



MINNESOTA STATE

Board of Trustees

AGENDA ITEM SUMMARY

NAME: Finance and Facilities Committee

DATE: April 15, 2025

TITLE: FY2026-2027 Biennial Operating Budget Development

☐ Action

☒ Review and Discussion

☐ *This item is required by policy*

PRESENTERS

Bill Maki, Vice Chancellor for Finance and Facilities

Steve Ernest, System Director for Financial Planning and Analysis

PURPOSE

Board Policy 5.9, State Budget Requests 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 process 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 (FY) 2026 begins on July 1, 2025, and ends on June 30, 2026.

This agenda item is intended to provide the Trustees with an update on the 2025 legislative session, college and university operating budget development, and to discuss high-level tuition parameters for the FY2026-2027 biennium. Discussion in advance of May's Board meeting will assist system, college, and university leadership as they continue to develop budget scenarios as they gather input and feedback from campus stakeholders while the 2024-2025 academic year is coming to a close.

MINNESOTA STATE FY2026-2027 BIENNIAL BUDGET REQUEST

At its November 2024 Board meeting, the Board approved a legislative request focused on protecting Minnesota State's commitment to inclusive excellence and ensuring all Minnesotans receive an extraordinary, affordable, accessible education and provide businesses with the workforce they need. The proposed request totals \$465 million in additional funding (Table 1) over the biennium, with ongoing funding for the most crucial operating needs and one-time funding to address immediate critical infrastructure needs.

Table 1: Minnesota State FY2026-2027 Biennial Budget Request by Area

FY2026-FY2027 Biennial Appropriation Request (dollars in thousands)			
Request Area	Base Funding	One-Time Funding	Total
Student Affordability and System Operations	\$285,000	\$0	\$285,000
Critical Infrastructure	\$0	\$100,000	\$100,000
Student Support	\$40,000	\$0	\$40,000
Workforce-Focused Support	\$40,000	\$0	\$40,000
Total	\$365,000	\$100,000	\$465,000

The request includes \$285 million for Student Affordability and System Operations, \$100 million for Critical Infrastructure, \$40 million for Student Support, and \$40 million for Workforce-Focused Support. Summary information related to each priority area is included in Table 2.

Table 2: Fiscal 2026-2027 Biennial Budget Request Area Information

\$365 million in Requests for Ongoing State Funding Support	\$100 million in FY2026 in Requests for One-Time Critical State Funding
<p>\$285 million to address cost increases across personnel and non-personnel budgets and to limit tuition changes to instances with compelling need to align rates better with costs and related tuition rates</p> <p>\$40 million for campus-based services and assistance to address</p> <ul style="list-style-type: none"> *textbook and other costs above tuition *navigating school and life challenges *mental health support *emergency grants to address unforeseen needs *other local student support needs <p>\$40 million to renew funding for undergraduate, graduate, and non-credit programs that address high-demand workforce needs but have high infrastructure and student costs, including</p> <ul style="list-style-type: none"> *advanced, industry-specific equipment *related infrastructure upgrades *scholarship support for students 	<p>\$50 million to address critical asset preservation needs</p> <p>\$25 million for the costs of building demolition and site restoration to avoid on-going maintenance for un-usable facilities that undermine a campus's sense of community</p> <p>\$25 million to develop the new Workday student planning system, a system significantly more complex than any yet developed in the nation, to provide students with extensively valuable online resources</p>

The \$285 million request for student affordability and system operations was designed to meet the financial needs of college, university, and system operations while allowing the Board of Trustees to set tuition through the system's extensive consultation process. Potential overall tuition increases would be directly related to the amount of additional base funding received out of the \$285 million request. Specific tuition rate changes would focus on instances where compelling needs exist to align rates better with costs of a specific program or other rates within the institution or the system.

STATE OF MINNESOTA ECONOMIC AND LEGISLATIVE UPDATE

The state's February 2025 Budget and Economic Forecast reported that Minnesota's economic outlook has worsened from the earlier November budget forecast. The projected surplus for the FY2026-2027 biennium is \$160 million lower than the November estimate, which leaves the projected balance at \$456 million.

Looking out to the FY2028-2029 biennium, the shortfall is also trending downward, leaving a larger projected deficit of \$5.995 billion. Minnesota Management and Budget (MMB) is projecting that spending growth will outpace revenue growth through fiscal year 2029 projections.

There is much economic uncertainty with this forecast, given the uncertainty at the federal level. Policy and fiscal changes at the federal level will have an impact on Minnesota's budget. Higher education makes up approximately six percent of the state's General Fund budget. This six percent includes not just funding for Minnesota State, but also the University of Minnesota and the Office of Higher Education, which includes the State Grant program.

Governor Walz released a revised budget about two weeks after the February forecast. For higher education, the Governor's revised budget includes eliminating appropriations to the Office of Higher Education for Loan Repayment Programs, which is a cut of \$900,000. His budget also recommends eliminating the Summer Academic Enrichment Program at \$500,000. His original budget that was released on January 16, 2025, included \$15 million in new biennial funding for higher education. This \$7.5 million per year was targeted to help with the \$211 million State Grant shortfall.

Following the release of the Governor's revised budget, the House and Senate released targets for spending in each area of the budget. The Senate's target includes \$100 million for higher education with \$25 million of this is included as ongoing funding that continues into the FY2028-2029 biennium. The House target for higher education does not include any new funding.

Funding for the current biennium, as provided in Laws of 2023, Chapter 41, includes provisions for some appropriations to continue at lower levels in the FY2026-2027 biennium. These provisions mean that budgets with no new funding decrease the amount available for base allocations to campuses from approximately \$663 million to approximately \$640.5 million, and the annual amount available for tuition replacement assistance to campuses from approximately \$107 million to approximately \$94.5 million. These decreases are part of the financial landscape to be considered when analyzing tuition change scenarios.

HIGH-LEVEL BUDGET MODELING OF BIENNIAL TUITION SCENARIOS

To calculate the effects of possible tuition scenarios, the following set of assumptions will be made related to cost increases, state appropriation funding changes, and tuition revenue changes.

- Baseline costs for compensation and other operating costs will be assumed at the amounts presented to the Board in the November update to the FY2025 budget.
- Inflation will be assumed at the current Consumer Price Index (CPI) rate of 3 percent per year on both compensation and other operating costs. While collective bargaining compensation increases across all state agreements have increased by an average of 4.5 percent per year over the last three bienniums, using the current CPI rate for both compensation and other operating cost increases is a simpler way to analyze different scenarios.
- State Appropriation amounts will be assumed as in the Governor's budget, meaning no new money is available to address the \$35 million per year base reductions in operating appropriations that are specified in last year's budget law.
- Baseline tuition revenue will be assumed at the November update amount. The only adjustment to this will be the tuition rate increase in each scenario. This means that full-year enrollment numbers are held flat.
- Tuition increases will be assumed to be the same for both years of FY2026-2027 biennium.
- Three scenarios for systemwide average tuition increases will be presented: 3.5 percent, 7 percent, and 9 percent. The scenarios are intended to generate discussion at various increase levels and not a recommendation to choose between one of the three.

These scenarios focus primarily on only one stated value in Board Policy 5.11, Tuition and Fees: Institutional Financial Stability. The other four stated values will also be predominant in Board deliberations to consider the FY2026 tuition rate proposals at the June 2025 meeting. Those values include Affordable access to higher education, Equity, Transparency, and Flexibility for innovation and emerging markets.

Scenario 1 (Table 3) assumes the average tuition rate system-wide is increased by 3.5 percent per year of the coming biennium. This scenario results in a structural gap of approximately \$65 million per year at the system level, \$131 million for the biennium.

Table 3: Tuition Increase of 3.5 Percent per year

<i>with annual inflation at 3%</i>	MARGINAL AMOUNTS (in \$millions)		
	FY2026	FY2027	26-27
Inflation on Compensation	\$ (41.2)	\$ (42.4)	\$ (83.6)
Inflation on Other Costs	\$ (15.2)	\$ (15.6)	\$ (30.8)
Reduced Operating Appropriations	\$ (35.0)	\$ (35.0)	\$ (70.0)
New Tuition Revenue	\$ 26.3	\$ 27.2	\$ 53.4
Structural Surplus/(Gap)	\$ (65.1)	\$ (65.8)	\$ (130.9)

Scenario 2 (Table 4) assumes the average tuition rate system-wide is increased by 7.0 percent per year of the coming biennium and results in a structural gap of \$75.6 million for the biennium.

Table 4: Tuition Increase of 7.0 Percent per year

<i>with annual inflation at 3%</i>	MARGINAL AMOUNTS		
	(in \$millions)		
	FY2026	FY2027	26-27
Inflation on Compensation	\$ (41.2)	\$ (42.4)	\$ (83.6)
Inflation on Other Costs	\$ (15.2)	\$ (15.6)	\$ (30.8)
Reduced Operating Appropriations	\$ (35.0)	\$ (35.0)	\$ (70.0)
New Tuition Revenue	\$ 52.5	\$ 56.2	\$ 108.7
Structural Surplus/(Gap)	\$ (38.8)	\$ (36.8)	\$ (75.6)

Scenario 3 (Table 5) assumes the average tuition rate system-wide is increased by 9.0 percent per year of the coming biennium and results in a structural gap of \$43.2 million for the biennium.

Table 5: Tuition Increase of 9.0 Percent per year

<i>with annual inflation at 3%</i>	MARGINAL AMOUNTS		
	(in \$millions)		
	FY2026	FY2027	26-27
Inflation on Compensation	\$ (41.2)	\$ (42.4)	\$ (83.6)
Inflation on Other Costs	\$ (15.2)	\$ (15.6)	\$ (30.8)
Reduced Operating Appropriations	\$ (35.0)	\$ (35.0)	\$ (70.0)
New Tuition Revenue	\$ 67.5	\$ 73.6	\$ 141.2
Structural Surplus/(Gap)	\$ (23.8)	\$ (19.4)	\$ (43.2)

INDIVIDUAL COLLEGE AND UNIVERSITY LONG-TERM FINANCIAL SUSTAINABILITY FACTORS

While annual changes of tuition rates ultimately roll up to a systemwide or college/university sector average, there is variation in tuition rates at each of our colleges and universities. An additional aspect of tuition flexibility that has been present throughout the years in our system is institutions proposing differing levels of tuition increases. For example, in fiscal year 2023 in the two-year college sector, there was a legislative tuition-increase cap of 3.5 percent with the college sector average being at 3.4 percent. At that time, one college increased tuition by 2.0 percent, another one at 3.0 percent, with the remaining 25 colleges increasing tuition by 3.5 percent. Preliminary planning estimates for FY2026 show that institutions are considering several different scenarios and that if past practice continues, the Board will see a range of annual increases both below and above the system average.

As colleges and universities are engaging in their budget planning that includes proposing tuition increases, there are several different factors that influence their scenarios. These factors impact institutions differently depending on their individual student mix and their past and projected

financial plans. Some common examples include:

- Federal policy actions that could impact student enrollment. These include how uncertainties at the Department of Education could impact federal financial aid programs, potential for reductions of visas for international students, and funding levels for programs that directly correlate to student success.
- Overall financial health of the institution as measured by their Composite Financial Index (CFI) score. The recent College and University Financial Performance Update to the Board showed six institutions that were below the threshold of an average score of 1.5 while twenty-four institutions had scores above 3.0, which indicates stronger financial health.
- Annual general fund year-end balances. Four institutions triggered the indicator by having fund balances less than twenty percent of annual revenues while eighteen institutions have fund balances that exceed forty percent.

ANTICIPATED BUDGET DEVELOPMENT TIMELINE

Planning activities will continue in the coming months according to the following timeline.

- May 19 2025 Legislative Session Ends
- May 20-21 Board meeting, with first reading of FY2026 operating budgets
- May 28 Final Tuition Proposals due to Minnesota State
- June 17-18 Board meeting, with approval FY2026 operating budgets
- July 1 FY2026 begins