Things like following through on the campus service cooperative and shared centralized administration are important. Increasing enrollment is limited if you don't have the physical capacity to do it.

Trustee Anaya asked about the financial scenarios on page 11, whether the projection is on state appropriations and enrollment. Vice Chancellor King responded the material is the revenue drivers and expenditures. Trustee Anaya commented that it appears that the focus is standard related to internal spending and not focusing on the revenue generated through state appropriations. Vice Chancellor King responded that this is correct. There is no recommendation for increased state funding. Trustee Anaya commented we are not increasing appropriations and in fact have seen decreases over a decade. There has not been an explicit state policy shift away from public education. In looking at the comparison to healthcare, our role in shifting this paradigm is making the shift either intentional or addressed by the legislature. Could the recommendations include the continued data like; what will MnSCU look like in 2025, how

many institutions will still be in place, how many people can still afford to have the ability to educate?

Trustee Sundin commented that the committee should consider changing our requests, and being more creative and crisper about asking. There should be a consideration to offering the millennial generations a different way to fund not just their education but other people's education; perhaps a vote to become part of the solution.

Chancellor Rosenstone asked for clarification on the assumptions being made going forward with respect to state support (referencing the model) and what is the assumption of the incremental state support to be received to cover existing cost as opposed in projections with new costs associated.

Vice Chancellor King responded that the Case A assumption is a 1.1% annual appropriation increase year over year (historical experience) which smooths out cuts and zero years. Using biennial math, that's 3% biennially. Any additional tuition buy downs or new appropriations would be on top of the assumptions. Chancellor Rosenstone commented that the board's concern about increasing our state request is appreciated, but the workgroup wanted a more sober consideration of what we can or cannot assume as state investments beyond core functions.

Trustee Anaya expressed concern about not seeing gaps addressed in the recommendations. There aren't numbers attached to address the specific shortfalls; it could be assumed that it has to be figured out without any sources. Chancellor Rosenstone responded that the recommendation on page 13 of the report needs to be sharpened in precision and the variety of potential revenue streams. There will need to be realistic assumptions about what's doable. The revenue streams are gross and not net revenues. Vice Chancellor King responded that there needs to be more communication in order to put actions on the recommendations. Associate Vice Chancellor Davis commented that there has been some discussion about the imbalance in the revenue and that there was a distinction in the way cost cutting was discussed. The report rejects the incremental cost cutting that has been going on as a solution and asks the organization to be thoughtful about what needs to be changed. The rest of the report reflects a shift to doing business differently.

Trustee Otterson commented that it is not understood how the system is run when the capacity of the operation is not known. Referring to the third recommendation in the report on building partnerships, Trustee Otterson suggested considering work on university to college relationships.

Trustee Benson commented on page 13 of the report; asking for clarity on the growth potential of university and college market share. Vice Chancellor King responded the measurement is based on Minnesota market share. Vice Chancellor Anderson commented that there are some ways to come up with data — class capacity/unfilled seats, physical plant capacity, determining thresholds for when additional faculty/staff are added, etc. We have managed surges in enrollment due to recessions and other economic swings. It needs to be recognized that there would be additional costs for new and additional students and other support services. Trustee

Hoffman asked if our market share is growing every year. Vice Chancellor King commented that the colleges and universities have been gaining market share modestly over the years. Trustee Krinkie commented that the information provided is great and the recommendations are excellent. He asked whether there are any opportunities for thinking outside the box. There are only two people on the workgroup who are not directly involved or connected to the state college and university system.

Associate Vice Chancellor Davis commented that the composition of the group for the most part was connected to higher education and our system. However, all participants were provided with outside reading to draw their attention to other systems and creating new paradigms and encourage broad and creative thinking.

Trustee Krinkie commented that, “out of the box thinking” might include some or all of the following... campus closures, drastic reductions in the number of course offerings, more proportional tuition costs, sales tax options, national recruitment/marketing for online students. Vice Chancellor King responded that the report contains a lot of the flavor suggested and it wasn’t taken all the way to the finish line, but would expect in the days ahead that several of the ideas mentioned are included in the thinking, with the exception of the sales tax suggestion.

Trustee Cowles commented that one of the virtues of the project was a very good exchange of ideas across the organization. The workgroup participants exemplified very good listening skills, constructive conversation, and there was a great hunger for more of these discussions. One of the things that was very informative and helpful to the group was the amount of good details and factual information. As the variables and assumptions are considered in framing the recommendations we need to be mindful of the student demographics, the competitive market place in higher education, and how to demonstrate the needs with the legislators. The propensity to drive student retention needs to be demonstrated to the legislature. This is a good beginning and trustees’ engagement is welcomed. Trustee Cowles thanked Vice Chancellor King, Associate Vice Chancellor Davis, Vice Chancellor Anderson, and Vice Chancellor Carlson for their leadership on the workgroup.

Chair Vekich also thanked Trustee Cowles, Vice Chancellor King and Associate Vice Chancellor Davis, and the workgroup participants. The clear message is that the board is embracing what is here, and expecting more. Chair Vekich asked that those who will be providing input during consultation to please put aside personal and professional interests and seek what is best for the system.

Chancellor Rosenstone expressed great appreciation for the urgency of this charge and the report and stated that there will be a first reading of the FY2018-FY2019 legislative request in October. This work will inform the development of that request and the system’s thinking about what the next steps for these recommendations should be.

The study session adjourned at 11:50 a.m.  
Respectfully submitted by  
Maureen Braswell