

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

BOARD ACTION

**FY2008-2009 Biennial Operating Budget Request and
FY2007 Capital Budget Request**

BACKGROUND

The development of the fiscal year 2008-2009 biennial budget request began in March 2006 with a report to the Board regarding a proposed budget development process. In addition to the system's leadership structure, including the college and university presidents and the Chancellor's cabinet, a steering committee and three work groups were formed to provide input and feedback as a budget request was developed for recommendation to the Board of Trustees. Work groups included members of bargaining units, student associations, college and university administration and senior staff. The steering committee included the Chancellor's cabinet and several presidents. All groups had detailed discussions about possible components and strategies for the Chancellor and Board to consider as the budget request is brought forward.

The Board's strategic and action plans were the basis for development of the biennial budget. Biennial budget work groups were formed around the first three strategic directions of the plan with instructions to include a component of the fourth strategic direction, to innovate to meet current and future educational needs efficiently. Work groups met throughout the summer, culminating in a final gathering of all groups to forward recommendations for consideration by the biennial budget steering committee, the system's leadership structure and the Chancellor.

Information about the biennial budget process has been shared with the Board of Trustees at several meetings since March. Trustees revisited the topic at the September meeting and the subsequent public hearing with an overview of the state of the system, a discussion of various request components and strategies, and public testimony. This report provides specific information about the components of the system biennial budget request components.

I. Telling the Story of the Base: What Does the System Do?

The Minnesota State Colleges and Universities spend about 90 percent of the \$600 million annual appropriation from the state on educating students.

Simply put, the system educates about 370,000 students each year at 32 institutions on 53 campuses in 46 communities across the state; about 240,000 of those students are enrolled in

credit-based courses. The system enrolls 61 percent of the state's undergraduates – more Minnesota undergraduates than all other higher education providers combined.

Measured on a full year equivalent basis, enrollment is about 136,000 students per year. The vast majority – 89 percent – of those students are Minnesota residents; however, more than 3,000 students come from other countries.

Full-time students comprise about 58 percent of the total. Undergraduate students make up about 97 percent of all enrollment. The system is the sixth-largest system of two- and four-year colleges and universities in the country, based on student enrollment. All of the system's two-year community and technical colleges have an open admissions policy, which means that anyone with a high school diploma or GED may enroll.

The Minnesota State Colleges and Universities system educates students from diverse academic, financial, cultural, racial and ethnic backgrounds. The colleges and universities educate students who rank at the top of their class as well as those looking for an opportunity to better their lives and those of their families. About 29 percent of recent high school graduates enrolling in the seven state universities were in the top 25 percent of their class. About one-quarter of recent high school graduates enrolling at system universities took one or more developmental courses. For recent high school graduates enrolling at two year institutions in the system, nearly 48 percent took one or more developmental courses.

The system enrolls more students of color than any other higher education provider in Minnesota – more than 26,500 in 2005, not including international students. In addition, the system educates more than 17,800 high school students taking college courses through the Post- Secondary Enrollment Options program. About 5,400 students with disabilities enrolled in FY2005. Enrollment of women exceeds that of men by 56 percent to 44 percent. The average age of students in the system is 26.3 years. About 36 percent of all students in the system are over age 25.

The two-and four-year institutions offer about 3,700 educational programs that result in a credential – a degree, a diploma or a certificate. These programs are dynamic; from year to year, new programs are created and other programs are suspended or closed in response to declining enrollment or reduced labor market demand. For example, in the past year, several programs in computer networking and computer programming were suspended or closed at institutions in northeast Minnesota. At the same time, a new program in computer network security and forensics was started at an institution on the Iron Range. These changes reflected the decreasing demand for programmers as these jobs move overseas, and the increasing demand for personnel who can maintain computer security.

More than 40,000 students each year are able to complete part of their education through online course work. The state colleges and universities now offer more than 150 programs completely or predominantly online and nearly 6,000 course sections.

II. Employment and Economic Growth

Minnesota State Colleges and Universities also serve 6,000 employers across the state, providing workforce development opportunities to 14,000 employees each year. The training is tailored to the needs of employers, so employees get exactly the skills they need for the job, with training often provided at the workplace. The system also responds to dramatic changes in the state economy by providing retraining opportunities to displaced workers.

Employment in the Minnesota State Colleges and Universities system is spread over 53 campuses in 46 communities across the state. Over 70 percent of the workforce is employed in communities outside of the Minneapolis-St. Paul metropolitan area. As a significant employer throughout the state, the Minnesota State Colleges and Universities are vital components of local economies.

Faculty members comprise 63 percent of the 18,162 total employees. Staff makes up 34 percent of the total and administrators make up 3 percent. On a full-time-equivalent basis, the total number of employees system wide is 12,341 for fiscal 2006.

The 32,500 state college and university students who graduate each year make Minnesota work: business owners and teachers, nurses and carpenters, social workers and electricians, journalists and lab technicians, city managers and police officers, accountants and computer programmers and more. Statewide, the colleges and universities contribute to successful communities by providing education and training for:

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

Almost 90 percent of these graduates land jobs related to their field of study within a year of graduation. Of critical importance to the state's investment in these students is that 81 percent of all graduates stay in Minnesota to work or to continue their education.

In addition to the tax contributions made by Minnesotans employed by the system throughout the state, a recently released study by the Wilder Foundation attributes over \$3.5 billion in annual statewide economic impact of system operations on the Minnesota economy. For every dollar of net spending on the system, the yield is \$10.87 in economic activity.

III. Innovation

The Minnesota State Colleges and Universities are committed to innovation and efficiency. The Board of Trustees has adopted the 2006-2010 strategic plan that focuses on innovation to meet current and future educational needs efficiently. Examples of innovation and efficiency exist throughout the system.

Over the past several years, the business practice alignment committee has been dedicated to the elimination of business practice variances within the Minnesota State Colleges and Universities system. These variances often result in redundant processes within the technology infrastructure and ultimately prevent a seamless educational experience for students. To date, over 100 of these variances have been examined and solutions have been implemented to eliminate redundancy, increase cost savings and provide students with a seamless educational experience.

In addition, staff in the facilities unit in the finance division has been working with institutions to increase energy evaluation and improve energy efficiency. Staff also is working with nearly half of our institutions to contract with the Department of Administration to hedge future gas prices as a direct response to the governor's Executive Order 05-16 to buy natural gas forward pricing for the 2006-2007 heating season.

The Information Technology Division has provided leadership for the state and for the region in the negotiation of large volume computer acquisition programs resulting in significant savings for our colleges and universities, state government and other higher education providers in the five state region.

The system made progress in the previous labor contract bargaining process to respond to the dollars appropriated by the Legislature for competitive compensation. Now included in several contracts, compensation was added to reward innovation related to excellence in student learning.

Historically, the state colleges and universities have looked for savings internally, and will continue to do so in the upcoming biennium. Each year, the colleges and universities have internally redirected \$20 to \$30 million in response to changing demand for instructional programs and student services, as well as in response to budget shortfalls.

The system has had numerous success stories from state investments made in previous years. Here are some examples:

- The Center of Teaching and Learning awarded a \$5,000 grant to a faculty member at Saint Paul College who used it to add digital testing equipment for use in the micro mechanical technology/watch making program. This \$5,000 investment eventually turned into a \$1 million donation from Rolex USA that allowed Saint Paul College to expand its nationally recognized program.

- A two-year wind energy program on the Canby campus of Minnesota West Community and Technical College has attracted students from around the Midwest and as far away as Maryland. Bill Trosse, who lost his job of 30 years as a cabinetmaker, enrolled in the program and is looking forward to a new career.
- A new initiative, aided by a \$600,000 annual appropriation from the Legislature, has begun assisting thousands of military veterans returning to Minnesota's colleges and universities to complete a higher education program and successfully resume civilian life. The money is being used to establish six regional veterans assistance offices, five of which are on Minnesota State Colleges and Universities system campuses. John Morris, deputy state chaplain for the Minnesota Army National Guard, said, "The Minnesota State Colleges and Universities system is doing something that the rest of the nation should be playing catch-up on."
- Hennepin Technical College has started a fast-track training program to train people in high-demand jobs in metal manufacturing. The program helps companies like E.J. Ajax & Sons Inc., in Fridley, which makes hinges for freezer doors, compete with competitors in China, Taiwan and Mexico.
- Winona State University is trying to recruit men and low-income and immigrant students into nursing to better serve the changing demographics of Southeast Minnesota.

BUDGET REQUEST

The Board is being asked to consider a budget request focused on two broad categories: strategic plan advancements and infrastructure needs. The request would be financed by three sources of revenue:

- Increased state appropriation resources;
- Campus reallocations; and
- Additional tuition revenue.

The requested increase in state appropriation totals \$177 million, a 4 percent average tuition increase would generate an additional \$73 million and campus-level reallocations of \$25 million would generate the necessary resources for a complete package totaling \$275 million. The majority of the total package would be distributed to institutions across the system. The remaining 24 percent of the package would be designated for system wide activities benefiting all institutions through the implementation of the enterprise technology strategic plan.

Table 1

**Minnesota State Colleges and Universities
FY2008-FY2009 Biennial Budget Request—State Appropriation Change Items Only**

(Dollars in Millions)

<u>REQUEST COMPONENTS</u>	FY2008	FY2009	Biennium
Strategic Advancements	\$33	\$47	\$80
-Access, Opportunity and Success	\$12	\$12	\$24
-Academic Innovations	\$11	\$15	\$26
-Student Technology Support	\$10	\$20	\$30
Infrastructure	\$39	\$58	\$97
-Technology Infrastructure	\$20	\$20	\$40
-Inflation	\$19	\$38	\$57
Total New State Appropriation Request	\$72	\$105	\$177
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Tuition Assumption @ 4% per year	\$24	\$49	\$73
Reallocation Commitment	\$10	\$15	\$25
Total New and Reallocated Revenues	\$106	\$169	\$275

REQUEST COMPONENTS

I. Strategic Plan Advancements

A. Access, Opportunity and Success:

The budget proposal includes \$24 million in new state appropriation resources for comprehensive statewide retention of underrepresented students (matched with \$10 million in existing resource reallocation for total of \$34 million)

This initiative is designed to address the needs of students who have traditionally been underrepresented in higher education, including low-income, students whose parents did not obtain college degrees and students of color, by taking a multi-level, multifaceted approach to improving the academic achievement and college success of these students. It would include the establishment of college and university partnerships to provide outreach and college awareness programs for high school students. The initiative would be similar in part to the successful TRIO and Upward Bound programs, the federal educational opportunity outreach programs designed to motivate and support students from disadvantaged backgrounds.

Key Measures:

- The number of students retained from their first to second year will be increased by more than 2,900 or an increase of about 9.2 percent by 2011.
- Students participating in high school outreach and college awareness programs will have a high school grade point average and high school graduation rate above students who are not program participants.
- The college participation rate of program students will be higher than students who are not program participants.
- Parents of all program participants will have submitted a Free Application for Federal Student Aid (known as the FAFSA) for their student prior to May of the student's high school graduation year.

B. Academic Innovations:

The Chancellor is recommending \$10 million to improve and expand learning opportunities in science, technology, engineering and math (known as STEM). The funding will increase student enrollment in STEM courses, promote career opportunities in STEM-related industries and increase the number of Minnesota teachers prepared to teach science and math at the K-12 level. This would be matched with \$5 million in existing resource reallocation.

An additional \$3 million would fund the launch and first two years of operation of a biosciences center of excellence. The public and private sector have made significant investments in the state's research infrastructure, with the goal of making Minnesota a global leader in the biosciences. The proposal will ensure that the state has the highly skilled workforce it will need to capitalize on the significant investments made in biosciences research and development.

An allied health program curriculum development request totaling \$3 million will enable the system to increase the number of nursing graduates in high-growth regions of the state with redesign of curriculum and seamless programming to the baccalaureate and graduate-degree levels. The initiative would also promote the retention of frontline caregivers in Minnesota's long-term care facilities through innovative delivery of skills training using serious game-based learning and training, particularly for on-the-job skill training for incumbent workers. It fosters a partnership with the University of Minnesota to lay the groundwork for stronger foundations at two-year institutions so that students can transition into upper-division coursework at the University's Center for Allied Health Programs. This would include the development of on-line courses in physiology, biochemistry and microbiology. This initiative would also provide instruction using electronic medical record technology so that Minnesota's healthcare students graduate with the necessary skills and competencies to practice in EMR healthcare facilities by 2010.

Key Measures:

The initiative will enable the system to meet two key targets that have been established under the system's current strategic plan:

- Increase the number of students enrolled in one or more college-level STEM course by 6,900 or 6.4 percent by 2009.
- Increase the number of secondary teachers prepared for licensure in science and math by 119 or an increase of 115.5 percent between fiscal years 2005 and 2011.

The measures for the biosciences center will be similar to those set for the existing four Centers of Excellence, including:

- Graduate outcomes
- Student learning outcomes
- Related business and/or industry certification and support
- Faculty qualifications
- Other outside funding
- Local, state and national programmatic accreditation and recognition
- Enrollment/placement trends
- Advisory committee(s) in existence
- Access to quality facilities and equipment
- PK-12 partnerships

A proposed \$10 million Management Innovation initiative would fund the human resources aspects of the innovation focus in the Board's strategic plan. Strategic direction four – "Innovate to meet current and future educational needs efficiently" – includes a goal that focuses on rewarding and supporting institutions, administrators, faculty and staff for innovations that advance excellence and efficiency. Another goal directs the system to identify and remove barriers to innovation and responsiveness. New resources would be used to encourage behavior that supports innovation and removes barriers to enable the system to more efficiently and effectively deliver its educational product and increase responsiveness to the unique needs of the changing student population.

Key Measures:

One key measure will be the competitiveness of our total compensation for each employee group relative to the appropriate peer group. Success would be to ensure that the system has the ability to provide total compensation to the most innovative and productive of employees above the 70th percentile of the appropriate peer group.

C. Student Technology Support

The Chancellor is recommending \$30 million in additional state appropriation to accelerate the enhancement, expansion and full integration of innovative technology systems and resources for the student learning environment. These enhancements will include systems supporting student learning administration, student services, enterprise learning and administrative portals.

This funding also will support the initial development of a key strategic initiative for innovation within the system: establishment of a statewide learning grid that will seamlessly unite online educational technology resources and tools and make them available to students and faculty at any time and any place.

All of the initiatives in this portion of the request support the Board's strategic direction to increase access and opportunity by providing an expansion of educational programming throughout the state.

Projects to be implemented with the use of these resources include retooled Administrative Systems; financial management support systems; student records; human resources and employee services; project and portfolio management; management decision support; new student services and student learning online tools; new faculty research and development online tools; and new career and business/entrepreneurship online tools

II. Infrastructure

A. Technology Infrastructure

The Chancellor is recommending \$40 million to achieve and sustain enhanced availability, security, and support for its technology infrastructure.

The proposed increase in the technology budget, supported by an extensive strategic study, addresses deferred maintenance in technology infrastructure. It lays the groundwork for significantly advancing the following goals:

- Achieving a high level of availability and security for all mission-critical services and provide matching funding for college and university technology infrastructure upgrades.
- Providing the technical foundation for delivering personalized student learning, student services and faculty support.
- Stabilizing the costs of ongoing computing infrastructure support by implementing technology life-cycle planning, systemwide standards, and statewide partnerships and aggregated technology purchasing.
- Providing administrative tools and management dashboards that allow for real-time tracking of metrics, data-driven analysis and forecasting, and improved ability for strategic decision making.
- Establishment of a robust foundation for the statewide learning grid that will enable seamless access to educational resources throughout the state.

The following projects will be undertaken with the new resources provided by this initiative:

- **Service Oriented Architecture:** The underlying “service oriented architecture” for all enterprise systems and interfaces will be based on a set of loosely coupled and inter-operable services.
- **Identity Management:** An enterprise identity management infrastructure lies at the foundation of all enterprise and campus applications. In addition to managing identities for the MnSCU population, the extended Identity Management system will implement federated identity management for sharing resources with other state agencies and partner institutions.
- **Data and Network Center Modernization:** Serving as the Command and Control Center for the learning grid, the significantly upgraded Data and Network Center will achieve maximum uptime but also will also be provisioned for business continuity and disaster recovery. An upgraded network operations center will allow 24x7 system monitoring and accelerated response. Continued investment in technologies such SAN (Storage Area Network), Oracle RAC (Real Application Clusters), and enterprise tape backup systems are required to achieve high availability and data integrity.
- **Network Infrastructure:** The network infrastructure constitutes the interstate system for the learning grid. The network infrastructure will offer increased bandwidth, greater fault tolerance and accommodate resource sharing through new technologies such as grid computing.
- **Trusted Systems:** The ambitious statewide learning grid concept will require trusted systems that ensure data privacy and security and allow for smooth flow of information and credentials between nodes on the system and partner institutions.

Key Measures:

Each of the major business goals will be accompanied by direct and indirect performance metrics.

Item	Metric	Type
System availability	Increased uptime: 99.9 percent	Direct
Exceptional learning environment and student services	Student and faculty satisfaction, increased retention, improved academic performance, growth in online programs	Indirect
Statewide learning grid	Increased partnerships and collaboration, improved K-12 stream, improved access for remote and diverse learners, increased revenue from continuing and executive education	Indirect
Efficiencies	Lower costs, demonstrated ROI, increased integration and system interoperability	Direct
Strategic Decision Making	Improved access to real-time data	Direct, Indirect

B. Inflation

In accordance with the Department of Finance guidelines, inflation is assumed at 3.25 percent. Within the inflation assumption, insurance inflation is assumed to be 10 percent. In the past several biennia, insurance increases have been in the double digits. Overall, the inflation assumptions incorporated into this budget request total \$130 million. Revenues to cover these inflation costs would be a combination of increased state resources and tuition dollars as follows:

- State appropriation support in the amount of \$57 million.
- Average system wide tuition increase of 4 percent per year to generate \$73 million. The package assumes a 4 percent average annual tuition increase system wide. Based on the fiscal year 2007 average annual tuition of \$4,119, a 4 percent increase would raise tuition by \$165 to \$4,284 in fiscal year 2008 and to \$4,455 in fiscal year 2009 (an increase of \$171 over the previous year).

The tuition assumption in this request is predicated on receipt of the full \$177 million in requested new state appropriation resources. If state resources are appropriated in an amount other than the request, the Chancellor would return to the Board after the conclusion of the legislative session with alternative tuition scenarios. The tuition assumption incorporated into this budget request recognizes the greatly increased tuition burden on students over the last several years. The average systemwide increases were 13.6 percent in FY2004, 13.8 percent in FY2005, 6.1 percent in FY2006, and 7.2 percent for FY2007.

In addition to these resources, the system will reallocate \$10 million of existing resources to supplement the amount available to cover inflation, bringing it to 3.5 percent. The total reallocation of existing base resources in this request is \$25 million for FY2008-2009.

SUMMARY

The fiscal year 2008-2009 biennial budget request is dedicated to advancing the system's strategic plan and blends near- and long-term investment objectives. It is framed in part to encourage a renewal of the state's historical commitment to supporting higher education on a two-thirds state share, one-third student share (tuition) basis. The biennial budget request would shift the state and student share from a nearly 50 percent split to a state share of 53 percent and student share of 47 percent. Finally, the budget request recognizes the increasing tuition burden on students, particularly those attending two-year institutions.

Table 2

**Minnesota State Colleges and Universities
FY2008-FY2009 Biennial Budget Request**

	<u>FY 2008-2009</u>	<u>Percent Change</u>
Base Appropriation	\$1,204 million	
Appropriation Request	\$ 177 million	15 percent
Total FY2008-FY2009 State Appropriation	\$1,381 million	

CAPITAL BUDGET REQUEST

The Department of Finance has invited requests for urgent capital items for the 2007 legislative session. Recognizing that not all of the Board's approved projects were fully funded in the 2006 legislative session, a proposed capital request totaling \$33.8 million is contained in Attachment A.

RECOMMENDED COMMITTEE ACTION

The Facilities/Finance Policy Committee recommends that the Board of Trustees adopt the following motion.

RECOMMENDED MOTION

The Board of Trustees is committed to providing high-quality, accessible education at all Minnesota State Colleges and Universities. The Board strongly urges the state of Minnesota to support the Minnesota State Colleges and Universities fiscal year 2008-2009 biennial budget request as illustrated in Table 2 and FY2007 capital budget request in Attachment A.

The Minnesota State Colleges and Universities' Board of Trustees approves the final fiscal year 2008-2009 Minnesota State Colleges and Universities biennial operating budget request and the fiscal year 2007 capital budget request for transmittal to the Department of Finance. The Chancellor is requested to provide periodic updates on the progress of the budget through the executive and legislative branch review and approval process.

Date presented to the Board of Trustees: November 15, 2006