



MINNESOTA STATE
Board of Trustees

AGENDA ITEM SUMMARY

NAME: Finance and Facilities Committee

DATE: November 19, 2024

TITLE: FY2025 Operating Budget Update

Action

Review and Discussion

This item is required by policy

PRESENTERS

Bill Maki, Vice Chancellor for Finance and Facilities

Steve Ernest, System Director, Financial Planning and Analysis

PURPOSE

This item provides the Board of Trustees with an update on the Fiscal Year 2025 Annual Operating Budget for the system. The board approved the annual operating budget at its meeting on June 18, 2024. Now that the 2024-2025 academic year is well underway, colleges and universities have updated their budgets for the year.

BACKGROUND INFORMATION

Since fiscal year 2020, colleges and universities have provided budget updates to the board each October to share changes that have occurred since original budgets were approved in June. This year's update was planned to be delayed by a month to give additional time due to the implementation of Workday in July. Unfortunately, the additional month still did not give enough time to completely achieve having up-to-date financial information and for college, university, and system finance leaders to have consistent and understandable year-to-date budget reports.

This report provides the board with updated fiscal year 2025 budget numbers for the system, including revised projections for enrollment, revenues, and expenditures. On an all-funds basis, the November revision of the fiscal year 2025 budget has a more positive outlook than the budget approved in June. Specifically:

- Enrollment is improving over fiscal year 2024. Most colleges and universities are experiencing enrollment increases higher than were projected in June.
- Updated operating revenues and operating costs are increasing compared to the original approved budgets. Revenues are increasing 1.5 percent and expenses 0.7 percent from June.

- The need to use fund balance to cover budgetary gaps has been reduced from June projections.

ENROLLMENT UPDATE

The system measures enrollment using both headcount and full year equivalent (FYE) measures. Headcount measures the number of actual students whether a student is taking one credit to many credits. Full year equivalent enrollment is a calculation of course credits converted to FYE. Thirty undergraduate credits equal one undergraduate FYE and twenty graduate credits equal one graduate FYE. For projecting financial impacts, colleges and universities use FYE enrollment in the budgeting process because it more directly relates to projecting operating revenues and also the common manner to report enrollment to external entities such as the Minnesota Office of Higher of Education.

Enrollment trends for most colleges and universities continue to improve, showing improvement in both sectors and for the system as a whole. Table 1 shows the system-wide enrollment change for fiscal year 2025 compared to fiscal year 2024 which is now projected to be up by 4.5 percent compared to the 1.3 percent that was assumed when the fiscal year 2025 operating budget was approved in June. Projected college enrollment improved from a 2.1 percent increase to a 5.9 percent increase compared to last year. Projected university enrollment also improved, from a projected 0.1 percent increase to a to 2.3 percent increase compared to last year.

**Table 1
System FYE Enrollment Outlook for Fiscal Year 2025**

FY2025 Est Compared to FY2024 Actual	June 2024 Enrollment Projections	June 2024 Enrollment FYE Projection	October 2024 Enrollment Projections	October 2024 Enrollment Projections
Colleges	2.1%	68,091	5.9%	70,638
Universities	0.1%	41,408	2.3%	42,349
System	1.3%	109,499	4.5%	112,987

A year ago, we began to see for the first time since the pandemic (fiscal year 2020), the system’s enrollment outlook improving between the June board meeting and the budget update. That trend continues with better enrollment increases so far in fiscal year 2025. Most colleges and universities project increasing enrollment while only one college is anticipating a small decline and two universities anticipating flat or declining enrollment.

The system sent a press release out in October announcing fall term 30th day headcount

enrollment was up 7.7 percent for the system. Table 2 shows the most recent actual FYE enrollment changes from the prior year by sector as of November 4, 2024. FYE enrollment year to date is slightly less than the headcount enrollment year-to-date. Although the October annual FYE enrollment projections are softer than the recent year-to-date enrollment comparisons, colleges and universities are waiting to do further enrollment projections this winter once spring term begins. Colleges and universities will report annual FYE enrollment projections again in February.

Table 2
Year to Date Enrollment as of November 4, 2024

FY2025 Compared to FY2024	Summer YTD	Fall YTD
Colleges	9.6%	7.6%
Universities	1.1%	3.4%
System	5.7%	6.0%

Looking from a more historic perspective, Chart 1 shows that since fiscal year 2013, enrollment has decreased by nearly 42,000 full year equivalent students which equates to a 28 percent decline. Fiscal year 2024 ended with an overall increase of 2.5 percent over fiscal year 2023, the first enrollment increase since 2011. Currently projections and year-to-date enrollment data for fiscal year 2025 shows additional enrollment growth.

Chart 1
Historical and Projected Enrollment for the System

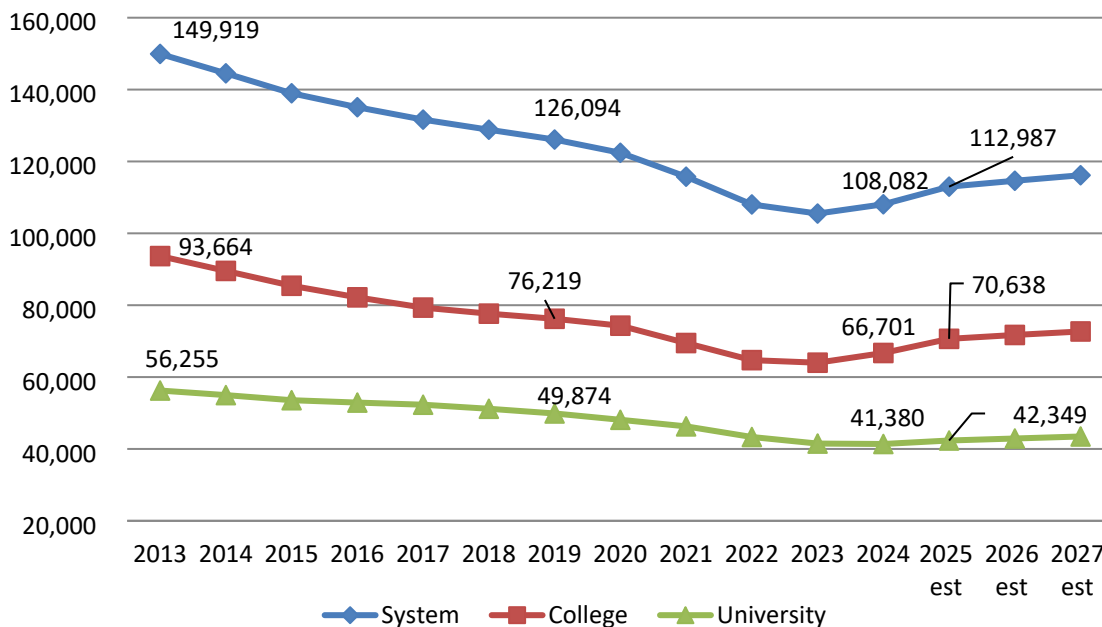


Table 3 shows detailed numbers by sector for the most recent six years and projections for the fiscal year 2025.

**Table 3
System Enrollment FY2019 to FY2027**

Full Year Equivalent	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025 Est	FY2026 Est	FY2027 Est
Colleges	76,219	74,260	69,472	64,710	63,999	66,701	70,638	71,719	72,690
Universities	49,874	48,223	46,286	43,323	41,498	41,380	42,349	42,907	43,471
System	126,094	122,483	115,758	108,034	105,497	108,082	112,987	114,626	116,161

**FY2019-FY2024 Actual; FY2025-2027 Projected*

Enrollment numbers by college and university from fiscal year 2013 to fiscal year 2027 projected are attached to this report (Attachment 1).

REVISED FISCAL YEAR 2025 ALL FUNDS BUDGET

The fiscal year 2025 all funds operating budget update (Table 4) shows changes in revenues and expenses since June. Revenue projections are increasing by \$34.6 million from what was reported to the board in June, which is a 1.5 percent increase. Expenses are increasing by \$17.1 million, 0.7 percent compared to June. Fiscal year 2025 budgets by college and university are attached (Attachment 2)

**Table 4
Fiscal Year 2025 All Funds Updated Operating Budget, October 2024**

<i>\$s in millions</i>	FY2025 Approved Budget	FY2025 Updated Budget	\$ Change	% Change
Revenues/Sources				
General Fund	\$1,826.4	\$1,850.2	\$23.8	1.3%
Revenue Fund	\$118.7	\$119.7	\$1.0	0.8%
Other Funds	\$409.6	\$419.4	\$9.8	2.4%
Revenues/Sources Total	\$2,354.8	\$2,389.3	\$34.6	1.5%
Expenses/Uses				
Compensation	\$1,491.7	\$1,493.3	\$1.5	0.1%
Operating costs	\$911.5	\$927.1	\$15.6	1.7%
Expenses/Uses Total	\$2,403.2	\$2,420.3	\$17.1	0.7%
Budget gap	(\$48.4)	(\$31.0)		
Fund balance to balance budget	\$52.1	\$38.5		
Budget balance	\$3.7	\$7.6		

**Numbers may not add due to rounding*

The more positive enrollment picture for the system has a direct benefit to the Revenue Fund as more students are paying fees to support student unions and wellness centers as well as having more students living in residential housing. Residential housing supported by the Revenue Fund had a 6.9 percent increase in occupancy last academic year and fall 2024 numbers indicate a 2.0 percent increase for the 2024-2025 academic year. Between the June operating budget and the October update, Revenue Fund revenues are projected to improve by \$1 million while expenses are projected to remain flat.

REVISED FISCAL YEAR 2025 GENERAL FUND BUDGET

Revenues in the General Fund (Table 5) are improving by \$23.8 million compared to June with the majority of the increase due to improving enrollment. Other revenues are increasing by \$4.5 million (2.9 percent) with some of that increase related to fee revenue increases due to enrollment. Colleges and universities are anticipating using \$1.6 million less of fund balance directed towards one-time investments. Stronger enrollment growth this summer and fall compared to what was projected last June is helping colleges and universities use less fund balance to balance the budget from \$45.9 million projected in June, now down by \$13 million to \$32.9 million.

**Table 5
Fiscal Year 2025 Updated General Fund Operating Budget, October 2024**

\$s in millions	FY2025 Approved Budget	FY2025 Updated Budget	\$ Change	% Change
Revenues/Sources				
State appropriation	\$923.2	\$923.2	\$0.0	0.0%
Tuition	\$729.5	\$750.4	\$20.9	2.9%
Other revenues	\$153.4	\$157.9	\$4.5	2.9%
Fund balance for 1x investments	\$20.2	\$18.7	(\$1.6)	-7.7%
Revenue/Sources Total	\$1,826.4	\$1,850.2	\$23.8	1.3%
Expenses/Uses				
Compensation	\$1,371.5	\$1,372.9	\$1.4	0.1%
Operating costs	\$499.2	\$505.1	\$6.0	1.2%
Expenses/Uses Total	\$1,870.7	\$1,878.0	\$7.4	0.4%
Budget gap	(\$44.3)	(\$27.8)		
Fund balance to balance budget	\$45.9	\$32.9		
Budget balance	\$1.6	\$5.1		

**Numbers may not add due to rounding.*

BUDGET UPDATE

Colleges and universities are taking a slightly more conservative approach in adjusting tuition revenues and expenses to align with enrollment growth. Preferring to wait until spring term enrollments are known to further refine their budgets, we anticipate these changes will be incremental. Colleges and universities also look at the type of enrollment when projecting tuition revenue changes. For example, concurrent enrollment (courses taught at high schools) does not increase tuition revenue compared to other enrollment. At the universities, graduate enrollment is tracked separately from undergraduate enrollment because graduate tuition rates are higher than undergraduate tuition rates.

Overall, enrollment growth is reducing the need to use fund balance to cover anticipated budgetary gaps allowing many schools to avoid making cuts during this fiscal year. Some colleges and universities plan to utilize the Board Early Separation Incentive (BESI) program to either reduce overall expenses or better align programs with current industry needs. Managing positions and reducing other operating budgets are other strategies some colleges and universities are using to offset inflationary pressures that were not fully funded by state appropriation.

Workday implementation is creating a challenge for colleges and universities in their current year budgeting process. Staff across the system struggle to capture the necessary information to help with current budget updates. This may partly explain the more conservative approach in adjusting budgets despite better than expected enrollment projections. As with any implementation process, it takes time to shift reporting and analytics under the old system to the new system.

In June, the Board was consulted on the need to provide loans in fiscal year 2024 and 2025 to Bemidji State University (BSU) and St. Cloud State University (SCSU) from the system reserve. BSU was provided a \$750,000 loan in fiscal year 2024 with an additional loan of \$2 million needed in fiscal year 2025 to maintain a university reserve at two percent of operating revenue as well as address the university's fiscal year 2025 anticipated cash flow challenges. BSU's budget update indicated the university's fiscal year 2025 payroll expenses are down due to temporary vacancies, natural attrition, and the impact of prior year personnel reductions. Additional reductions totaling \$800,000 in non-personnel expenses have been implemented. Enrollment projections improved since June when the university was anticipating flat enrollment but is now projected to increase three percent improving the university's tuition and fee revenue outlook. Between loans provide to BSU, increased enrollment, decreased payroll projections, and a reduction in non-personnel budgets, BSU's initial \$3.8 million deficit in fiscal year 2025 is now projected to be a modest \$500,000 surplus.

In addition, the system reserve in fiscal year 2025 will also available to support a \$2 million loan to St. Cloud State University to designate as an operating reserve. SCSU is working towards not having to utilize this loan. Several measures are currently underway to address any anticipated budget shortfalls and/or preserve cash reserves. These measures include space utilization, efficient course offerings, limiting non-personnel spending, and analyzing the critical need of filling positions. Enrollment continues to challenge the university with fall enrollment down approximately 2percent, and if spring enrollment varies from current budget projection as well,

the university could have a \$2.2 million shortfall. The university is also monitoring various tuition sources, from the accelerated online programs with RisePoint, and how much concurrent enrollment is impacting total FYE. If fiscal year 2025 enrollment declines from fiscal year 2024, it will require the university to reduce spending more both in the current fiscal year and in the university's five-year outlook.

Since operating budgets were approved in June, system leadership met separately with both BSU and SCSU leaders multiple times to monitor the financial situation at both universities. These meetings happen a minimum of once per quarter throughout the year.

CONCLUSION

The overall assessment of the fiscal year 2025 operating budget update is that college and university enrollment and budgets are improving in the current year. Better than projected enrollment is the main driver of this change. The implementation of Workday for fiscal year 2025 also provided challenges in both the timeliness of having financial data and having it in an understandable format. Overall, colleges and universities have taken a more conservative approach to projecting revenues and expenses to account for these challenges. We continue to work towards stabilizing Workday prioritizing the more timely posting of payroll and having usable year-to-date budget reports.

An updated fiscal year 2025 operating budget will be presented to the Board of Trustees next spring when the fiscal year 2026 operating budget is reviewed and approved.

Date Presented to the Finance and Facilities Committee: 11/19/24
Date Presented to the Board of Trustees: 11/20/24
Date of Implementation: 11/20/24