



MINNESOTA STATE
Board of Trustees

AGENDA ITEM SUMMARY

NAME: Finance and Facilities Committee

DATE: October 17, 2023

TITLE: FY2024-25 Supplemental Budget Request (First Reading)

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 & Analysis

PURPOSE

In May 2023, the legislature and Governor enacted the state fiscal year 2024-fiscal year 2025 Biennial Budget for higher education, including significant amounts for the Board's requests, together with additional provisions. The 2024 legislative session will be an opportunity for the Board to request supplemental funding to address the system's needs in light of knowledge gained since the state budget was enacted.

BACKGROUND INFORMATION

State appropriation is one of two primary sources of funding for our colleges and universities, the other main source being tuition. Each college or university has its own distinct relationship between state appropriation and tuition depending on its enrollment, historical tuition rates, academic and non-academic costs recognized in the appropriation allocation model, and other factors. Colleges are generally more reliant on state appropriation dollars and universities are generally more reliant on tuition revenues, meaning lower enrollment levels and less tuition revenues have tended to put more strains on university budgets in recent years.

The Board's biennial budget request for the fiscal year 2024-fiscal year 2025 biennium was for a \$350 million base increase, focused on student enrollment and success. A total of \$125 million was requested to fund a tuition freeze, expand student support resources, provide scholarships and emergency grants, and to expand access to free course materials. Another \$125 million was requested to increase system base allocation funding to ensure that institutions can address pressures in ongoing costs and maintain strength in all the academic and related resources that students rely on. And \$100 million was requested to make a significant increase in investment in the programs with the most urgent needs for a larger, better-trained workforce.

Table 1 shows the \$292.9 million in new funding received as a result of the 2023 legislative session. Adding this to the base funding amount of \$1.579 billion results in \$1.872 billion available for the biennium. This is an increase of approximately 18.5 percent for all state funding to the system—including general operation, special purpose, and pass-through appropriations.

Table 1
Minnesota State Total Appropriation Levels, Current

State Appropriation Funding (dollars in thousands)	FY2024	FY2025	Biennium FY24-25	FY2026	FY2027	Biennium FY26-27
Base Funding, Start of 2023 Legislative Session	\$789,611	\$789,611	\$1,579,222	\$789,611	\$789,611	\$1,579,222
New Funding In 2023 Legislation	\$159,285	\$133,621	\$292,906	\$84,132	\$84,143	\$168,275
Total Current Funding	\$948,896	\$923,232	\$1,872,128	\$873,743	\$873,754	\$1,747,497

Table 2 compares the requested amounts in each area with the amounts appropriated.

Table 2
Minnesota State Biennial Budget Request versus Funded Amounts

Appropriation Increases (dollars in thousands)	FY2024	FY2025	Biennium FY24-25	FY2026	FY2027	Biennium FY26-27
Minnesota State Stabilization						
Request	\$40,000	\$85,000	\$125,000	\$85,000	\$85,000	\$170,000
Appropriation	<u>\$64,000</u>	<u>\$64,000</u>	<u>\$128,000</u>	<u>\$41,500</u>	<u>\$41,500</u>	<u>\$83,000</u>
Difference	\$24,000	(\$21,000)	\$3,000	(\$43,500)	(\$43,500)	(\$87,000)
Student Support						
Request	\$50,000	\$75,000	\$125,000	\$75,000	\$75,000	\$150,000
Appropriation	<u>\$29,158</u>	<u>\$54,158</u>	<u>\$83,316</u>	<u>\$40,658</u>	<u>\$40,658</u>	<u>\$81,316</u>
Difference	(\$20,842)	(\$20,842)	(\$41,684)	(\$34,342)	(\$34,342)	(\$68,684)
Workforce/Economic Development						
Request	\$50,000	\$50,000	\$100,000	\$50,000	\$50,000	\$100,000
Appropriation	<u>\$13,500</u>	<u>\$13,500</u>	<u>\$27,000</u>	\$0	\$0	\$0
Difference	(\$36,500)	(\$36,500)	(\$73,000)	(\$50,000)	(\$50,000)	(\$100,000)
Other*						
Request	\$0	\$0	\$0	\$0	\$0	\$0
Appropriation	<u>\$52,627</u>	<u>\$1,963</u>	<u>\$54,590</u>	<u>\$1,974</u>	<u>\$1,985</u>	<u>\$3,959</u>
Difference	\$52,627	\$1,963	\$54,590	\$1,974	\$1,985	\$3,959
Totals						
Request	\$140,000	\$210,000	\$350,000	\$210,000	\$210,000	\$420,000
Appropriation	<u>\$159,285</u>	<u>\$133,621</u>	<u>\$292,906</u>	<u>\$84,132</u>	<u>\$84,143</u>	<u>\$168,275</u>
Difference	\$19,285	(\$76,379)	(\$57,094)	(\$125,868)	(\$125,857)	(\$251,725)

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

In the area of Student Support, there was full funding for \$75 million in state appropriation to pay for a freeze in tuition rates. Requests for \$12 million for transfer scholarships and \$10 million for emergency grant funds—as well as the request for \$25.5 million for workforce scholarships—were given no Minnesota State funding. However, scholarship and grant programs at the Office of Higher Education (OHE) received significant new funding that will be available to Minnesota State students through statewide programs instead of the requested programs.

- The most significant amount of new funding for student support appropriated to OHE is for the North Star Promise scholarship program. This program will begin next fiscal year and will provide scholarships for up to 100 percent of tuition and fees after grants and other scholarships are deducted. If funding is available in the appropriation after the first round of awards, the law also provides for the possibility of additional grants from the North Star Promise program for things like books, supplies, transportation and other expenses. The fiscal year 2025 appropriation for this program is \$117.2 million, with \$49.5 million ongoing each year after that. Preliminary estimates by OHE indicated that in fiscal year 2025, 5,350 Minnesota State college students will benefit from this program, with an average award of \$1,900 on top of the State Grant and other sources. For Minnesota State university students, the estimated numbers are 4,400 students receiving an average of \$3,170.
- The State Grant Program managed by OHE also received new biennial funding totaling \$21.1 million to increase the program's living and miscellaneous expense allowance, and a biennial \$17.7 million to conform the State Grant program with changes to the federal needs analysis and Pell Grant calculation, mainly affecting the calculation of student and family contributions and the calculation of and eligibility for the Pell Grant award.
- An additional \$6.52 million for the biennium was added to the emergency assistance grant program housed at OHE, with \$4.5 million of that for direct emergency grants to students attending a Minnesota State college or university.
- Other programs funded at OHE that will be available to Minnesota State students include Grants to Underrepresented Teacher Candidates, Grants to Student Teachers in Shortage Areas, the Teacher Shortage Loan Repayment Program, the Next Generation Nursing Assistant Training Program, Minnesota American Indian Scholarships, Hunger-Free Campus Grants, Paramedic Scholarships, Fostering Independence Grants, and Foster Care Grant Wraparound Services.

Requested funding totaling \$74.5 million for advanced technology, facilities and program development for workforce development activities received a combined \$27 million in funding for these industry- and community-based workforce development investments.

The requested funding for college, university, and systemwide stabilization received significant support, including a one-time appropriation of \$50 million for campus-level support. This one-time appropriation is intended to help colleges and universities continue to recover from

pandemic-related budget deficits and is not intended to support ongoing operations into the future. Aside from the \$50 million one-time funding specific to pandemic recovery, most of the funding greater than the total requested amount was appropriated to support specific new legal requirements. These new requirements include an increase in employer contributions for certain retirement plans, increased eligibility for some seasonal employees to file for unemployment benefits, the creation of a Child Development Associate Pathway, and a mandate that free menstrual products must be available in restrooms used by students.

Of the new appropriation amounts for ongoing operation stabilization, a significant amount of this new funding does not continue into the base in the 2026-2027 fiscal biennium. This poses a significant structural concern to college and university budgets. Table 3 shows that, in addition to the one-time \$50 million pandemic-recovery funds going away in the next biennium, \$45 million in stabilization funding also goes away. This entire \$45 million reduction is from the operating funds allocated to campus operations, a biennium-to-biennium reduction of over 35 percent.

Table 3
Minnesota State FY2024-2025 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*

With so much one-time funding, many colleges and universities need to start planning now for budget reallocations and reductions to cover known compensation costs increases, possible compensation cost increases, and unpredictable but persistent cost increases in non-compensation needs.

SUPPLEMENTAL BUDGET REQUEST

The primary purpose of a supplemental budget request is to address significant new developments or facts that have emerged since the state passed its biennial budget. For Minnesota State as for the higher education sector in general, significant changes since the end of the legislative session center around inflationary pressures in compensation and non-compensation that are turning out to be higher than estimated during the preparation of the biennial budget request. Known increases in compensation costs, which account for roughly 75 percent of all operating costs, will exceed the amount of available new resources at the system level. In light of the decline in funding provided in the next biennium, colleges and universities are under even more pressure to make reallocations and reductions to prepare for the future.

The October update on college and university budgets shows that almost half of Minnesota State institutions are currently showing a fiscal year 2024 surplus of revenues greater than expenses by one percent or more. Considering the fact that this is the first year of the biennium and the entire \$50 million in one-time support is recognized as revenue in fiscal year 2024, these institutions show they will have some of the one-time money left to use in the second year of the biennium. Approximately one-third of institutions show updated fiscal year 2024 budgets that are essentially balanced. Several institutions, however, show updated fiscal year 2024 budgets that have a deficit between revenues and expenditures. These institutions expect to cover more than one percent of their fiscal year 2024 expenses by utilizing fund balances.

In order to address the cost increases and pressures that colleges and universities are facing this biennium, the focus of a supplemental budget request is most urgently needed in college and university operational funding.

Table 4 compares the current biennium’s new funding from the stabilization and tuition freeze requests with the current best estimate of the new compensation and non-compensation costs colleges and universities are expected to need to cover in their budgets this biennium.

Table 4
Minnesota State 2024-2025 Biennial Budget
College and University New Funding versus Estimated New Cost Increases

College and University Operations New Resources and (New Costs)	Biennial dollars in thousands
College and University Operations Increased Funding	\$128,000
College and University Funding for Tuition Freeze	\$75,000
Adjusted Estimate of Biennial Compensation and Operating Cost Increases	(\$264,000)
Unmet Needs/Supplemental Request	(\$61,000)

According to current estimates, a biennial gap of \$61 million exists between new funding for operating costs versus estimated increases in operating costs. A supplemental request of this amount would provide additional resources to support new costs for the biennium and would meet the projected needs of Minnesota State’s colleges and universities. In addition, continuing this amount as an annual base appropriation in fiscal years 2026 and 2027 would provide colleges and universities with a much less extreme drop in funding in those years. Providing more reliable ongoing operation funding is critical or most colleges and universities will need to reduce programs and services in order to cover on-going inflationary cost increases.

Table 5 shows how the proposed supplemental amount would change overall funding levels. It is important to restate that these numbers include all funding, including general operation, special purpose, and pass-thru appropriations.

Table 5
Minnesota State Total Appropriation Levels, Proposed

State Appropriation Funding (dollars in thousands)	FY2024	FY2025	Biennium FY24-25	FY2026	FY2027	Biennium FY26-27
Current Funding	\$948,896	\$923,232	\$1,872,128	\$873,743	\$873,754	\$1,747,497
Supplemental Budget Request	\$0	\$61,000	\$61,000	\$61,000	\$61,000	\$122,000
Total Proposed Funding	\$948,896	\$984,232	\$1,933,128	\$934,743	\$934,754	\$1,869,497

NEXT STEPS

Initial consultation started at the annual Leadership Council and Board of Trustees retreats in September. There was general support to have a supplemental budget request that focused on additional college and university operational funding. This first reading formalizes the size and the component of the potential request. The committee will be asked to provide feedback related to the size and scope of the proposed request as well as strategies to best advocate for supplemental college and university operating funding. Between now and the second reading in November, ongoing and additional consultation will occur with bargaining units, statewide student associations, Leadership Council and other system interest groups.

At its November meeting, the Finance and Facilities Committee will be asked to recommend that the Board of Trustees adopt a motion to request supplemental funding in fiscal year 2025 and that it be continued as base-level funding in subsequent years. Specific motion language will appear in the second reading of this item in November.

RECOMMENDED ACTION (FIRST READING DRAFT)

The Finance and Facilities Committee recommends that the Board of Trustees adopt a motion to request \$61 million in FY2025 in supplemental funding and that it be continued as base-level funding in subsequent years. (Specific motion language will appear in the Second Reading of this item in November.)

Date Presented to the Finance and Facilities Committee: 10/17/23
Date Presented to the Board of Trustees: First reading – no action taken.
Date of Implementation: TBD