



MINNESOTA STATE
Board of Trustees

AGENDA ITEM SUMMARY

NAME: Finance and Facilities Committee

DATE: June 18, 2024

TITLE: FY2025 Annual Operating Budget (Second Reading)

Action

Review and Discussion

This item is required by policy

PRESENTERS

Bill Maki, Vice Chancellor for Finance and Facilities

Carrie Brimhall, President, Minnesota State Community and Technical College

Edward Inch, President, Minnesota State University, Mankato

Steve Ernest, System Director, Financial Planning & Analysis

PURPOSE

Board Policy 5.9, Biennial and Annual Operating Budget Planning and Approval, requires the Board of Trustees to approve the systemwide annual all funds operating budget plans for colleges, universities and the system office. Board Policy 5.11, Tuition and Fees, requires the Board of Trustees to approve the tuition and fee structure for all colleges and universities. This agenda item occurs annually in May (first reading) and June (second reading) so that colleges and universities can begin the fiscal year with approved tuition and fee rates and operating budgets. Fiscal year 2025 begins on July 1, 2024, and ends on June 30, 2025. This is the second reading of the fiscal year 2025 operating budget.

STATE APPROPRIATION AND LEGISLATION UPDATE

State appropriations are the largest single source of funding for our colleges and universities. For fiscal year 2025, state appropriations will provide an estimated 56 percent of the combined funding of appropriation and tuition. Chart 1 shows the history of this relationship. While enrollment losses and limitations on tuition rates lowered the funding share contributed by tuition during the pandemic, appropriation increases for fiscal year 2024 and fiscal year 2025 have increased the funding share contributed by appropriations.

**Chart 1
Appropriation and Tuition Relationship**

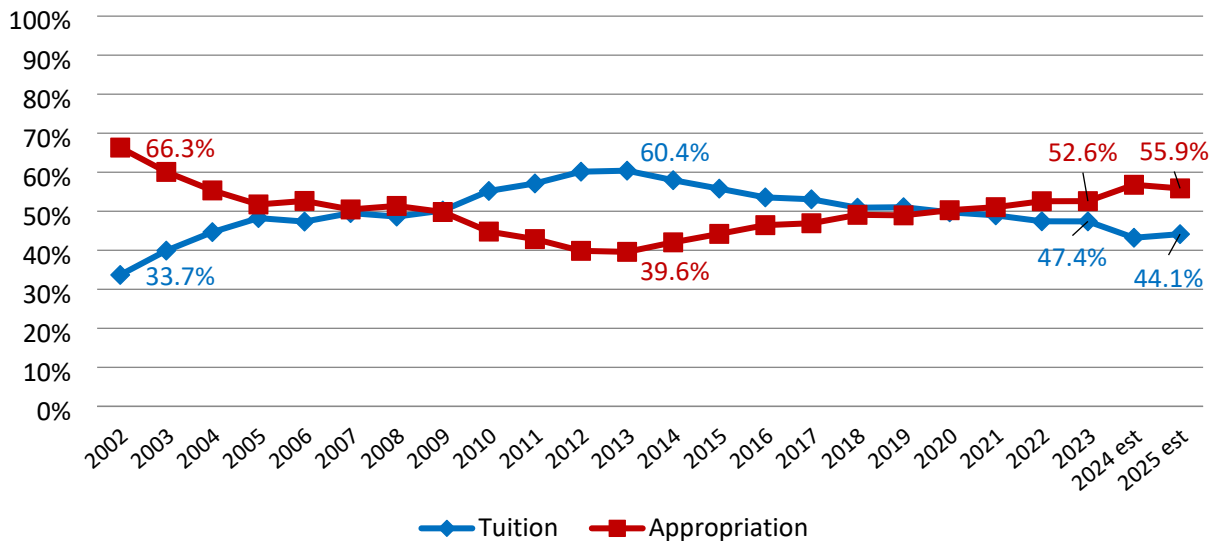


Table 1 shows the significant increases in funding received for the 2024-2025 biennium. This table also notes that much of what was enacted was in one-time funding. Over \$124 million of the \$293 million in new funding will not be in base-level funding for the fiscal 2026-2027 biennium. Such a significant funding drop needs to be considered in all current budgeting activities.

**Table 1
Minnesota State 2024-2025 Biennial Funding: One-time versus Ongoing**

Biennial Appropriation Increase Amounts (dollars in thousands)				
Request Area	Requested	Received	One-time	Ongoing
Minnesota State Stabilization	\$125,000	\$128,000	\$45,000	\$83,000
Student Support	\$125,000	\$83,316	\$2,000	\$81,316
Workforce & Economic Development	\$100,000	\$27,000	\$27,000	0
Other*	0	\$54,590	\$50,631	\$3,959
Total	\$350,000	\$292,906	\$124,631	\$168,275

*One-time campus support \$50,000, IRAP employer contributions \$1,733, Unemployment Insurance \$1,618, Child Development Associate Pathway \$475, menstrual products \$764

Based on an analysis of unmet needs in current and ongoing budgets, a supplemental appropriation request of \$61 million per year was requested during the 2024 legislative session.

As the legislative session progressed, it became apparent that the long-term state General Fund forecast would prevent the legislature from funding much at all in the way of supplemental operating requests. Though the state General Fund has a current surplus, a structural budgetary imbalance exists, with spending currently expected to exceed revenue through fiscal year 2027. In the end, a limited number of higher education finance provisions were passed by the legislature. These include:

- \$500,000 in one-time funds to Minnesota State for a “Kids on Campus” partnership with Head Start for childcare and early learning centers on college campuses
- A re-appropriation of funds within the allocated budget of \$20 million in research grants designed to develop treatment and a possible cure for ALS
- A transfer of \$5 million from the North Star Promise Scholarship program to the Fostering Independence Grant program to help with the shortfall in the FIG program
- An amendment to a previous appropriation for programs at the University of Minnesota Medical School on the CentraCare Health System campus in St. Cloud to modify the uses for which the funds may be spent

The combined effects of the legislative activity from the past two years—keeping undergraduate tuition rates frozen, appropriating a significant amount of one-time operating support funding, and being unable to respond to inflationary pressures with supplemental funding—presents significant challenges for college and university budgeting activities for fiscal year 2025 and beyond.

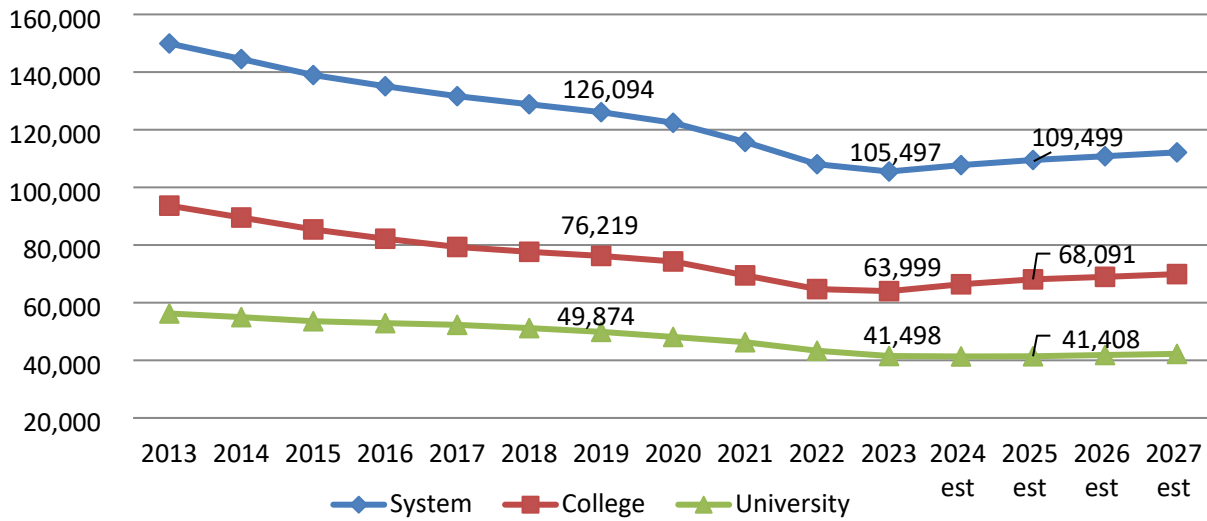
ENROLLMENT OUTLOOK

Colleges, universities, and the State continue to invest in enrollment strategies hoping to improve recruitment of new students and retention of our current students. Colleges and universities expect to end fiscal year 2024 with 2.1 percent more full year equivalent student (FYE) compared to fiscal year 2023. At the start of fiscal year 2024, colleges and universities were projecting a 0.7 percent decrease. Throughout the fiscal year, enrollment trends improved. Although universities are still projecting a 0.4 percent enrollment loss, that loss has shrunk over the past year. College enrollment has seen a more positive trend, anticipating a 0.8 percent loss in fiscal year 2024 a year ago to now projecting a 3.7 percent increase in enrollment over fiscal year 2023.

The enrollment outlook for fiscal year 2025 continues to trend upwards, anticipating system level enrollment increasing by 2.1 percent with 2.6 percent for colleges and 0.2 percent for the universities, resulting in 109,499 FYE projected in fiscal year 2025. Moving into the next biennium, colleges and universities are planning for modest enrollment growth in fiscal years 2026 and 2027. Chart 2 on the next page shows the historical and projected enrollment numbers.

As of June 5, 2024, the year-to-date enrollment change is significantly more positive than the projections colleges and universities turned in with their fiscal year 2025 operating budgets. Colleges tend to trend towards higher enrollment in the year-to-date enrollment trends, more so than the universities. Colleges are seeing more fraudulent enrollments, also called “ghost students,” where students are registering for courses and applying for financial aid with the intent to never participate in courses after financial aid is disbursed. After over a decade of declining enrollments, the recent concerns with changes to the FAFSA application for financial aid, and more possible fraudulent enrollment activity, our colleges and universities err on a more conservative side when projecting enrollments.

**Chart 2
FY2013 – FY2027 Full Year Equivalent (FYE) Enrollment**



At the conclusion of the 2023 legislative session, significant investments were approved to provide students with more resources to support their education and assist with the cost of their attendance. The NorthStar Promise program is launching during the 2024-2025 academic year and we anticipate the program, along with additional changes in the state grant program and the addition of other programs, such as the Minnesota American Indian Scholarships, Emergency Assistance for Students, Student Parent Support Initiative, and Next Generation Nursing Assistant Training Program, to help support our students and ultimately improve enrollment.

COLLEGE, UNIVERSITY, AND SYSTEM OFFICE BUDGET DEVELOPMENT

Operating support funding for the 2024-2025 biennium was historic and overall, most colleges and universities’ general fund budgets for fiscal year 2024 were balanced or planned to have a surplus. However, much of the stabilization funding and operating support was either one-time funding or front-loaded into the first year of the biennium. Table 2 below breaks down the new state appropriation as well as the new tuition freeze funding by year.

**Table 2
Minnesota State Annual Operating Support Detail**

Appropriations in Thousands of Dollars	FY2024	FY2025	FY2026
System Stabilization	\$ 64,000	\$ 64,000	\$ 41,500
One-time Operation Support	\$ 50,000		
Tuition Freeze	\$ 25,000	\$50,000	\$37,500

Most of the colleges and universities allocated a portion of the \$50 million in one-time operation support allocated in fiscal year 2024 to support their fiscal year 2025 operating budgets. About \$17 million or one-third of it is being utilized to cover new inflationary costs or being used for strategic investments or to maintain existing services. Many institutions utilized this funding in

fiscal year 2024 to offer BESIs (Board Early Separation Incentives) to reduce employee FTE before having to consider involuntary measures to do so. Five universities used approximately \$22 million of this funding to balance their fiscal year 2024 budgets, which allowed them more time to plan for long-term budget reductions. These universities cumulatively are planning on budget reductions of approximately \$43 million that they will begin to implement in fiscal year 2025.

Even with \$203 million in new operating funding this biennium, inflationary costs system-wide were projected to be \$264 million this biennium. This gap led to the system's supplemental budget request of \$61 million. This funding would have met the estimated gap for the biennium and, if continued in the base as requested, would have softened the future funding cliff in the next biennium. Since we were not successful in receiving this supplemental funding, colleges and universities needed to make additional reductions and reallocations to cover inflationary costs for the long-term.

Colleges and universities reassess and reallocate spending on a continual basis to maintain focus on strategic priorities. In fiscal year 2024, total reallocations are estimated at \$42.6 million with \$33.7 million of the total used to balance the budget. Total reallocations are projected to increase in fiscal year 2025 to \$52.7 million with \$44.7 million of the total used to balance the budget. Colleges and universities anticipate redeploying over twenty-four faculty and staff vacancies into higher priority areas. Systemwide, approximately fifty-two academic programs will see increased investments by shifting resources from approximately 258 other academic programs.

Projected enrollment growth for almost all colleges and universities will provide additional tuition and fee revenue in fiscal year 2025. This is a welcome development as for over a decade, enrollment decreases put significant stress on this primary source of operating revenue. As mentioned in the enrollment outlook section, colleges and universities do err on the conservative side in their projections, as operationally it is easier to invest unexpected increases in tuition revenue during the year than it is to have to cover decreases in tuition revenue that occur once the academic year begins.

Colleges, universities, and the system office continue to align financial resources with areas of strategic focus that include student success and equity, workforce and economic development, and the implementation of Workday as the systems' new ERP. Each institution's operating budget is located in SP-7 while the overview of the system office's budget is located in SP-12.

Additional student support funding from the state went directly to campuses to increase clinical and mental health services on campus and virtually, support food pantries, provide emergency grants for student basic needs, support for transportation, housing and technology insecurity, support for parenting students, and peer-to-peer support for wellness, resilience, health-promotion, and suicide prevention efforts. Colleges and universities continued to make investments that align with the needs of their students as well as advancing Equity 2030 and their strategic enrollment management (SEM) plans. Examples include:

- Alexandria Technical and Community College adding a bilingual Enrollment specialist/Student Success Coordinator to meet the needs identified in their SEM plan.

- Multiple colleges and universities reorganizing their leadership teams to have an increased focus on diversity, equity, inclusion, and student success.
- Central Lakes College implementing strategies that include case-management advising, increased faculty involvement in closing equity gaps, and revising their budgeting process to align resources with equitable outcomes.
- Minnesota State College Southeast adding inclusion centers to help improve engagement for students, counter bias and provide cultural awareness.
- Minnesota State University, Mankato investing in EAB's moonshot program to combine change leadership strategies and tactics, data insights, best-in-class technology, and consultative support to erase equity gaps and boost student success.
- Minnesota West Community and Technical College adding a full-time position to enhance engagement and retention, specifically targeting student-athletes of color.
- North Hennepin Community College enhancing its academic support services by adding a professional tutor for STEM programs and assigning credits to faculty tutors in courses/programs with high attrition rates and equity gaps among traditionally marginalized students.

Colleges and universities continue to invest to provide students with state-of-the-art learning experiences for career, technical, and professional education and enhance applied research opportunities for interactive, hands-on, and multi-disciplinary approaches to learning. The \$27 million in one-time funding for equipment/learning environments and industry sector programming has helped accelerate work in this area. College and university examples include:

- Anoka-Ramsey Community College adding a Dental Assistant program and Anoka Technical College adding a Plumbing program as well as enhancing the nursing assistant laboratory space and test out areas to increase the number of nursing assistants that can be immediately employed.
- Multiple colleges adding positions in their Workforce Solutions or Customized Training departments to support workforce needs.
- Fond du Lac Tribal and Community College contracting with the State of Minnesota for Building Performance Institute (BPI) Energy Audit training and Indian Home School Liaison programs.
- Metro State University developing apprenticeship and internship programs and opportunities for entrepreneurship through their National Security Administration (NSA) and United States Air Force (USAF) funded cyber-clinic and research projects to address critical employee shortages in the areas of Computer science and cybersecurity.
- Ridgewater College offering four new programs in response to workforce demands: Radiologic Technologist, Patient Access Representative, Advanced Meat Cutting, and Agriculture Marketing and Communications.
- St. Cloud Technical and Community College launching the Aircraft Maintenance Technician program that leverages collaborative partnerships with Delta Airlines and K-12 partners.
- Winona State University continuing to expand its nursing programs by adding cohorts at both the graduate and undergraduate level at their Rochester campus and partnering

with Winona Health for a shared state-of-the-art simulation center.

The implementation and the sustainment of Workday has been a focus and has required additional investments at the system office to support the new ERP system while also needing to maintain ISRS for at least five more years. As reported during the NextGen update at the March 2024 board meeting, additional staff of 35 net new positions need to be dedicated to support FIN and HCM Workday.

Four million dollars of the system office's reserve will be loaned to Bemidji State University (BSU) and St. Cloud State University (SCSU) in fiscal year 2025 to assist both universities with cash flow challenges and ensuring they have resources available for an operating reserve. BSU has reduced its operating budget more than \$11 million over the past two years and is continuing its planning to adjust its expenses to its current enrollment levels. SCSU recently announced significant budget cuts that included the reduction of 57 faculty and 46 staff and administrators to address an annual structural deficit of approximately \$15 million. Additional information on college, university, and system office reserves is included in SP-9.

STUDENT CONSULTATION

An important part of college and university budget preparation is consulting with campus student associations as called for in Board Policy 2.3, Student Involvement in Decision-Making, and system procedure 2.3.1, Student Involvement in Decision-Making, to gather student input and feedback on proposed changes in tuition and fees. Institutions in the Revenue Fund consult with students and with users of the facilities when considering rates and budgets. Rates charged for the Revenue Fund are specific to supporting Revenue Fund programs and facilities, including the obligations to pay outstanding debt service costs, operating costs, and address deferred maintenance.

Letters documenting student consultation at each campus are included in the supplemental materials (SP-14). Nearly all these letters described a collegial consultation process with sufficient information provided and opportunities to ask questions about the rate setting and budget planning processes.

PROPOSED FISCAL YEAR 2025 TUITION RATES

As part of the biennial state funding legislation, undergraduate tuition rates are frozen. State appropriations totaling \$75 million were provided in place of tuition increases. This funding was calculated to be equivalent to a 3.5 percent tuition rate increase, saving the average college student approximately \$191 per year and saving the average university student approximately \$304 per year. Under the language in the law, *"The Board of Trustees may not set the tuition rates in any undergraduate degree-granting program for the 2023-2024 and 2024-2025 academic years at a rate greater than the 2022-2023 academic year rates. The student tuition relief may not be offset by increases in mandatory fees, charges, or other assessments to the student."*

In addition to freezing undergraduate tuition rates, the law also stipulates that *"Colleges and universities are permitted to increase differential tuition charges in fiscal years 2024 and 2025 where costs for course or program delivery have increased due to extraordinary circumstances*

beyond the control of the college or university. Rates and rationale must be approved by the Board of Trustees.” This limitation has been paired with tuition freeze language in the past to provide for very specific expenses that are in addition to normal instructional costs. A limited number of differential tuition rate increases involving 4 colleges and 2 universities are included in this budget request. Detailed amounts are included in Attachments 1D and 1E, and the rationale for these increases is included in Attachment 1F. These increases fall into five categories:

- Technical programs, experiencing inflationary costs outside of institutions’ control in the areas of insurance, supplies and materials.
- Professional Programs, experiencing cost increases in products utilized in labs and programmatic accreditation testing.
- Sciences, establishing a new course.
- Computer technology programs, establishing a new rate and increasing a rate to cover costs of equipment acquisition and maintenance.
- Fully online undergraduate programs, with market-driven rates set to cover unique costs and based on market research.

PROPOSED FISCAL YEAR 2025 FEE RATES

Colleges and universities incorporate fee planning in their annual budget planning and consultation process. Fees are charged to cover or provide dedicated revenue to support costs related to specific resources and opportunities offered at the campus level. Where resources have been financed through the sale of revenue bonds (some but not all parking facilities, for example), fee revenues are dedicated and set aside in the Revenue Fund to repay the financing and to maintain those resources. All fees are included in the student consultation process and subsequent advice to the president, and many fee-supported activities continue to have student government oversight during the academic year. For fiscal year 2025, all universities and 16 colleges plan to increase at least one fee. All fees are at or below the maximum amounts authorized by the Board per Policy 5.11, Part 5, Subpart B.

Minnesota Statutes section 135A.0434 and Board Policy 2.8 Student Life require a referendum if student activity and athletic fees are raised by more than two percent. Two colleges and one university held referendums to increase the student activity fee, with all passing by 62 to 77 percent. One college and all six universities with athletics programs held referendums to increase the athletics fee, with all passing by 60 to 86 percent. The athletics fee maximum was increased from \$55.00 to \$75.00 per term last year. Under the planned rates, fees will range from \$61.68 at Winona State University to \$75.00 at Bemidji State University and Southwest Minnesota State University. BSU and SMSU currently have the lowest full-time equivalent enrollment levels of the universities, but showed through their referendums that students value the sense of community pride that athletic programs add to their campus life.

Minnesota Statutes section 136F.20 and Board Policy 5.11 Tuition and Fees provide that health services fees may be charged for services provided on campus or in the nearby community, including mental health services. Colleges and universities offer varied levels of services ranging from health centers to partnerships with local health care providers where students can be seen by a medical professional either on campus or at a neighborhood medical center. Colleges and

universities also provide helpful information addressing a variety of health concerns relevant to students such as disease prevention, insurance options, and immunization policies. Section 136F.20 of Minnesota Statutes also requires each college and university that charges a health services fee to provide an annual financial accounting of health services money to the board. This information is provided in supplementary materials item SP-8.

Specific fee rates for each college and university are listed in supplemental materials item SP-3. Rationale for fee rate increases over three percent in aggregate is provided in SP-2. Combined rates for tuition plus fees are shown in SP-1. The average increase for all colleges and universities is 0.6 percent, with colleges increasing by 0.3 percent and universities increasing by 0.8 percent. Ten of the twenty-six colleges have no increases in tuition plus fees. These increases are similar to the fiscal year 2024 increases which overall were 0.5 percent, with colleges increasing by 0.5 percent and universities increasing by 0.8 percent.

FEDERAL AND STATE FINANCIAL AID EFFECTS ON NET COST

Net cost (of tuition, tuition and fees, or a broader calculation of cost of attendance) is the amount a student is obligated to pay after financial aid grants and scholarships are subtracted from total costs. Net cost varies depending on many factors, including the college or university a student attends, the student's full- or part-time status, the academic program the student is enrolled in, and financial aid awarded. Even with tuition rates frozen, net cost can go down for a student if financial aid programs increase award provisions. Net costs can also go up if, for example, families experience economic benefits that increase their ability to pay.

For most students, applying for need-based financial aid programs begins with completion of the FAFSA (Free Application for Federal Student Aid) form. This online application process is required for federal Pell Grants, federal student loans, and federal work-study funds. Data submitted through the FAFSA process is also used by the Minnesota Office of Higher Education (OHE) to award state financial aid, and by colleges and universities to award institutional aid. These need-based financial aid programs help bridge the gap between calculated cost of attendance--which may include tuition, fees, books, supplies, room, board, and other expenses--and the expected family contribution, a calculation based on family income and circumstances.

To make the process simpler and faster, FAFSA requirements have been redesigned. To expand financial assistance for low-income families, the FAFSA redesign also includes updates to student aid calculations, linking eligibility with family size and the federal poverty level. Implementing the redesign in fiscal year 2025, more than two years later than originally planned, has caused process and technology development challenges both for OHE and for Minnesota State, including data access challenges and data accuracy concerns. At the same time these federal changes are being made, OHE is also implementing changes in eligibility criteria and calculation methodology for the State Grant program. These changes have presented even more implementation work for Minnesota State IT staff.

While the FAFSA redesign and State Grant changes are being implemented, financial aid opportunities available to students for fiscal year 2025 are also being expanded by the implementation of the North Star Promise scholarship program. Starting in fiscal year 2025, this

program will provide a tuition-free, fee-free pathway for Minnesota residents with a family adjusted gross income below \$80,000. These “last dollar” awards will cover any remaining tuition and fee costs after considering most other non-repayable financial aid. To help address expenses beyond tuition and fees, the 2024 legislature amended statutory provisions for this program to exclude certain state and institutional financial aid from consideration in determining the North Star Promise scholarship amount. Specifically, aid excluded from consideration includes amounts designated for books, required supplies, childcare, emergency assistance, food, and housing.

Another financial aid opportunity provided by the 2024 legislature is a paid student teaching pilot program created for fiscal year 2025. This program will provide stipends to support student teachers placed in Minnesota school districts or charter schools to complete clinical experiences necessary to obtain Minnesota teaching licenses. A total of \$4.868 million in one-time funding was appropriated for stipends to students in teacher preparation programs at Bemidji State University, Minnesota State University, Mankato, St. Cloud State University, Winona State University, and Fond du Lac Tribal and Community College.

Changes in application processes and financial aid opportunities make projecting year-to-year changes in net costs for students difficult for fiscal year 2025. However, OHE estimates that the North Star Promise program alone will impact 15,000-20,000 students across Minnesota State, the University of Minnesota, and the Tribal Colleges, and will “create a viable higher education path for Minnesota residents who may have previously thought education was not a possibility for them.”

PROPOSED FISCAL YEAR 2025 REVENUE FUND RATES AND BUDGETS

The Board of Trustees maintains statutory oversight of the Minnesota State Revenue Fund, including budget, financial plan, and fee approvals. Revenue Fund facilities and programs include residence halls, dining services, student unions, health/wellness centers, parking and other revenue-generating facilities. Revenue Fund facilities and programs are solely funded by student and user fees. These fees are required to generate sufficient revenue to pay debt service, operate, equip, maintain, and repair Revenue Fund facilities and support their associated programs. Fifteen (15) institutions are currently in the Revenue Fund. Supplemental materials item SP-11 identifies the institutions and the Revenue Fund facilities and programs at each location. The Revenue Fund is highly influenced by new entering student enrollment at the six residential state universities, as nearly seventy-five percent (75 percent) of Revenue Fund revenues come from room and board.

Proposed Average Revenue Fund Fee Rates for Fiscal Year 2025

Universities and colleges with Revenue Fund facilities and programs propose rates and increases for fiscal year 2025 to account for inflation and enrollment trends, maintain quality services, and ensure proper reinvestment and upkeep of the facilities. Average rates and changes are in Table 3 below.

Table 3
Proposed Annual Average Rates for FY2025

Revenue fund program or facility	FY2025 Average Rate	\$ Change from FY2024	% Change from FY2024
Room and board for traditional double room with meal plan*	\$9,199.00	\$394.00	4.5%
Student Union**	\$294.41	\$6.23	2.2%
Wellness and Recreation Facilities***	\$183.61	\$2.06	1.1%
Parking****	\$284.69	\$2.84	0.5%

* Increases range from 1.4 to 7.5 percent.

Minnesota North College – Vermilion Campus is not included in this average.

** Four (4) of nine (9) institutions are not changing Student Union rates.

*** Four (4) of five (5) institutions are not changing Wellness and Recreational Facility rates.

**** Five (5) of the seven (7) institutions propose no increases in the per credit fee or daily fee. Two (2) institutions propose increases: Alexandria Technical and Community College 2.01%, Century College 1.38%, St. Cloud State University is raising the annual rate by \$16.00/3.05% but not the daily rate.

Specific rates for individual colleges and universities and their Revenue Fund facilities and programs are displayed in Attachment 2A through 2E.

Proposed Fiscal Year 2025 Revenue Fund Budget

An overview of the Revenue Fund budget is shown in Table 4. The budget reflects gradual improvement in overall Revenue Fund operations with less one-time funding being used to support ongoing costs.

Table 4
Proposed FY2025 Revenue Fund Budget

<i>\$s in millions</i>	FY2024 Current Budget	FY2025 Proposed Budget	\$ Change	% Change
Revenues				
Operating Revenue	\$104.4	\$111.2	\$6.8	6.5%
Fund balance for 1x investments	\$0	\$7.5		
Total budgeted revenues	\$104.4	\$118.7	\$14.3	13.7%
Expenses				
Compensation	\$26.4	\$28.7	\$2.3	8.8%
Other operating costs	\$79.2	\$92.1	\$12.9	16.2%
Total budgeted expenses	\$105.6	\$120.8	\$15.2	14.4%
Budget gap	(\$1.2)	(\$2.1)		
<i>Fund balance to balance budget</i>	\$2.8	\$2.8		
Budget balance	\$1.6	\$0.7		

Numbers may not add due to rounding.

- Overall, fiscal year 2025 operating revenues are projected to increase by 6.5 percent.
- Both fiscal year 2024 and fiscal year 2025 are projected to be structurally unbalanced with around half of the participating schools planning to use fund balance to fill in the

budgetary gap.

- In fiscal year 2025, Minnesota State University, Mankato planning on is using \$7.5 million of programmed fund balance to support repair and replacement projects in five of their resident halls. These funds were saved over time and are going to be used for projects such as HVAC upgrades, new windows, bathroom remodels, and a roof repair.
- While college and university General Fund operating budgets continue to rely on fund balance, the amount used to balance budgets in the Revenue Fund will decrease by \$2.8 million between fiscal year 2024 and fiscal year 2025.
- Expenses are projected to increase by 14.4 percent reflecting inflationary pressures, but half of these increase reflects the resident hall projects Minnesota State University, Mankato is undertaking in fiscal year 2025.

PROPOSED FISCAL YEAR 2025 ALL FUNDS AND GENERAL FUND BUDGETS

The proposed fiscal year 2025 all funds operating budget totals \$2.4 billion, 0.2 percent higher than in fiscal year 2024. The nearly flat budget is the net result of additional Revenue Fund and other funds activities, modest projected enrollment growth, but less state support.

In fiscal year 2024, the state provided the system with \$50 million of one-time support to assist colleges and universities to become structurally balanced following enrollment loss since the pandemic. In fiscal year 2025, the system will not be allocated those funds, but colleges and universities will receive an additional \$25 million of new support to offset the loss of new tuition revenue colleges and universities were anticipating from increasing undergraduate tuition by 3.5 percent in fiscal year 2025. However, tuition continues to be frozen in fiscal year 2025.

The proposed \$1.8 billion General Fund portion of the all-funds budget is 1.4 percent lower than last year. The budget includes \$923.2 million in state appropriation, a 2.7 percent decrease over fiscal year 2024 and \$729.5 million in tuition revenue, a 1.0 percent increase over fiscal year 2024. The projected tuition revenue amount reflects the undergraduate tuition freeze, a modest projected increase in enrollment, and rate changes at the universities for graduate tuition rates.

Proposed Fiscal Year 2025 All Funds Operating Budget

The proposed Minnesota State fiscal year 2025 all funds operating budget includes the individual operating budgets of the universities, colleges, and system office. It encompasses all aspects of the system's educational enterprise: instruction, academic support, student services, technology, institutional support (administration), facilities (maintenance and operation), and student and residential life programs.

State appropriation and tuition are the two primary sources of revenue. Other revenue sources are fees, grants, and auxiliary/enterprise income. Compensation is the largest expense category, accounting for approximately 62 percent of the all-funds expenditure budget. The proposed fiscal year 2025 all-funds operating budget is shown in Table 5.

Table 5
Proposed All Funds Operating Budget for FY2025

<i>\$s in millions</i>	FY2024 Current Budget	FY2025 Proposed Budget	\$ Change	% Change
Revenues				
General Fund	\$1,848.5	\$1,826.4	(\$22.1)	-1.2%
Revenue Fund	\$14.4	\$118.7	\$14.3	13.7%
Other Funds	\$386.0	\$409.6	\$23.6	6.1%
HEERF Funds	\$6.4	\$0.0	(\$6.4)	-100.0%
Revenues Total	\$2,345.4	\$2,354.6	\$9.4	0.4%
Expenses				
Compensation	\$1,436.2	\$1,491.7	\$55.5	3.9%
Operating costs	\$904.7	\$911.5	\$6.7	0.7%
Expenses Total	\$2,341.0	\$2,403.2	\$62.2	2.7%
Budget gap	\$4.4	(\$48.4)		
<i>Fund balance to balance budget</i>	\$28.1	\$52.1		
Budget balance	\$32.5	\$3.7		

Numbers may not add due to rounding.

Fiscal Year 2025 All Funds Operating Budget Highlights:

- The proposed fiscal year 2025 all funds budget includes \$2.4 billion in projected revenues and expenditures.
- Twenty-four colleges and universities and the system office anticipate using \$52.1 million of fund balance across all funds to cover remaining budget gaps. With the anticipated loss of state support, many schools saved revenues from fiscal year 2024 to help offset the reduction.
- Fiscal year 2025 expenses are projected to increase by \$62.2 million (2.7 percent) over prior year expenses.

The all-funds budget is shown net of the scholarship allowance. Approximately 80 percent (\$281 million) of an estimated \$356 million of financial aid revenue is recognized as revenue used to pay student obligations (tuition, fees, room and board, and sales and services) with the balance (\$75 million) reflecting the net financial aid payments to students for living expenses. College and university budgets as displayed in SP-7 in the supplemental packet reflect gross revenues and expenses before financial aid. The system-level all funds budget reflects revenues and expenses net of financial aid, requiring the calculation to allow for scholarship allowance as in the financial statements.

Overall, the updated fiscal year 2024 operating budget is 3.5 percent more than the budget approved by the board a year ago, with revenues and expenses increasing more than originally projected. Much of the change is due to higher enrollments impacting the General Fund and other funds. College and university budgets were originally built in spring 2023 assuming an enrollment loss of around 0.7 percent less than the prior year. Higher enrollments in fiscal year 2024 also resulted in modest revenue increase in the Revenue Fund around \$1.2 million or 1.1

percent.

The proposed fiscal year 2025 operating budget incorporates assumptions about compensation changes anticipated to impact the budget. Overall, the system is projecting an increase of \$55.5 million in compensation costs, a 3.9 percent increase over the prior year. There are two major components related to this line item: changes in the individual bargaining agreements and changes in total employees. Other operating expenses are projected to increase by \$6.7 million or 0.7 percent.

Proposed Fiscal Year 2025 General Fund Operating Budget

The largest component of the all-funds budget is the General Fund. The General Fund is used to record general operations for colleges, universities, and the system office consisting mainly of state appropriation, tuition, and other revenue. General Fund revenues and expenses account for approximately 80 percent of the all-funds budget. The proposed General Fund budget is shown in Table 6.

Table 6
Proposed General Fund Operating Budget for FY2025

<i>\$s in millions</i>	FY2024 Current Budget	FY2025 Proposed Budget	\$ Change	% Change
Revenues				
State appropriation	\$948.9	\$923.2	(\$25.7)	-2.7%
Tuition	\$722.1	\$729.5	\$7.4	1.0%
Other revenues	\$150.6	\$153.4	\$2.8	1.9%
Fund balance for 1x investments	\$26.9	\$20.2		
Total budgeted revenues	\$1,848.5	\$1,826.4	(\$22.1)	-1.2%
Expenses				
Compensation	\$1,323.3	\$1,371.5	\$48.3	3.6%
Operating costs	\$511.7	\$499.2	(\$12.5)	-2.4%
Total budgeted expenses	\$1,834.9	\$1,870.7	\$35.8	1.9%
Budget gap	\$13.6	(\$44.3)		
<i>Fund balance to balance budget</i>	\$16.2	\$45.9		
Budget Balance	\$29.8	\$1.6		

Numbers may not add due to rounding.

Fiscal Year 2025 General Fund Operating Budget Highlights:

- The proposed fiscal year 2025 general fund budget includes \$1.8 billion in projected revenues and expenditures.
- Fiscal year 2025 general fund revenues are projected to decrease by \$22.1 million (1.2 percent) and nearly all of the decrease is attributed to less state appropriation.
- Fiscal year 2025 tuition revenues are projected to increase by \$7.4 million (1.0 percent).
- Fiscal year 2025 general fund expenses are projected to increase by \$35.8 million (1.9 percent) over prior year expenses. Compensation will increase \$48.3 million (3.6

percent) while other operating expenses will be reduced by \$12.4 million (-2.4 percent) Compensation makes up 73 percent of expenses.

- Twenty-three colleges and universities, along with the system office, anticipate using \$45.9 million in fund balance to cover budgetary gaps and five, along with the system office, plan to use \$20.2 million fund balance for one-time investments.

RECOMMENDED ACTION

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

- *Adopt the annual total all funds operating budget for fiscal year 2025 as shown in Table 5.*
- *Approve the proposed tuition structure recommendations and differential tuition rationale for fiscal year 2025 as detailed in Attachments 1A through 1H.*
- *Tuition rates are effective summer term or fall term 2024* ~~2025~~ at the discretion of the president. The chancellor or designee is authorized to approve any required technical adjustments and is requested to incorporate any approvals at the time fiscal year 2026* ~~2025~~ tuition recommendations are presented to the Board of Trustees. (*Corrected 6/25/2024)*
- *Continue the policy of market-driven tuition for closed enrollment courses, customized training, and non-credit instruction, continuing education, and contract postsecondary enrollment option programs.*
- *Approve the Revenue Fund and related fiscal year 2025 fees for room and board, student union, wellness and recreation facilities, and parking ramps/surface lots as detailed in Attachments 2A through 2E, including any housing fees that the campuses may charge for occupancy outside the academic year.*
- *Authorize the chancellor or designee to enter into an agreement with the Learning Network of Minnesota to provide the funding appropriated to the organization in Minnesota Laws 2023, Chapter 41, Article 1, Section 3, Subdivision 4, in the amount of \$4,115,000.*

Date Presented to the Finance and Facilities Committee: 6/18/2024

Date Presented to the Board of Trustees: 6/18/2024

Date of Implementation: 6/18/2024