



MINNESOTA STATE
Board of Trustees

AGENDA ITEM SUMMARY

NAME: Finance and Facilities Committee

DATE: March 19, 2025

TITLE: Allocation Framework Principles and Design Features

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

Susan Anderson, Associate Director for Financial Planning and Analysis

PURPOSE

This item provides the Board of Trustees with a historical review of the System’s framework for the allocation of state support along with an overview of the specific components of the allocation model that is used to distribute annual base state appropriation to colleges and universities.

BACKGROUND INFORMATION

The Minnesota State College and University system was established in 1995 with the merging of three of the four public higher education systems in the State of Minnesota: community colleges, technical colleges, and the state universities. Minnesota statute 136F.06 granted the board “all powers necessary to govern the state colleges and universities and all related properties” including adopting policies to govern the system, the setting of tuition and fees, and determining the allocation of state funds to colleges and universities while providing autonomy to individual colleges and universities and holding colleges and universities accountable through board oversight.

DEVELOPMENT OF THE ALLOCATION FRAMEWORK AND MODEL

Prior to merger, the three systems had different allocation models to distribute state appropriation which included one model that allocated both appropriation and tuition revenues. Following merger, the board adopted a basic allocation framework to distribute state appropriation establishing priority allocations used to drive compelling educational, legislative, and system interests; set asides to fund system level activities on behalf of all colleges and universities; and institutional allocations for every college and university to use to support

individual college and university operations. Central to the allocation framework is the core value of presidential autonomy and the board's commitment to presidential control of tuition. Tuition and other revenues are not part of the allocation framework; those revenues are under the management of the presidents rather than being re-allocated to other colleges and universities.

At the time the original allocation framework was adopted, the system used a base plus approach to distribute institutional allocations until a new model could be developed within the framework.

In 1999, the Board of Trustees adopted a vision that would lead to the creation of "a single model which equitably recognizes the diversity of MnSCU students' needs and adequately supports the unique educational goals of each institution." The board adopted design principles which included:

- Academic goals should drive financial planning
- Delegation of authority to the institution and the resulting program diversification are necessary to create a responsive system
- Decentralized management systems require incentive and accountability mechanisms
- An equitable distribution of funds is needed which recognizes the diversity of institutions, programs and students
- Adequate funding is essential to fulfill missions and respond to compelling state needs.
- Access is a core element of the system's mission

Assumptions used in the development of the allocation framework/model included:

- A single model will be developed
- Allocation should recognize enrollment changes
- The model will provide flexibility to drive state priorities, collaboration between institutions, and basic support
- The allocation framework should be sustainable
- Simplicity is important to stimulate internal and external support for appropriate funding levels
- Some historical funding inequities cannot be corrected
- Significant changes in funding levels should be mitigated through transition funding
- Because of the limitations of the data, elements of the formula may be refined as the data improves over time

Eleven workgroups and two oversight committees were established to assist with the design, involving over 150 members across the system, concluding with the board approving the current allocation framework and model. The process included multiple hearings across the state to gather input related to the allocation framework and model. In addition to board level hearings, the workgroups met throughout the multi-year process to create the various components of the allocation model.

Implementation began in fiscal year 2002 and phased into full implementation by fiscal year 2006. The work incorporated the following key elements in the allocation framework and the

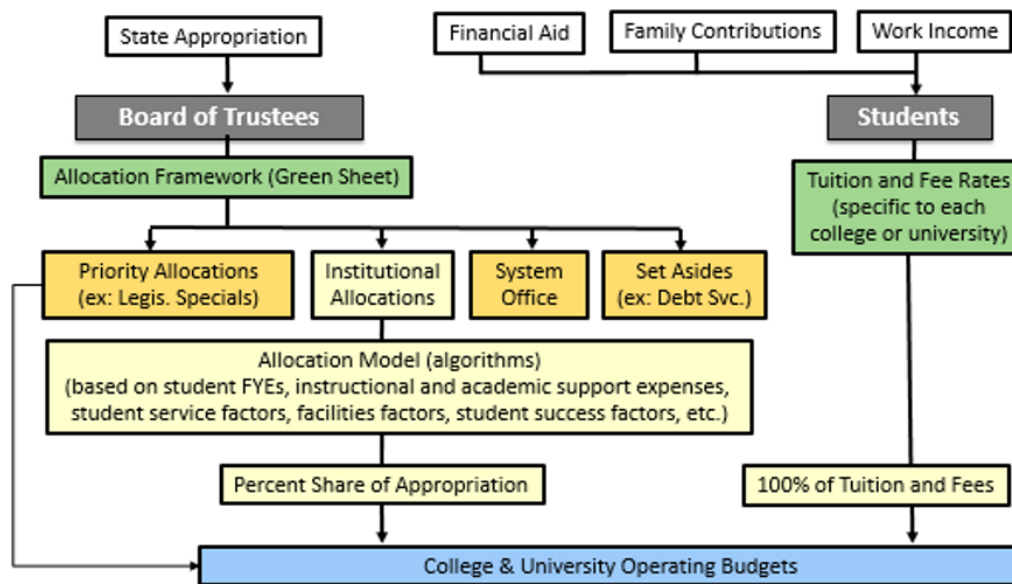
development of the allocation model:

- Enrollment is fundamental
- Autonomy of institutions providing base support as a lump sum, providing colleges and universities with flexibility on how to set their budget priorities, what programs to offer, and setting and keeping all tuition revenue
- Equity funding allocating only the funds that are available
- Incentive-based rewarding enrollment and cost-effectiveness
- Actual costs and external benchmarks used in the methodologies for calculating allocation

Graph A illustrates how the two main sources of revenue, appropriation and tuition, flow to colleges and universities based on the vision and principles adopted by the board.

Graph A - General Fund Operating Revenue

The Flow of Minnesota State Operating Funds



DIFFERENCE BETWEEN ALLOCATION FRAMEWORK AND ALLOCATION MODEL

The allocation *framework* specifies how all the system's state appropriation is allocated including:

- System office – sets the system office appropriation at \$36 million as specified in legislative language since fiscal year 2012
- Priority allocations – includes Board and legislative priorities sent to all or select colleges and universities for specific activities such as access and opportunity, leveraged equipment, workforce development scholarships, rural college aid
- Systemwide set asides – activities managed and paid for centrally, but on behalf of all colleges and university such as NextGen, Debt Service, PALS, Attorney General
- Institutional allocations – base allocations to all colleges and universities distributed based the methodologies in the allocation model and a tuition relief allocation based

on enrollment and college and university tuition rates.

The allocation framework is presented to the board during the annual operating budget process. It includes suggested changes based on legislative language or changing system priorities reviewed and recommended by the Leadership Council and System Office leadership. Attachments 1 and 2 provide a more detailed description of the allocation framework.

The allocation *model* is a subset of the allocation framework and allocates most of the state appropriation as base support to all colleges and universities. The model uses distinct methodologies covering five components:

- Instruction and academic support – uses college and university accounting and enrollment data to compare instructional and academic support costs across the system. These comparisons are by level of instruction and using classification of instructional program (CIP) codes to provide state support funding for comparable programs while respecting mission differences and promoting instructional efficiencies.
- Student services and institutional support – uses national benchmark spending data from like institutions to determine core funding for student services and institutional support. This component accounts for differences between college and university missions and acknowledges the need to increase these services based on enrollment (headcount and full year equivalent – FYE) and on institutions with multiple campuses.
- Facilities – recognizes gross square footage and multi-campus institutions to provide funding for our physical space.
- Student success – two student success measures are used to provide incentive funding to any college or university with student persistence and completion rates that exceed their expected rate and/or improvement in the ratio of success for students of color.
- Research and public service – recognizes the actual spending in these two areas to acknowledge these activities as important, but minor, parts of college and university missions.

Attachments 3 and 4 provide more detail on the allocation model.

RECENT ALLOCATION FRAMEWORK AND MODEL DEVELOPMENT REVISIONS

November 2015 Board Action – Design Principles

Since the implementation of the allocation framework and model, the Technical Advisory Committee, a committee made up of financial and academic officers throughout the system, provided review and periodic recommendations to modify the allocation framework with their work mostly focused on the allocation model. The committee had recommended minor modifications since the model was fully implemented in fiscal year 2006.

Ten years ago, the board directed the chancellor through the Technical Advisory Committee to recommend improvements which were approved by the board and implemented by fiscal year 2018. To begin the process, the board adopted new allocation framework principles in November 2015:

The allocation framework should support the following:

- Academic and student success goals
- The educational and workforce needs of the state
- Financial and functional sustainability of diverse institutions, programs, and students
- Delegation of authority to colleges and universities
- The success and viability of the system of colleges and universities
- Collaboration and systemic change by leveraging the power of the system

The board also adopted a set of design principles to guide the work of the Technical Advisory Committee:

The design of the allocation framework should:

- Be flexible, simple and transparent
- Incorporate measurable outcomes that recognize the diversity of institutions and their missions
- Incent and/or reward:
 - Student success e.g. retention, graduation, transfer, employability, elimination of the opportunity gap
 - Collaboration around academic planning, student success efforts, administration, resource development, and achievement of collective goals
 - Administrative best practices and efficiencies
- Reach an appropriate balance between stability and responsiveness to changing conditions
- Recognize that costs of serving students varies by academic program and student requirements
- Implementation of the new design should provide for a smooth transition

Although not specifically acknowledged in these new principles, institutional autonomy and the ability to retain tuition and other revenues continued to be important elements of the re-design process. In addition, enrollment continued to be a major driver of allocation.

November 2016 Board Action – Design Concepts

The review and redesign effort was extensive and time consuming. The committee met each month for a full day to discuss and analyze possible recommendations to present to the board, with system office staff creating scenarios and testing proposals in between. By November 2016 the following recommendations were made for implementation in the fiscal year 2018 allocation model:

- Adding an outcome-based student success component
- Creating new collaborations priority allocation
- Modifying the student services methodology using weighted student headcount
- Simplifying the facilities component
- Modifying the revenue buydown calculation
- Recognizing actual library (shifting it into academic support), research and public service spending

- Using a two-year rather than a three-year average in two of the components to provide for more responsiveness in the model
- Eliminating the enrollment adjustment to mirror repeal of statutory language
Isolating the actual costs of concurrent enrollment programs in the allocation model

CONCLUSION AND POTENTIAL NEXT STEPS

Since 1999, the board has been committed to a single allocation model that only distributes state appropriation and one that acknowledges the mission differences of the system's colleges and universities. The model allocates state appropriation but does not dictate how funds must be spent.

Since fiscal year 2018, the system has been operating under the allocation framework design principles that were approved by the board in November 2016. These principles have been in place for almost a decade and there have been significant changes in the system's external environment over this time period that have impacted individual institutional financial health and flexibility related to establishing annual tuition rates.

The questions for the board are:

- Does the current framework/model support the priorities the Board of Trustees has for the system?
- Do the principles appropriately balance the competing interests on behalf of colleges and universities and the system?
- Where does a potential review of the system's allocation framework fit into the system's priorities over the next few years in comparison to other strategic initiatives?

Depending on the answers to these questions, what further work or analysis should be done related to the system's allocation framework? When the board approved the allocation framework in November 2016, one of the implementation recommendations was to continue to evaluate and examine unintended consequences and recommend adjustments to the framework as needed.