

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

ACTION ITEM
FY2013 Operating Budget (Second Reading)

BACKGROUND AND EXECUTIVE SUMMARY

The Board is being asked to approve the FY2013 operating budget for Minnesota State Colleges and Universities (MnSCU). This operating budget includes revenue and expenditure budgets for all colleges, universities and the system office and totals \$2.0 billion.

FY2013 Operating Budget Highlights:

- **The 2013 operating budget supports the critical investments required to achieve the goals identified in the Strategic Framework.**
- Under the proposed FY2013 budget, **Minnesota State Colleges and Universities will continue to offer the most affordable option for high quality post-secondary education in Minnesota.** Colleges and universities have made great strides in containing tuition and fee increases, while maintaining quality educational programming. Tuition increases are modest, with the average increase at MnSCU universities totaling **\$285** (4.4 percent), which is well below the estimated dollar increases considered by the University of Minnesota and Minnesota's private 4-year colleges. The average tuition increase at MnSCU colleges totals **\$171** (3.7 percent).
- Minnesota State Colleges and Universities continue to educate more Minnesotans than any other post-secondary institution in the state, preparing students to enter the workforce well educated and highly skilled. **After a period of rapid growth, enrollment is projected to decline slightly in FY2012 and remain flat in FY2013.** Full year equivalent (FYE) enrollment is projected at 94,812 for colleges and 58,710 for universities.
- **The historic loss of state support continues to create challenges for Minnesota State Colleges and Universities.** The system's state funding was cut 10 percent in the 2012-13 biennium, a loss of \$60 million each year. The FY2013 operating budget assumes the system will receive \$545.8 million in state funding. This amount includes the 1 percent performance funding the system secured when it achieved 4 of 5 performance goals specified in state law, and the \$457,000 in one-time funding for the leveraged equipment program appropriated in the 2013 legislative session.

- The FY2013 all funds budget is \$2 billion, with projected revenues essentially equal to projected expenditures. Colleges and universities continue to implement actions to increase efficiency, improve productivity and reallocate funding to ensure the quality of education, address cuts in state funding and keep tuition affordable. **These ongoing efforts have resulted in lowering the cost of educating a MnSCU student to \$7,107, a 10 percent reduction in real dollars from FY2000 levels.**
- The FY2013 operating budget builds on work done over the past several fiscal years to align budgets with a changing financial landscape characterized by diminished state resources and increased reliance on tuition. However, even with careful planning, risks remain. In particular, enrollment fluctuations, the yet-to-be-determined labor settlements, the overall state of the economy, and the state's long term budget challenge increase the level of uncertainty surrounding key budget assumptions.
- Revenue fund fees support auxiliary facilities, such as residence halls, student unions, parking, and other revenue generating facilities. The campuses seek to balance fees and rates that allow for facilities reinvestment while maintaining affordability for students. The FY2013 fee outlook reflects that balance. The average room and board increase this year for the residence hall program in the six state universities is 4 percent. Student unions fees will increase by an average of 5.3 percent. Most health/wellness facility fees will remain the same as last fiscal year with the exception of Anoka Ramsey Community College, which is opening its new facility during FY2013 and has planned for a 5 percent increase in fees.
- Minnesota's state budget outlook has improved over the past year. Minnesota Management and Budget (MMB) reported improvement in both its November 2011 and February 2012 economic forecasts, allowing the state to rebuild its reserves and repay some of the K-12 funding shift. While improved, significant challenges remain. MMB is projecting a \$1.1 billion structural deficit for the 2014-15 biennium. This projected deficit increases to over \$4.5 billion when expense inflation and repayment of the K-12 funding shift are factored in.

This document provides a thorough review of the system's FY2013 budget proposal and is divided into four sections:

- FY2013 Budget Principles
- Analysis of Key Variables
- Cost of Education
- All Funds Budget Overview

FY2013 BUDGET PRINCIPLES

The FY2013 operating budget is designed to support the Strategic Framework, make the best use of resources, and continue with a multiyear planning approach.

Aligning the Budget to Strategic Framework

The chancellor and the college and university presidents have crafted the 2013 operating budget to support critical investments required to achieve the goals identified in the Strategic Framework:

- Ensure access to an extraordinary education for all Minnesotans;
- Be the partner of choice to meet Minnesota's workforce and community needs; and
- Deliver to students, employers, communities and taxpayers the highest value/most affordable option.

In FY2013, MnSCU will continue aggressive action plans to implement bold initiatives aimed at delivering the commitments articulated in the Strategic Framework. The Leadership Council is leading the implementation of these initiatives in consultation and collaboration with faculty, staff and key partners. In summary, these initiatives and action plans include:

Actions: Ensure Access to an Extraordinary Education

1. Partner with communities traditionally underserved by higher education to improve college readiness, recruitment, and student success. Create a welcoming and supportive campus environment, faculty and staff competencies, and student support services for all students to succeed.
2. Increase access to baccalaureate degrees by enabling students at two-year colleges to complete a MnSCU baccalaureate degree without relocating. Engage our seven universities to expand "university centers" at the two-year colleges and at other sites.
3. Redesign the classroom experience and curriculum to create signature learning experiences such as project-based, and/or active, and/or problem-based learning. Prepare faculty who will facilitate learning in this way.
4. Develop thoughtful measures of learning outcomes and deliver programs that enable graduates to meet those standards. Align with national standards, accreditation standards, and workforce needs.
5. Increase collaboration among faculty across our colleges and universities to create the best possible courses and learning experiences (on-line, blended and face to face) that can be shared across the system to improve quality, enhance learning, increase access, increase the number of students served, and reduce the costs of course development and delivery.

Actions: Partner of Choice to Meet Workforce and Community Needs

1. Dramatically increase retention and completion and reduce time to completion. Identification of best practices is underway and 2, 3, 4 and 5-year goals are being established.
2. Increase effectiveness of remedial education.
3. Improve transfer of credit through implementation of the Smart Transfer Plan.
4. Implement the results of the regional, sector-by-sector workforce needs assessment to ensure programmatic alignment of the state's workforce needs.
5. Collaborate with DEED and others to enable more people to more easily update their skills.
6. Expand customized training offerings to Minnesota businesses and industries.
7. Better align K-12 and post-secondary education to increase college readiness, expand dual enrollment and ensure that more students are on the "right" path. Collaborate with the Minnesota Department of Education to align high school testing with measures of college readiness and increase pathways to college.

Actions: Deliver Highest Value/Most Affordable Higher Education Option

1. Continue to aggressively manage costs, improve efficiency and productivity by strengthening and expanding the Campus Service Cooperative.
2. Focus the role of the system office on serving the needs of the colleges and universities. Redesign organizational structure and processes to increase effectiveness and eliminate redundancies by clarifying those responsibilities that:
 - a. Most appropriately reside with the campuses
 - b. Are best carried out in a coordinated fashion
 - c. Should reside with the system office
3. Strengthen the MnSCU financial model to create incentives to achieve the desired outcomes in the Strategic Framework.
4. Improve executive performance evaluation and metrics.

Narratives summarizing how each institution's individual budget supports achievement of the Strategic Framework can be found on the Minnesota State College and Universities website:

<http://www.finance.mnscu.edu/budget/operating/index.html>

Reallocating to Meet Highest and Emerging Priorities

The FY2013 operating budget reflects on-going efforts to optimize the use of every dollar through the reallocation of resources. Optimized reallocation of resources has been an effective management strategy used by MnSCU to advance the system's priorities and respond to changes in instructional programs and services called for by industries and communities across the state. Increasingly, it has been used as a strategy for maintaining quality, increasing productivity and improving efficiency in response to declining state support for higher education.

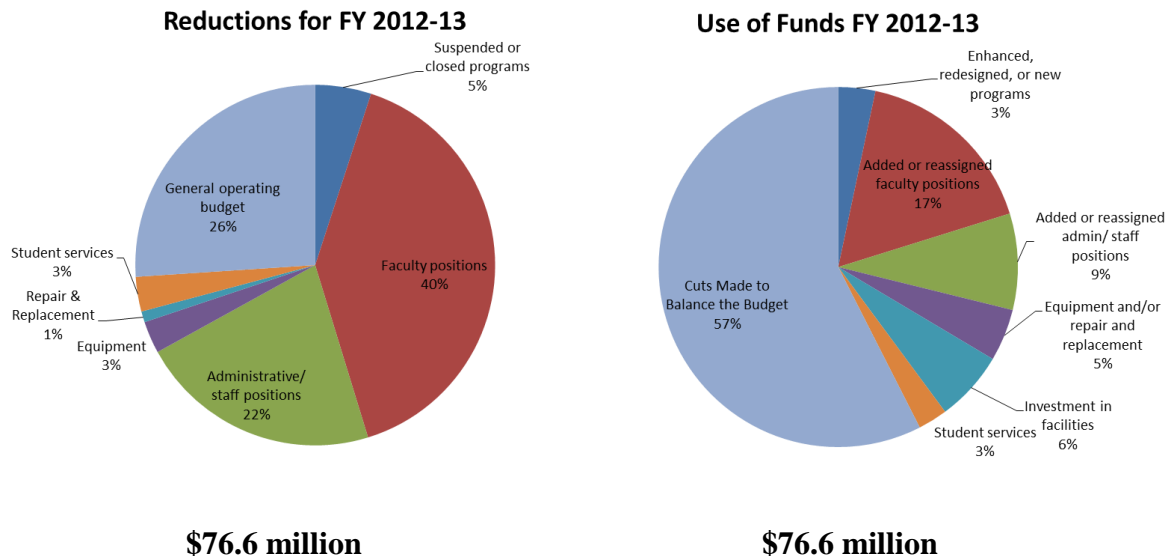
In FY2012 and FY2013, colleges and universities will reallocate over \$76.6 million to increase efficiency and effectiveness. Some of these resources will be reallocated to higher priorities while others will be used to balance the budget.

- Systemwide, over 498 programs and 524 positions are impacted, either through layoffs or leaving vacant positions unfilled.
- Most of the reductions (57 percent or \$44 million) are being used to balance college and university budgets, with the remainder being invested in new, higher priority areas.
- Systemwide, \$32.6 million is used to better align the institution's priorities with budget resources. Of that amount, just under \$13 million (40 percent) will be used for added or re-assigned faculty positions. \$6.6 million (20 percent) is expected to be used for added or reassigned staff positions. Another \$8.4 million (26 percent) is targeted for investment in facilities, repair and replacement, or equipment. The remainder will be invested in new or redesigned programs and student services.

Chart 1 summarizes the steps college and universities are taking to reallocate funding to address higher priority areas or to balance the budget for both FY2012 and FY2013.

Chart 1

**Minnesota State Colleges and Universities
\$76.6 Million Reallocated to Address Priorities and Balance Budgets**



Budgeting with a Multi-Year Perspective

Colleges and universities continue to use a multi-year approach to the budgeting process which has put the system in an improved financial position for FY2013. In developing their FY2013 budgets, colleges and universities were encouraged to maintain affordability by limiting tuition and fee increases. Colleges were required to limit their tuition increases to 4 percent, in accordance with a legislative mandate set forth in the 2011 higher education appropriations bill. Although the legislature did not cap tuition increases for state universities, presidents were asked to limit their increases to 5 percent or less.

The most significant challenge colleges and universities face in multi-year planning for FY2013 and beyond is managing risks such as enrollment changes and employee contract settlement costs. Although the system experienced record high enrollment increases in FY2010, enrollments have begun to decline slightly as students have graduated and returned to the workforce.

In addition, state and system labor negotiations continue. At this time, it is not known when negotiations will conclude and what the impact of new contract agreements will be to college and university operating budgets. Health care increases remain a significant unknown at this time. A 3.3 percent increase to employer paid health insurance rates was expected to begin on January 1, 2012 impacting FY2012 expenses. However, in the absence of a state health care agreement, no changes were made to insurance rates. College and university planning included certain assumptions on salary and fringe benefit changes. As long as settlements are within these planning estimates, the risk will be mitigated.

ANALYSIS OF KEY VARIABLES

MnSCU's financial structure is reliant on three key factors: enrollment, tuition and fees, and state appropriation. This section summarizes trends in these critical areas.

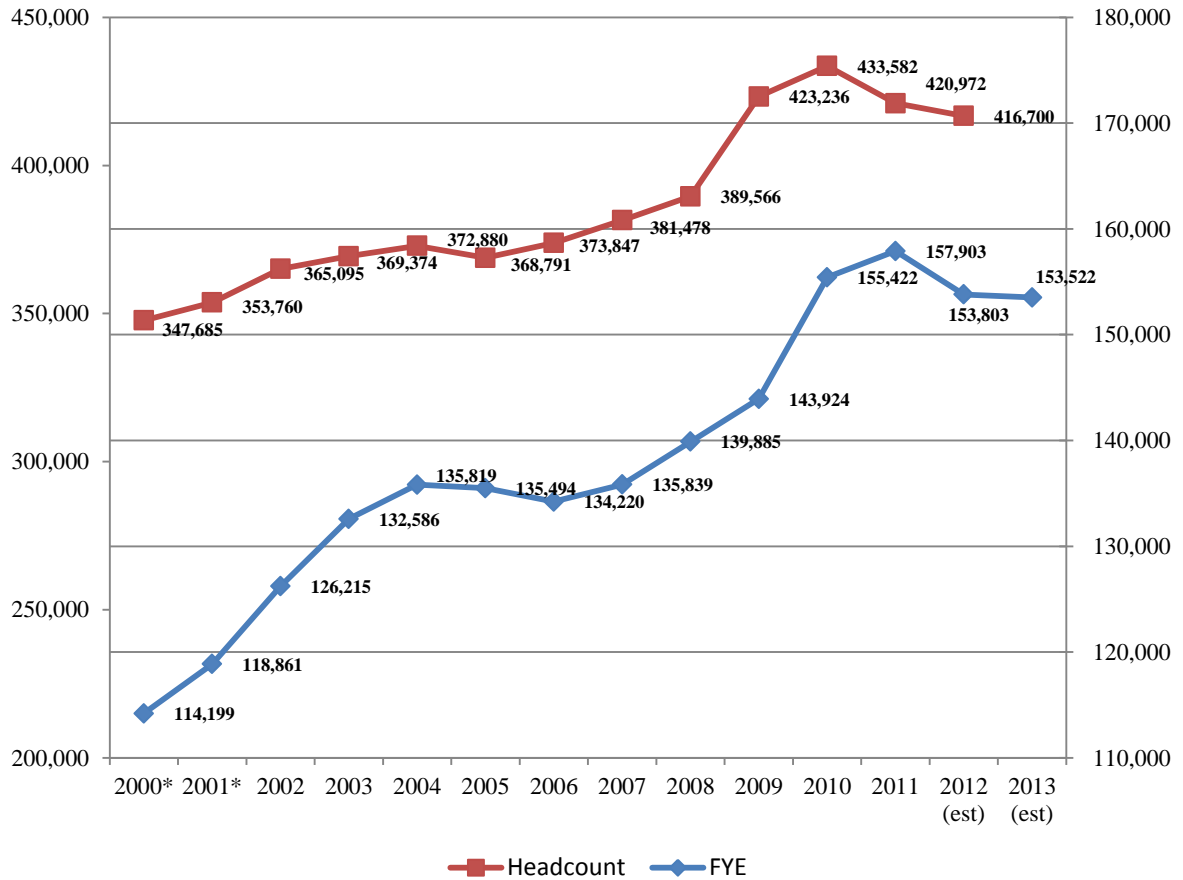
Enrollment Leveling After Record Growth

After experiencing record enrollment increases during FY2010 and modest increases in FY2011 (1.5 percent), colleges and universities are projecting a slight enrollment decline of 2.6 percent in FY2012 and generally flat enrollment in FY2013 (Graph 1). This change in enrollment is in large part the result of students, who entered the colleges and universities at the depth of the recession, completing their education and returning to work.

When looking at full year equivalent (FYE) enrollment, the colleges and universities are now serving 39,323 or 34 percent more students today than in FY2000.

Graph 1

**Minnesota State Colleges and Universities
After Record Growth, Enrollment Dips
Fiscal Years 2000-2013**



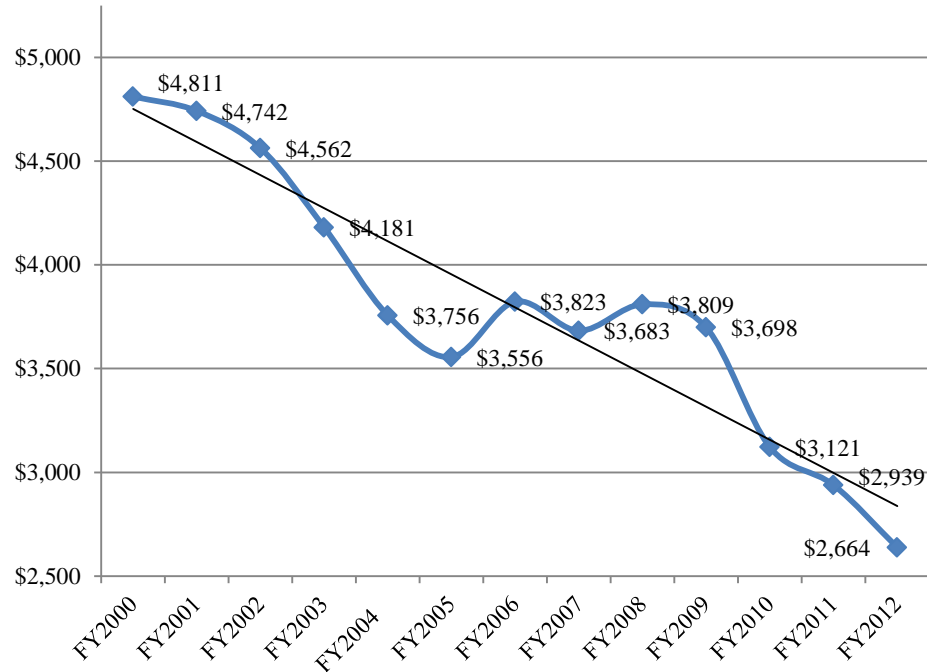
* Estimated headcount

State Support Falls, Reliance on Tuition Increases

State appropriation continues to be a critical but declining source of revenue for MnSCU. **State support per full year equivalent has declined by 45 percent since FY2000 (Graph 2).** Increased reliance on tuition to support basic educational activities has been necessary to offset the decline in state funding. **As a result, in FY2013, tuition will account for 60.9 percent of required revenue.** This is a complete reversal of the relationship in FY2000 when state appropriation represented 67.4 percent of revenue (Graph 3).

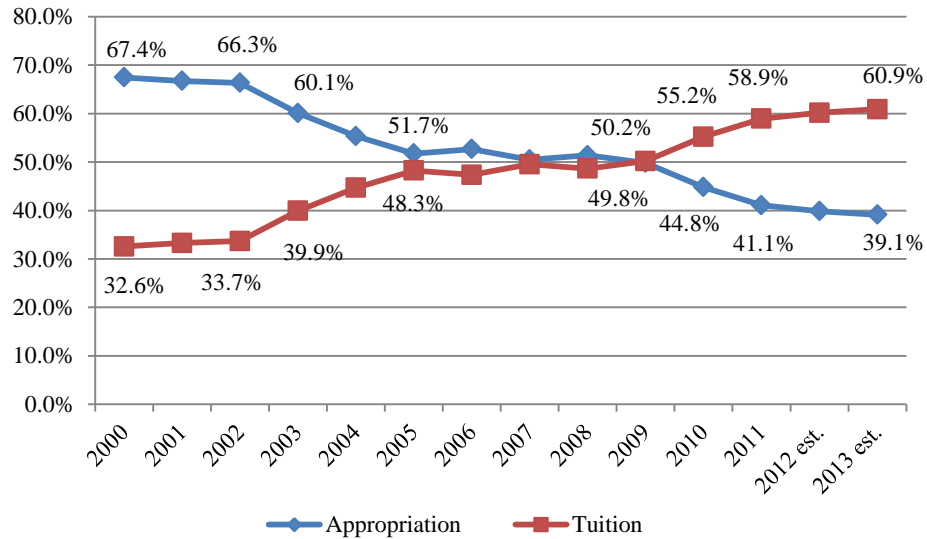
Graph 2

**Minnesota State Colleges and Universities
Total State Support per MnSCU Student Down 45%
State Appropriation per FYE (Constant Dollars)**



Graph 3

**Minnesota State Colleges and Universities
Reversal of State Appropriation vs. Tuition Relationship
Fiscal Years 2000-2013**

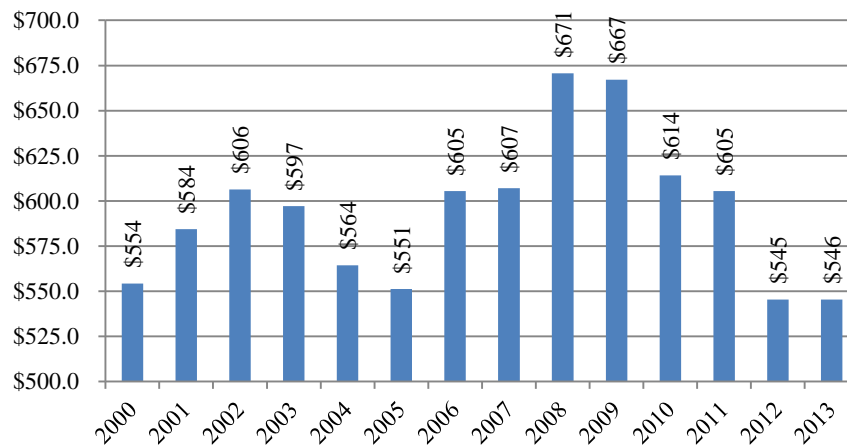


Appropriation and Tuition per Full-Year Equivalent Student

The system has experienced great fluctuation in state appropriation during the past decade. As shown below in Graph 4, the \$545.4 million in state resources for FY2012 and \$545.8 million in state resources for FY2013 is the lowest funding level since before FY2000. One would have to go back to FY1998 to find state appropriation funding at a level lower than FY2012 and FY2013.

Graph 4

Minnesota State Colleges and Universities State Appropriation Lowest Since 2000 (\$ in millions)

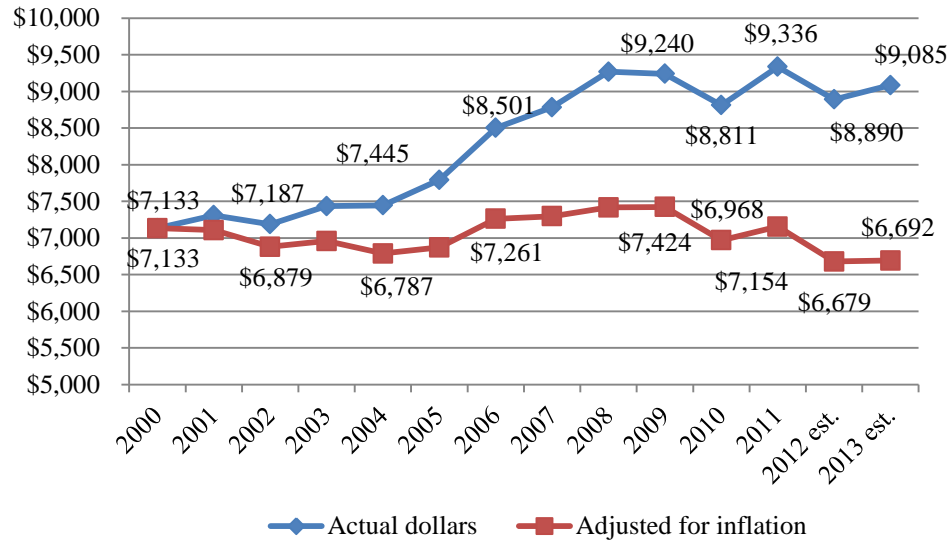


Note: For comparability, fiscal years 2000-2009 have been adjusted for Learning Network of Minnesota \$4.8 million.

- Total revenue per FYE student is expected to increase in FY2013 by \$195 or 2.2 percent, from \$8,890 to \$9,085 (Graph 5). This equates to an estimated \$3,555 per FYE in state appropriation revenue and an estimated \$5,530 per FYE in tuition revenue.
- **When adjusted for inflation, the system will be operating with \$6,692 per FYE student in FY2013, a reduction of \$441 or 6.2 percent per FYE student since FY2000.**
- **The cost of delivering a Minnesota State Colleges and Universities education, in real dollars, was lower in FY2011 than in FY2000 by over 10 percent (Graph 6).**

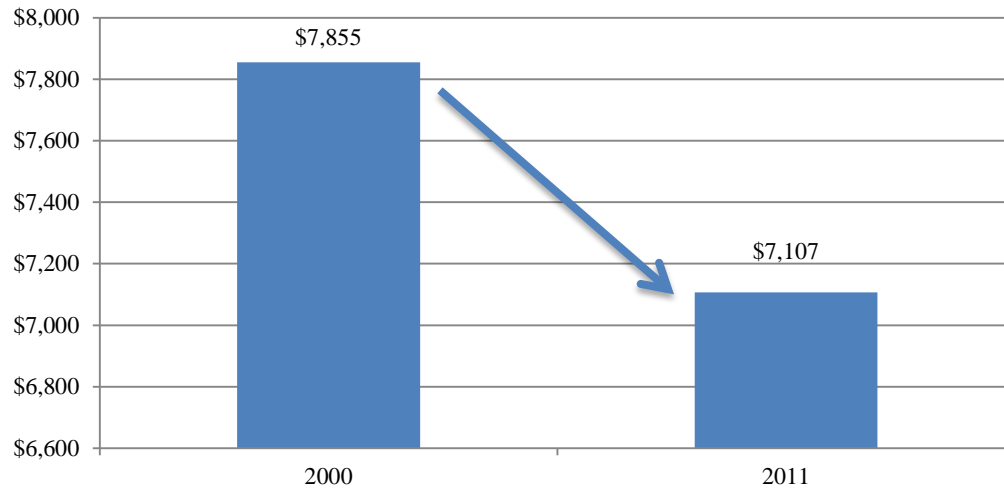
Graph 5

**Minnesota State Colleges and Universities
Total State Appropriation and Tuition Revenue Down 6.2%
Per Full-Year Equivalent Student (Constant Dollars)
Fiscal Years 2002-2013**



Graph 6

**Minnesota State Colleges and Universities
Cost of Educating a MnSCU Student Is Down 10%
(Constant Dollars)**



COST OF EDUCATION

A primary focus of the FY2013 budget is enhancing the quality while keeping the cost of education affordable for students. This section addresses the impact of the proposed tuition and fee increases, compares the cost of a MnSCU education with other higher education institutions, and estimates the net impact of tuition and fee increases to the student after factoring in financial aid.

Tuition and Fees

Tuition revenue enables the colleges and universities to preserve and improve the quality of academic programs and student experiences. Tuition expresses a partnership between schools and their students in supporting quality post-secondary education.

The chancellor has consulted with presidents, the student associations and others in consideration of the FY2013 tuition recommendations. Colleges are proposing a FY2013 average tuition for a FYE student of \$4,816, an increase of **\$171** (\$5.70 per credit) or 3.7 percent over FY2012. The 3.7 percent average for the colleges reflects decisions of sixteen colleges to increase tuition rates less than 4 percent. For universities, the proposed FY2013 average tuition for a FYE student is \$6,782, an increase of **\$285** (\$9.50 per credit) or 4.4 percent over FY2012. Overall, the system average annual tuition proposed for FY2013 is \$5,188 per FYE student, an increase of \$193 (\$6.43 per credit) or 3.9 percent over FY2012.

Minnesota State Colleges and Universities continue to be the highest value and most affordable higher education option in the state. Preliminary information from the University of Minnesota indicates tuition for resident undergraduates at the University of Minnesota will increase by an estimated \$410 for the 2012-2013 academic year. As reported by the Minnesota Private College Council, four year private colleges plan to increase tuition and fees by an estimated \$1,466 for the 2012-2013 academic year. (Note: The Council reports combined tuition and fee rates for their member institutions.)

Although on a percentage basis, increases are in line with the estimated percentage increase for the University of Minnesota (3.5 percent) and the four year private colleges (4.5 percent), on a per dollar basis, the proposed FY2013 tuition increases for MnSCU are significantly less than the state's other higher education options. Table 1 provides a comparison of estimated average annual increases proposed for the 2012-2013 academic year.

Table 1

**Minnesota State Colleges and Universities
Highest Value and Most Affordable in Minnesota**

	FY 2012 Tuition*	Est Annual Increase	FY 2013 Tuition*
MnSCU Colleges	\$ 4,644	\$ 171	\$ 4,815
MnSCU State Universities	\$ 6,497	\$ 285	\$ 6,782
University of Minnesota ¹	\$ 11,650	\$ 410	\$ 12,060
Private 4-Year Colleges ²	\$ 32,349	\$ 1,466	\$ 33,815

*Includes tuition and fees for private 4-year colleges

Source: University of Minnesota and MN Private College Council

¹ University of Minnesota tuition is for the Twin Cities, College of Liberal Arts, exclusive of fees charged by individual colleges.

² Private 4-year averages are based on information on **tuition & fees** reported by the MN Private College Council for member institutions for the 2011-12 and 2012-13 school years.

Most of the per-credit fee increases requested by the colleges and universities are minimal, both in terms of the actual dollar amount and on a percentage basis. Because the per-credit charge for fees is relatively small on a dollar basis, a small dollar increase in a fee can sometimes result in a large percentage increase. The colleges and universities who have proposed fees in excess of ten percent, along with an explanation for the fee increase, are listed below.

- North Hennepin Community College has proposed increasing their technology fee from \$6 dollars per credit to \$8 dollars per credit and Hennepin Technical College has proposed increasing their fee from \$6 per credit to \$9 per credit. Working through their student associations, the increased technology fee will be used to keep pace with the current technology demands of their students. The system average technology fee for two-year colleges is \$9.61 per credit; both schools will continue to charge below average rates for this fee.
- Minnesota State University, Mankato is proposing to increase their technology fee from \$7.00 per credit to \$8.75 per credit to improve technology services, classroom technology and computer labs. This is the first time the technology fee rate has increased at this school in over nine years.
- Northland College's East Grand Forks campus is increasing the student activity/life fee from \$4 per credit to \$6.60 per credit in order to complete the alignment of all fees for both campuses.
- Normandale Community College's parking fee is scheduled to increase from \$6 per credit to \$9 per credit. This increase is directly related to the college's new parking facility and was previously approved through the project's financing plan.
- Minnesota State University, Moorhead is proposing to increase their student life/activity fee from \$3.95 to \$6.36 per credit. The additional funds will be used to lower the costs for students attending university-sponsored art and theater events and to balance the student life/activity account. The university lowered their proposed fee

increase from \$8.05 per credit to \$6.36 per credit between the first reading of the FY2013 operating budget in May 2012 and the second reading.

Table 2 shows the proposed MnSCU overall average annual tuition and fee rates for FY2013. The fees include athletics, health services, parking (per credit), technology, statewide student association, and student activity/life as well as the revenue fund fees for student union facilities, wellness/recreation centers, and facilities. Based on information provided in this report, the proposed FY2013 average annual tuition and fees at the two-year colleges is \$5,355. For colleges with revenue fund facilities, the average annual tuition and fees is \$5,488. The average annual tuition and fees for state universities is \$7,676, which includes the impact of revenue fund facility fees.

Table 2

**Minnesota State Colleges and Universities
Proposed FY2013 Annual Tuition and Fees**

	Average Tuition and Fees
Average all two-year colleges	\$5,355
Average two-year colleges with Revenue Fund fees (student union facility and/or wellness centers)	\$5,488
Average four-year universities (excluding Revenue Fund fees)	\$7,340
Average four-year universities (includes Revenue Fund fees for student union facility, facility fee, and wellness/recreational center fees)	\$7,676

This recommendation supports the Board's policy position concerning limitations on tuition increases and provides the revenue necessary for colleges and universities to maintain high-quality education and services to students in the face of declining state support. The proposed FY2013 tuition structure can be found in Attachments 1A through 1E.

Cost of Attendance

A student's total cost of attending a college or university includes tuition, fees, room and board expenses, books, supplies, transportation, and miscellaneous expenses. The net cost of attendance is the amount a student pays after financial aid is subtracted from the total cost of attendance. The net cost can vary depending on a student's full-time or part-time status, institution of attendance, academic program choice, income, assets, and financial aid.

Need-based financial aid programs help with the difference between what it costs and what the family can be expected to pay, based upon their income and family circumstances. In FY2011 (the most recent year data is available) undergraduate students enrolled in the Minnesota State Colleges and Universities received \$1.29 billion in financial aid. Students

received a majority of financial aid via grants (\$424.9 million) and loans (\$797.7 million). Table 3 shows the amount of financial aid awarded to undergraduate students within the system for FY2011.

Table 3

**Minnesota State Colleges and Universities
Undergraduate Student Aid Nears \$1.29 Billion
FY2011: End of Year Data**

	Federal	State	Institution	Private	Total
Grants	\$324.0	\$74.5	\$9.4	\$17.0	\$424.9
Scholarships	\$0.9	\$1.0	\$13.9	\$25.4	\$41.2
Loans	\$731.9	\$29.4		\$36.4	\$797.7
Employment/Work Study	\$8.0	\$9.5	\$8.3	\$0.0	\$25.8
Total	\$1,064.8	\$114.4	\$31.5	\$78.8	\$1,289.5

Source: System Office Research, Planning and Effectiveness

In FY2011, 61 percent (119,318) of students enrolled at MnSCU colleges and 64 percent (47,832) of students enrolled at MnSCU universities received at least one type of financial aid award (including loans that were accounted for in the system's financial aid module). Of those students who received at least one type of financial aid award, the average award for students enrolled at the colleges was \$6,912 and at the universities was \$9,720. Table 4 shows FY2011 average financial aid by type of aid for undergraduate students who received at least one type of financial aid award.

Table 4

**Minnesota State Colleges and Universities
Over 60% of Undergraduate Students Receive Aid
FY2011**

	Colleges			Universities		
	# of Awards	% of Students Receiving Awards	Average Award	# of Awards	% of Students Receiving Awards	Average Award
Grants	88,347	45%	\$3,397	27,519	37%	\$4,534
Scholarships	15,153	8%	\$1,525	9,476	13%	\$1,912
Loans	75,564	39%	\$6,388	38,614	52%	\$8,158
Employ/Work Study	7,346	4%	\$2,552	3,295	4%	\$2,138
Total All Awards	119,318	61%	\$6,912	47,832	64%	\$9,720

Source: System Office Research, Planning and Effectiveness

Tuition & Fee Increase Offset by State Grant

The system's Office for Research, Planning and Effectiveness estimated the net impact of the proposed tuition and fee increase by income category for full-time, full-year undergraduate students. The results of their analysis are shown in Table 5.

Due to the state grant program's calculation formula for expected family contribution, part-time students either do not receive any state grant or receive a disproportionately small grant. Consequently, part-time students will have less of their tuition and fee increase offset by the state grant.

Table 5

**Minnesota State Colleges and Universities
FY 2013 Estimated Tuition & Fee Increases
Net of State Grant Increases By Income Quartile
Full-Time/Full-Year Enrollment**

Colleges

Lowest Income Quartile	\$ 126
Second Income Quartile	\$ 127
Third Income Quartile	\$ 150
Highest Income Quartile	\$ 164
Non-Financial Aid Applicant	\$ 187
All Students	\$ 146

Universities

Lowest Income Quartile	\$ 205
Second Income Quartile	\$ 215
Third Income Quartile	\$ 274
Highest Income Quartile	\$ 307
Non-Financial Aid Applicant	\$ 314
All Students	\$ 266

System

First Income Quartile	\$ 140
Second Income Quartile	\$ 144
Third Income Quartile	\$ 179
Fourth Income Quartile	\$ 200
Non-Financial Aid Applicant	\$ 211
All Students	\$ 174

The analysis is based on the following assumptions:

- For those students receiving a state grant, 50 percent of the tuition and fee increase will be offset by an increase in their state grant amount.
- Students not receiving a state grant will pay the full cost of the tuition and fee increase.
- Students will enroll for the same number of credits in 2013 as they did in 2012.

Key findings of the analysis are:

- **Full-time, full-year students will pay, on average, 82 percent of the tuition and fee increase and have 18 percent offset by increased state grants.**
- **Full-time, full-year students in the lowest income quartile (1), on average, will pay 66 percent of the tuition and fee increase and have 34 percent offset by increased state grants.**
- **Full-time, full-year students in the lower middle income quartile (2), on average, will pay 68 percent of the tuition and fee increase and have 32 percent offset by increased state grants.**

ALL FUNDS BUDGET OVERVIEW

Colleges and universities have three principal sources of revenue: state appropriation, tuition and fees, and auxiliary/enterprise income. These revenues support all aspects of the educational enterprise – instruction, student life, administration, physical plant, and residential life programs.

Budget Increases Two Percent from 2012 to 2013

The Board is being asked to approve the FY2013 all funds operating budget outlined in Table 6 below. Highlights of the all funds budget include:

- The system's proposed FY2013 all funds revenue budget will grow by \$37.4 million (1.9 percent) to nearly \$2.0 billion; increased tuition revenue accounts for \$27 million, or over two-thirds of the revenue growth.
- Expenses are projected to increase by \$40.8 million (2.1 percent) over prior year levels.
- The proposed budget includes \$17.8 million in prior year balances planned as expenditures in FY2013.
- A \$9.4 million addition to fund balances is projected at the end of the fiscal year.

Table 6

Minnesota State Colleges and Universities
FY2013 All Funds Proposed Budget
(Net of Scholarship Allowance)
(\$ in millions)

(\$ in millions)	FY2012 Current Budget	FY2013 Proposed Budget	\$ Change	\$ Change
Revenues	\$1,948.4	\$1,985.8	\$37.4	1.9%
Expenses	\$1,935.6	\$1,976.4	\$40.8	2.1%
Budget balance	\$12.8	\$9.4		

The all funds budget is net of the scholarship allowance. Approximately 85 percent (\$322.8 million) of an estimated \$379.8 million of financial aid revenue is brought in to pay student obligations (tuition, fees, room and board, and sales and services) with the balance (\$57 million) reflecting the net financial aid payments to students for living expenses.

A very slight addition to the budgetary fund balance for FY2013 is projected. A strengthening fund balance is a key component of college and university financial stability and for management of risk going forward. The Board has expressed continued concern for improving operating margins and primary reserve levels. Board Policy 7.3, Finance Administration, requires “financial management methods support short term and longer term system and college and university strategic objectives.” The Higher Learning Commission (HLC) reviews college and university Composite Financial Index (CFI) to ensure the financial health of an institution. Schools who do not meet the HLC’s standards are placed on a watch list for further review. By strengthening operating margins, which is factored into calculating the CFI, colleges and universities are aligned with Board policy and HLC standards.

Transforming Priority Allocations

In FY2013, system resources are recommended for allocation to the following two priorities: (1) Centers of Excellence and (2) Access and Opportunity funding (Table 7).

Table 7

Minnesota State Colleges and Universities
Distribution of State Resources to Priorities
(\$ in millions)

	FY2012	FY2013
Centers of Excellence	\$3.9	\$3.9
Access and Opportunity	\$9.8	\$9.8
Total	\$13.7	\$13.7

The distribution of Access and Opportunity (A&O) funds will change in FY2013. Funding for the centers will be reduced by 40 percent in FY2013 and these funds will be redistributed to colleges and universities based on the A&O formula used in previous years. This will enable these resources to be more broadly used to advance the student success agenda for student populations traditionally underserved by higher education.

FY2013 funding of the Centers of Excellence is also under transformation to better align with workforce needs. The following is the expected distribution of the funds:

- 1) The four existing centers will receive \$450,000 each and will be expected to support all colleges and universities;
- 2) \$900,000 will be set aside for new sectors and for project implementation; and
- 3) The remaining \$1.1 million will be reallocated to support the workforce agenda.

State Support Remains Constant between 2012 and 2013

There is no significant change in the system's state appropriation for FY2013 compared to FY2012. The system's state appropriation for FY2013 is \$545.8. As a result of the state's improved budget outlook, no unallotment is expected in FY2013.

To receive its full appropriation in FY2013, MnSCU was required to meet 3 of 5 performance goals. Four of the 5 goals have already been achieved, ensuring the system will receive its full appropriation at the beginning of the fiscal year:

- ***Graduates or Degrees, Diplomas and Certificates:*** The number of graduates increased by 12.1 percent and the number of degrees, diplomas and certificates conferred by the system increased by 12.9 percent, exceeding the goal of 7 percent.
- ***Students of Color:*** The enrollment of undergraduate students of color increased by 10.3 percent, exceeding the goal of 10 percent.
- ***Online Courses:*** Full year equivalent enrollment of students taking online or blended credit courses increased by 28.3 percent and the number of online and blended credit course sections increased by 24.6 percent, exceeding the goal of 15 percent.
- ***Energy Consumption:*** Total energy consumption per square foot decreased by 9.5 percent, exceeding the goal of 2 percent.

In addition, the system is budgeting \$2.0 million of interest earnings for total estimated state resources of \$547.8 million. These resources are being allocated within the following categories: institutional allocations, priority allocations, systemwide set asides, and system office. For FY2013, 85.4 percent of state resources received by the system are allocated to colleges and universities either as basic allocations or through priority allocations as shown in Table 8.

Table 8

**Minnesota State Colleges and Universities
Distribution of FY2013 State Resources
(\$ in millions)**

	Fiscal Year 2012	% of Total	FY2013	% of Total
Institution allocations	\$467.2	85.4%	\$467.2	85.4%
- Basic allocations	\$452.1		\$452.1	
- Priority allocations	\$15.1		\$15.6	
Systemwide set asides	\$43.0	7.8%	\$43.0	7.8%
Learning Network of Minnesota	\$4.1	0.8%	\$4.1	0.8%
System Office	\$33.1	6.0%	\$33.1	6.0%
Total state resources	\$547.4		\$547.8	

Of the \$452.1 million for institution basic allocations, it is recommended that \$441 million be distributed through the allocation framework. The allocation framework distributes base resources to colleges and universities as follows: 50 percent of the allocation based on the institution's prior year base allocation and 50 percent on the results of the FY2013 allocation framework. The FY2013 college and university allocations distributed through the allocation framework can be found in the supplemental materials. The balance of the basic allocation supports the customized training network (\$9 million) and \$2 million is anticipated invested treasury earnings.

It is recommended that \$15.6 million (including the new appropriation for leveraged equipment noted below) be allocated for priority allocations that are used to drive compelling educational interests. FY2013 priority allocations include \$9.8 million for access and opportunity activities and \$3.9 million for the centers of excellence. Legislative priorities totaling \$1.5 million are directed to Range vocational education, economic development E-Folio, community energy pilots, and Cook County higher education.

State funds support systemwide programs, the Learning Network of Minnesota, and the system office. The systemwide programs are supported by \$43.0 million and include Attorney General services, Debt Service, Enterprise Technology, Leadership Transition, Repair and Replacement, System Audit program, PALS, Firefighter Subsidy, and Farm Business/Small Business Tuition Subsidy. The Learning Network of Minnesota has been appropriated \$4.1 million. The budget of the system office receives \$33.1 million in state support. Detailed information can be found in the supplemental materials on the master green sheet.

Leveraged Equipment Program

Minnesota State College and Universities received a \$457,000 one-time appropriation for leveraged equipment during the 2013 legislative session. These funds must be spent on educational equipment in programs that “produce graduates with skills for which there is a high employer need in the state.” The funds will be distributed to colleges and universities through a grant application process. A one-to-one cash match will be required. The goal is to have the funds awarded by September and the equipment purchased and installed by January, 2013.

FY2013 Proposed General Fund Budget

Table 9 details the proposed general fund budget. Highlights include:

- General fund revenues are expected to increase by \$21.1 million (1.4 percent) to \$1,515.2 billion in FY2013.
- The proposed budget assumes \$545.8 million in state appropriation revenues. This includes \$545.4 million in operating funds and \$457 thousand in one-time leveraged equipment funding.
- Tuition receipts are expected to account for \$849.0 million (55 percent) of total general fund revenue, an increase of \$27.0 million from prior year levels.
- General fund expenses are expected to increase by \$28.7 million (1.9 percent) to \$1,512.2 billion in FY2013.
- The proposed general fund budget includes the use of \$14.2 million in general fund balance.
- A relatively small \$3 million (0.2 percent) fund balance is projected at the end of the fiscal year.

Table 9

Minnesota State Colleges and Universities FY2013 General Fund Proposed Budget (\$ in millions)

	FY 2012 Current Budget	FY2013 Proposed Budget	\$ Change	% Change
Revenues				
State appropriation	\$545.4	\$545.8	\$0.5	0.1%
Tuition	\$822.0	\$849.0	\$27.0	3.3%
Other revenues	\$112.2	\$106.2	(\$6.0)	-5.4%
Programmed fund balance	\$14.5	\$14.2	(\$0.3)	-2.1%
Total budgeted revenues	\$1,494.1	\$1,515.2	\$21.1	1.4%
Expenses				
Compensation	\$1,092.1	\$1,117.4		2.3%
Other operating costs	\$391.4	\$394.8		0.8%
Total budgeted expenses	\$1,483.5	\$1,512.2	\$28.7	1.9%
Budget balance	\$10.6	\$3.0		

CONCLUSION

Advancing the Goals of the Strategic Framework

The FY2013 operating budget is designed to advance the goals of the Strategic Framework. Tuition increases have been held to modest levels, coming in under legislative caps and Board established limits. To cushion the impact of state funding cuts and to keep tuition affordable, colleges and universities have implemented new strategies to improve efficiency and productivity, ensuring that the colleges and universities continue to provide the highest value and most affordable option for Minnesotans. Across the state, efforts are being made to build partnerships with business, industry and communities. Investments are being made to improve the quality of education and ensure access to extraordinary education for all Minnesotans.

RECOMMENDED COMMITTEE MOTION:

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

- a. Adopt the annual total operating budget for FY2013 in Table 6. Pursuant to Board Policy 5.9, the Board of Trustees will be periodically provided systemwide budget updates for all funding sources on an exception reporting basis.
- b. Approve the proposed tuition structure recommendations for FY2013 as detailed in Attachments 1A through 1E.
- c. All tuition increases are effective Summer Term or Fall Term 2012 at the discretion of the president. The chancellor is authorized to approve tuition structures for new courses or programs proposed after this date, as well as any required technical adjustments, and is requested to incorporate any approvals at the time FY2014 tuition recommendations are presented to the Board of Trustees.
- d. The Board of Trustees continues the policy of market-driven tuition for closed enrollment courses, customized training, and non-credit instruction, continuing education, and contract postsecondary enrollment option programs.
- e. Approve the Revenue Fund and related FY2013 fees for room and board, student union, wellness and recreation facilities, and parking ramps/surface lots as detailed in Attachments 2A through 2D, including any housing fees that the campuses may charge for occupancy outside the academic year. Approve the FY2013 fees structure for room and board for colleges who either own or manage student housing as detailed in Attachment 2E. The chancellor is authorized to approve fee structures for any new revenue fund programs as well as any technical adjustments, and is requested to incorporate any approvals at the time FY2014 recommendations are presented to the Board of Trustees.
- f. Approve Attachment 3 authorizing for Minnesota State University Moorhead to charge a Residential Learning Community fee beginning Fall 2012.
- g. Approve a tuition waiver for courses in Northland Community and Technical College's Unmanned Aerial Systems (UAS) program that have a prefix of UAST. This waiver is approved for cohort 1 for summer term 2012, fall semester 2012, and a prepared portion for spring semester 2013. The waiver is also approved for cohort 2 for spring semester 2013, fall semester 2013, spring semester 2014, and a prorated portion of fall semester 2014.

RECOMMENDED BOARD OF TRUSTEES MOTION:

- a. Adopt the annual total operating budget for FY2013 in Table 6. Pursuant to Board Policy 5.9, the Board of Trustees will be periodically provided systemwide budget updates for all funding sources on an exception reporting basis.
- b. Approve the proposed tuition structure recommendations for FY2013 as detailed in Attachments 1A through 1E.
- c. All tuition increases are effective Summer Term or Fall Term 2012 at the discretion of the president. The chancellor is authorized to approve tuition structures for new courses or programs proposed after this date, as well as any required technical adjustments, and is requested to incorporate any approvals at the time FY2014 tuition recommendations are presented to the Board of Trustees.
- d. The Board of Trustees continues the policy of market-driven tuition for closed enrollment courses, customized training, non-credit instruction, continuing education, and contract postsecondary enrollment option programs.
- e. Approve the Revenue Fund and related FY2013 fees for room and board, student union, wellness and recreation facilities, and parking ramps/surface lots as detailed in Attachments 2A through 2D, including any housing fees that the campuses may charge for occupancy outside the academic year. Approve the FY2013 fees structure for room and board for colleges who either own or manage student housing as detailed in Attachment 2E. The chancellor is authorized to approve fee structures for any new revenue fund programs as well as any technical adjustments, and is requested to incorporate any approvals at the time FY2014 recommendations are presented to the Board of Trustees.
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Date presented to the Board of Trustees: June 20, 2012