

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

College And University Operating Budget Trends

BACKGROUND

The report provides general trends of the Minnesota State Colleges and Universities operating budget over the past several years, along with scenarios for the upcoming biennium. The purpose of the report is to initiate discussions on developing general budget parameters for the FY2006 institutional operating budgets, including tuition. This report continues the discussion of the operating budget begun at the November Board retreat.

Revenue and Expenditure Patterns

The most significant changes in the past several years have been the record rise in enrollment and the change in revenue mix -- the reduction in state appropriation and the consequent increase in tuition revenue. Revenue and expenditure trends are summarized in Attachment A.

Between FY2002 and FY2005 revenues increased moderately while the mix of revenues changes substantially:

- Total revenues have increased 8 percent, with all of the increase due to increases in tuition revenues.
- State appropriation revenues have declined 9 percent, whereas tuition and fee revenue have increased 44 percent.
- In FY2005, state appropriation comprises 38 percent of total revenue, while tuition and fees accounted for 37 percent.
- In FY2002, state appropriation represented 46 percent and tuition and fee revenue made up 28 percent of total MnSCU revenue.
- Other revenue, largely comprised of federal and state grants, has remained relatively flat.

For expenditures, compensation continues to be the predominant portion of the budget. Compensation has increased at a rate greater than all other expenditures.

- Total expenditures have increase 9 percent from FY2002-FY2005.

- Expenditures for compensation have increased 13 percent, while all other operating costs have increased only 3 percent or less than 1 percent per year.
- Compensation costs accounted for \$110 million of \$122 million in expenditure increases from FY2002 to FY2005.

Enrollment Impacts on Budget Trends

Revenues and expenditures have increased at the same rate as enrollment. From FY2002 to FY2005 enrollment increased from 126,215 to 136,557 an increase of 10,342, or 8 percent.

- Total expenditures per student FYE have remained relatively flat over the past several years, fluctuating between \$10,270 in FY2002 and \$10,384 in FY2005. However, the source of funding has shifted from state appropriation to tuition revenue.
- State funding per student has declined from \$4,771 to \$4,120 between FY2002 to FY2004, and is estimated to slide further to \$4,002 in FY2005.
- Tuition and fee revenue per FYE has increased from \$2,898 in FY2002 to an estimated \$3,850 in FY2005.

Included in the expenditure figures are annual reallocations of \$25 - \$30 million. Each year, as part of the budget development and balancing process, colleges and universities find savings and efficiencies in their operations as a means of funding new programs and initiatives. These savings are a regular part of budget-balancing and are not normally captured in the typical budget document and financial statements. As shown in the spreadsheet, the colleges and universities have reallocated at least \$200 per FYE each year as a way to support reinvestment activities and balancing of the budgets.

Looking Ahead

Tuition has come to play an increasingly larger role in funding public higher education in Minnesota. The significant tuition rate increases in the past several years have been in response to reductions in state appropriations. At this point it is unknown what the legislature will be appropriating in the next biennium for MnSCU. Nonetheless, we need to begin discussions on the FY2006 institutional operating budgets and development of a general framework for setting revenue parameters.

Attachment B includes three scenarios as examples of possible changes in revenue and expenditures in the upcoming biennium. The scenarios provide a basis for considering changes in revenue levels and the impact on funding per student. In each of the scenarios, total compensation costs are assumed to increase by 4 percent annually and other operating costs by 1.5 percent annually. The expenditure assumptions drive \$116M in new spending pressure over FY2005 levels. No assumptions are included for other

critical new investments in support of the Strategic Plan, Board, Chancellor or Presidential goals.

? Scenario A shows the impact of no increase in revenue. While enrollment is assumed to increase a modest 1 percent, revenues per FYE from state appropriation, tuition and other sources decline. Reductions of \$117 million are necessary and the total revenue per FYE drops by 2 percent.

? Scenario B assumes that the legislature provides MnSCU with the requested enrollment adjustment of \$130.8 million (which includes a \$58.8 million one-time appropriation) in FY2006- FY2007. This scenario also assumes a zero percent tuition increase. The state appropriation drops in the second year because the \$58.8 million in one-time funds are not available in FY2007. In this scenario, the additional revenue covers assumed expenditures and provides \$17M for new investments. The total revenue per FYE increases in FY2006 and drops about the same amount in FY2007. Overall, the colleges and universities would finish FY2007 with the slightly more revenue per FYE as is available in FY2005.

? Scenario C assumes that the full biennial budget request of \$66.5 million and the enrollment adjustment are funded by the legislature. It also illustrates the impact of a 4 percent tuition increase. Under this scenario, the projected budget balance is positive in both years. The funding per FYE increases in FY2006, but sheds about one-third of the increase in FY2007. Colleges and universities would finish FY2007 with continuing funding per FYE 6 percent higher than FY2005.

The scenarios illustrate a range of possible outcomes of the upcoming legislative session and the potential impacts on college and university operating budgets. The relationship between state appropriation and tuition is critical to future planning. Colleges and universities have been operating on increasing slim per FYE budgets for the past four years and foregoing critical infrastructure investments in order to ensure adequate instructional resources. The Board's commitment to continuing investment in quality, affordable education is a key principle in the planning process. The trends, scenarios and ensuing discussions will provide general parameters for colleges and universities as they continue FY2006- FY2007 budget development and consultation on campus in the winter and spring of 2005.

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