



**MINNESOTA STATE**  
Board of Trustees

**AGENDA ITEM SUMMARY**

**NAME:** Finance and Facilities

**DATE:** October 17, 2023

**TITLE:** FY2024 Operating Budget Update

Action

Review and Discussion

*This item is required by policy*

**PRESENTERS**

Bill Maki, Vice Chancellor for Finance and Facilities

Dr. Carrie Brimhall, President, Minnesota State Community and Technical College

Dr. Edward Inch, President, Minnesota State University, Mankato

Steve Ernest, System Director, Financial Planning and Analysis

**PURPOSE**

This item provides the Board of Trustees with an update on the Fiscal Year 2024 Annual Operating Budget for the System. The Board approved the annual operating budget at its meeting on June 21, 2023. Now that the 2023-2024 academic year is well underway, colleges and universities have updated their budgets for the year.

**BACKGROUND INFORMATION**

When the Board approved the System's fiscal year 2024 Annual Operating Budget in June, colleges and universities established their operating budgets with a focus on ensuring long-term commitments were not being made with one-time resources along with making additional investments in areas of system focus. Additional investments were made in the areas of student success and equity; workforce and economic development; technology solutions; data democratization; and organizational effectiveness. Both college and university sectors were projecting a loss in enrollment of less than one percent, indicating that enrollment levels were beginning to stabilize after nearly a decade of enrollment declines.

Results of the legislative session provided students with significant financial assistance in the form of frozen tuition, a variety of scholarship and grant programs through the Office of Higher Education, and an increase in funding for student support programs available to students on and off campus. Stabilization funding for college, university, and systemwide operations was provided, along with \$50 million in one-time funding to assist colleges and universities with structural deficits driven by enrollment loss during the pandemic. A combined \$27 million in funding was provided for advanced technology, facilities and program development investment to address the most urgent industry- and community-based workforce development needs.

This report provides the Board with updated fiscal year 2024 budget numbers for the System, including revised projections for enrollment, revenues, and expenditures. On an all-funds basis, the October revision of the fiscal year 2024 budget has a slightly more positive outlook than the budget approved in June. Specifically:

- Enrollment is showing improvement over fiscal year 2023. Most colleges are experiencing better enrollments than were projected in June. Universities are seeing a mix of enrollment changes with three still forecasting negative enrollments and the remaining four anticipating flat or modest increases.
- Updated operating revenues and operating costs remain relatively stable from original approved budgets. Both increased by about half a percent between these October 2023 updates and June 2023 approved annual budgets.
- Most colleges and universities are anticipating a budget surplus or a balanced budget in fiscal year 2024, but seven are projecting deficits that will require using fund balance to cover budgetary gaps.

### ENROLLMENT UPDATE

Increasing or stabilizing enrollment continues to be a challenge for many of our colleges and universities, October updates to enrollment projections do show improvement in both sectors and for the system as a whole. Table 1 shows the system-wide enrollment change for fiscal year 2024 compared to fiscal year 2023 as now projected to be up by 0.6 percent, as compared to the 0.7 percent decline that was assumed when the fiscal year 2024 operating budget was approved in June. Projected college enrollment change has gone from a 0.6 percent decline to a 1.2 percent increase compared to last year. Projected university enrollment change has also improved, from a projected 1.0 percent decline to a 0.3 percent decline compared to last year.

**Table 1**  
**System FYE Enrollment Outlook for Fiscal Year 2024**

<b>FY2024 Est Compared to FY2023 Actual</b>	<b>June 2023 Enrollment Projections</b>	<b>June 2023 Enrollment FYE Projection</b>	<b>October 2023 Enrollment Projections</b>	<b>October 2023 Enrollment Projections</b>
Colleges	-0.6%	63,492	1.2%	64,760
Universities	-1.0%	41,073	-0.3%	41,379
System	-0.7%	104,565	0.6%	106,139

- For the first time since the pandemic (fiscal year 2020), the system’s enrollment outlook improved between the June Board meeting and the budget update this month. There is optimism this trend of annual enrollment growth will continue into the near future.

Most colleges and universities are projecting either no change in their enrollment projections or improvement while five colleges and three universities are still anticipating enrollment decline, but in some cases, the declines in enrollment have been reduced. While our colleges and universities are always focusing on strategic enrollment management strategies, we have been the beneficiaries of increased investments from the state to expedite the implementation of these strategies:

- Increasing financial aid support through existing and new state financial aid programs such as NorthStar Promise, the State Grant program, the Emergency Assistance grant program, 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.
- Freezing undergraduate tuition for the 2023-2024 and 2024-2025 academic years.
- Being able to invest one-time campus support funds (approximately \$15M or 30 percent of the \$50M) strategically to support student success, increasing student recruitment, and expanding high demand academic program directly to students.

Table 2 shows the most recent actual changes from the prior year by sector. This data supports the revision of enrollment projections for fiscal year 2024.

**Table 2  
Year to Date Enrollment as of October 9, 2023**

<b>FY2024 Compared to FY2023</b>	<b>Summer YTD</b>	<b>Fall YTD</b>
Colleges	3.8%	3.1%
Universities	-2.8%	-0.9%
System	0.6%	1.5%

Looking from a more historic perspective, Chart 1 shows that since fiscal year 2011, enrollment has decreased by nearly 50,000 full year equivalent (FYE) students which equates to a 32 percent decline. During the pandemic, enrollment declined at a faster pace. Almost 30 percent or 14,449 of the 50,000 FYE decline occurred between fiscal years 2020 and 2022. Currently projections for fiscal years 2024 and 2025 show the declining trend to end with modest increases projected

in those years.

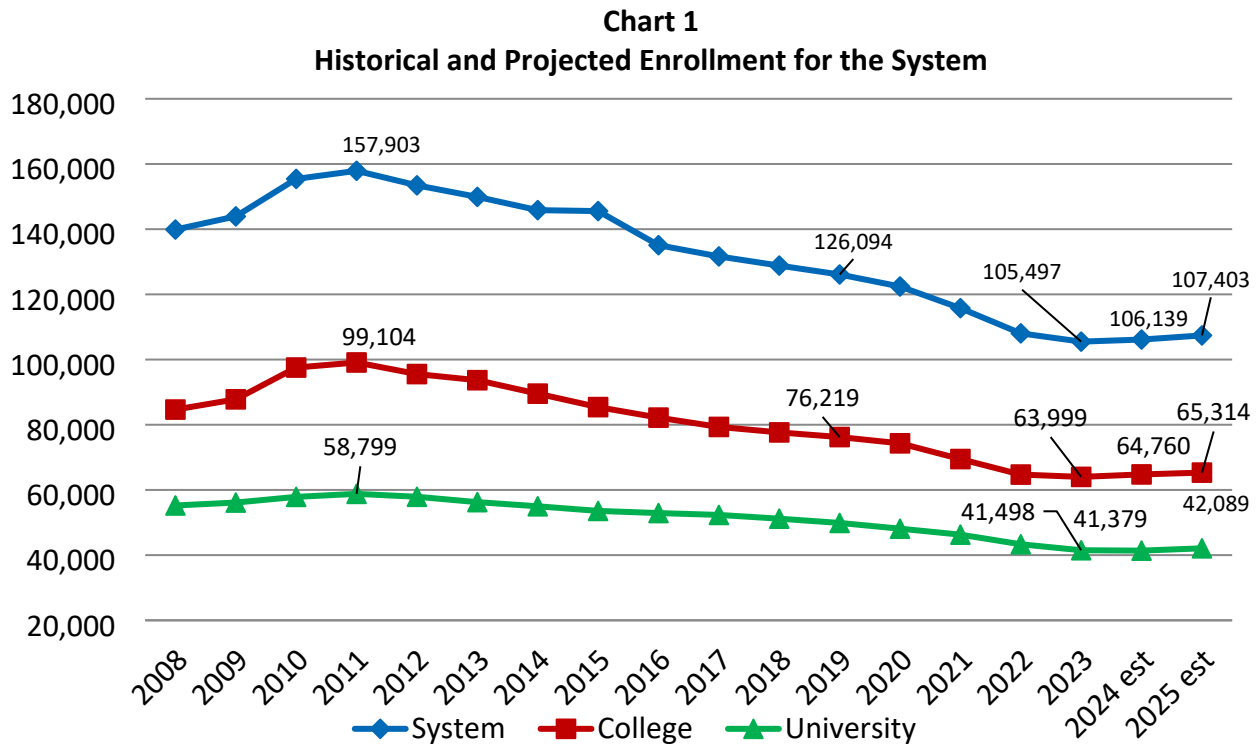


Table 3 shows detailed numbers by sector for the most recent five years and projections for the two years of the current biennium.

**Table 3**  
**System Enrollment FY2019 to FY2025**

Full Year Equivalent	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024 Est	FY2025 Est
Colleges	76,219	74,260	69,472	64,710	63,999	64,760	65,314
Universities	49,874	48,223	46,286	43,323	41,498	41,379	42,089
System	126,094	122,483	115,758	108,034	105,497	106,139	107,403

*\*FY2019-FY2023 Actual; FY2024-FY2025 Projected*

Enrollment numbers by college and university for this time period are attached to this report.

**BUDGETS APPROVED JUNE 2023**

On an all-funds basis, the fiscal year 2024 operating budget approved in June showed revenues 7.9 percent higher than the fiscal year 2023 budget at that time. As shown in Table 4, Federal pandemic relief (HEERF) funding went down by over 80 percent, due to the expiration of that program. General fund revenues, however, more than made up for that loss, due to increases in state funding for stabilization, a tuition freeze, and other new programs.

**Table 4**  
**Fiscal Years 2023 and 2024 All Funds Operating Budget, June 2023**

<i>\$s in millions</i>	<b>FY2023 Updated Budget</b>	<b>FY2024 Proposed Budget</b>	<b>\$ Change</b>	<b>% Change</b>
<b>Revenues/Sources</b>				
General Fund	\$1,655.0	\$1,826.2	\$171.2	10.3%
Revenue Fund	\$101.0	\$103.2	\$2.2	2.2%
Other Funds	\$309.0	\$329.8	\$28.0	6.7%
HEERF Acts	\$34.6	\$6.6	(\$28.0)	-80.9%
<b>Revenues/Sources Total</b>	\$2,099.6	\$2,265.8	\$166.2	7.9%
<b>Expenses/Uses</b>				
Compensation	\$1,363.4	\$1,418.9	\$55.5	4.1%
Operating costs	\$799.7	\$855.5	\$55.8	7.0%
<b>Expenses/Uses Total</b>	\$2,163.1	\$2,274.4	\$111.2	5.1%
<b>Budget gap</b>	(\$63.5)	(\$8.6)		
<b>HEERF Transfer in</b>	\$23.6	\$0		
<b>Fund balance to balance budget</b>	\$59.7	\$26.1		
<b>Budget balance</b>	\$19.7	\$17.5		

*\*Numbers may not add due to rounding*

As illustrated in Table 5, the General Fund operating budget approved in June showed a 10.3 percent increase in sources from the prior budget. Increased ongoing state appropriations allowed for a \$30 million decrease in use of fund balance to balance the budget compared to FY2022, while new one-time appropriations allowed for a \$10 million increase in one-time projects planned for the year.

**Table 5**  
**Fiscal Years 2023 and 2024 General Fund Operating Budget, June 2024**

<i>\$s in millions</i>	<b>FY2023 Updated Budget</b>	<b>FY2024 Proposed Budget</b>	<b>\$ Change</b>	<b>% Change</b>
<b>Revenues/Sources</b>				
General Fund	\$1,655.0	\$1,826.2	\$171.2	10.3%
Revenue Fund	\$101.0	\$103.2	\$2.2	2.2%
Other Funds	\$309.0	\$329.8	\$28.0	6.7%
HEERF Acts	\$34.6	\$6.6	(\$28.0)	-80.9%
<b>Revenues/Sources Total</b>	\$2,099.6	\$2,265.8	\$166.2	7.9%

<b>Expenses/Uses</b>				
Compensation	\$1,363.4	\$1,418.9	\$55.5	4.1%
Operating costs	\$799.7	\$855.5	\$55.8	7.0%
<b>Expenses/Uses Total</b>	\$2,163.1	\$2,274.4	\$111.2	5.1%
<b>Budget gap</b>	(\$63.5)	(\$8.6)		
<b>HEERF Transfer in</b>	\$23.6	\$0		
<b>Fund balance to balance budget</b>	\$59.7	\$26.1		
<b>Budget balance</b>	\$19.7	\$17.5		

*\*Numbers may not add due to rounding*

### REVISED FISCAL YEAR 2024 ALL FUNDS BUDGET

The fiscal year 2024 all funds operating budget update (Table 6) shows relatively modest changes in revenues and expenses since June. Revenue projections have increased by \$14.1 million from what was reported to the Board in June, which is a 0.6 percent increase. Expenses are increasing slightly by \$6.3 million, 0.3 percent compared to June. These increases are generally from improving enrollment trends and changes in expenses not previously known in June.

**Table 6**  
**Fiscal Year 2024 All Funds Updated Operating Budget, October 2023**

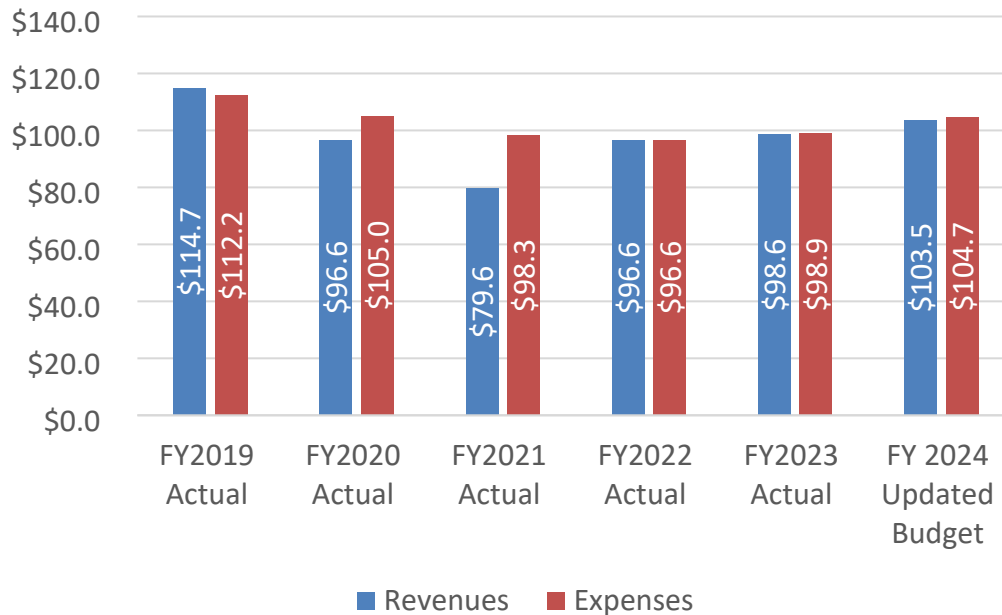
<i>\$s in millions</i>	<b>FY2024 Approved Budget</b>	<b>FY2024 Updated Budget</b>	<b>\$ Change</b>	<b>% Change</b>
<b>Revenues/Sources</b>				
General Fund	\$1,826.2	\$1,836.3	\$10.1	0.6%
Revenue Fund	\$103.2	\$103.5	\$0.3	0.3%
Other Funds	\$329.8	\$333.0	\$3.2	1.0%
HEERF Acts	\$6.6	\$7.1	\$0.5	7.8%
<b>Revenues/Sources Total</b>	\$2,265.8	\$2,280.0	\$14.1	0.6%
<b>Expenses/Uses</b>				
Compensation	\$1,418.9	\$1,419.1	\$0.3	0.0%
Operating costs	\$855.5	\$861.5	\$6.0	0.7%
<b>Expenses/Uses Total</b>	\$2,274.4	\$2,280.6	\$6.3	0.3%
<b>Budget gap</b>	(\$8.6)	(\$0.7)		
<b>HEERF Transfer in</b>	\$0	\$0		
<b>Fund balance to balance budget</b>	\$26.1	\$21.1		
<b>Budget balance</b>	\$17.5	\$20.4		

*\*Numbers may not add due to rounding*

## REVENUE FUND

The activities in the Revenue Fund include residential housing (room and board), wellness facilities, parking, and student unions. Chart 2 shows the Revenue Fund revenues and expenses each year since fiscal year 2019 before the significant impact resulting from the pandemic. Since the peak of the pandemic, the Revenue Fund has had modest recovery in fiscal years 2022, 2023, and 2024, however total revenue overall is still projected to be ten percent less in fiscal year 2024 compared to fiscal year 2019.

**Chart 2**  
**Revenue Fund Revenues and Expenses, Fiscal Years 2019-2023 Actual & 2024 Budgeted\***



*\*Source: ISRS (cash-basis)*

Residential Housing makes up approximately three-fourths of overall Revenue Fund revenues. Between fiscal years 2019 and 2023, there was a reduction in residential beds used of approximately 30 percent at the six state universities offering on-campus housing. Fiscal year 2024 fall semester 2023 numbers show a five percent increase in occupancy. This increase along with average room and board rate increases of 2.2 percent this fall has provided some additional new revenue for these operations.

Minnesota State's Revenue Fund outstanding revenue fund bonds and system outlook are rated on a regular basis by both Moody's Investors Services and S & P Global Ratings. S&P affirmed its AA- rating on our outstanding revenue fund bonds and gave the system a stable outlook. An AA rating indicates the system has a strong capacity to meet its financial commitments. Moody's assigned an Aa3 issuer rating to Minnesota State and downgraded Minnesota State's Revenue Bonds to A1 from Aa3 on October 7, 2021. An Aa3 rating indicates the system is judged to be of high quality and is subject to very low risk. On October 24, 2023, Minnesota State leadership will provide Moody's an update that focuses on enrollment and the system's fiscal situation for fiscal year 2023 and 2024.

## REVISED FISCAL YEAR 2024 GENERAL FUND BUDGET

Revenues in the General Fund (Table 7) are improving by \$9.2 million compared to June. Half of the increased revenue is directly related to enrollment increases with tuition revenue increasing by \$4.1 million (0.6 percent). Other revenues are increasing by \$1.7 million (1.2 percent) with some of that increase related to fee revenue increases due to enrollment. Some colleges and universities are anticipating using \$3.4 million more of fund balance to direct towards one-time investments. Fund balance used to balance the budget declined since June from \$19.8 million projected in June, now down by over \$5 million to \$14.7 million.

**Table 7**  
**Fiscal Year 2024 Updated General Fund Operating Budget, October 2023**

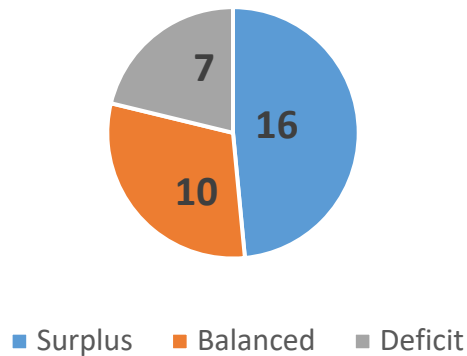
\$s in millions	FY2024 Approved Budget	FY2024 Updated Budget	\$ Change	% Change
<b>Revenues/Sources</b>				
State appropriation	\$948.9	\$948.9	\$0.0	0.0%
Tuition	\$708.1	\$712.2	\$4.1	0.6%
Other revenues	\$144.2	\$146.0	\$1.7	1.2%
Fund balance for 1x investments	\$25.9	\$29.3		
<b>Revenue/Sources Total</b>	<b>\$1,827.1</b>	<b>\$1,836.3</b>	<b>\$9.2</b>	<b>0.5%</b>
<b>Expenses/Uses</b>				
Compensation	\$1,309.7	\$1,309.5	(\$0.2)	0.0%
Operating costs	\$522.1	\$525.2	\$3.0	0.6%
<b>Expenses/Uses Total</b>	<b>\$1,831.8</b>	<b>\$1,834.7</b>	<b>\$2.8</b>	<b>0.2%</b>
<b>Budget gap</b>	<b>(\$4.7)</b>	<b>\$1.7</b>		
<b>HEERF Transfer in</b>	<b>\$0</b>	<b>\$0</b>		
<b>Fund balance to balance budget</b>	<b>\$19.8</b>	<b>\$14.7</b>		
<b>Budget balance</b>	<b>\$15.1</b>	<b>\$16.3</b>		

*\*Numbers may not add due to rounding.*

The use of fund balance to balance budgets is reflected in chart 3 with the majority of colleges and universities having balanced budgets or projected surpluses. With significant new resources in fiscal year 2024 from the state, ten colleges and universities are in the position to save some of their fiscal year 2024 resources to help offset the lack of new state resources next year. Seven colleges and universities are anticipating having to use fund balance to cover operating costs in fiscal year 2024 that are not covered by new revenue from the state or tuition revenue from improved enrollments.



**Chart 3**  
**FY2024 College and University Budget Positions**



For fiscal year 2024, colleges and universities are utilizing over half of the \$50 million of one-time campus support funding to address their budget deficits. As mentioned above, seven colleges and universities also need to utilize fund balance to have sufficient operating resources available to cover current year expenses.

Per Board Policy 5.10 Reserves and Year-End Balances, it is the policy of the board that the Minnesota State Colleges and Universities shall maintain an appropriate portion of general fund balances designated as a reserve for which no use is presently planned. If an institution exhausts its reserve or may potentially exhaust its reserve, the president can seek assistance from the system office through a formal request to the vice chancellor- chief financial officer. The president and the vice chancellor- chief financial officer will determine the size and form of the assistance. The system office currently has a total of \$12.5 million in reserves available for these types of situations and has earmarked a portion for Bemidji State University (BSU).

As indicated when fiscal year 2024 operating budgets were approved in June 2023, BSU requested assistance from systemwide reserves in the amount of \$750,000 for fiscal year 2024. Since then, BSU has announced additional budget reductions anticipating savings of approximately \$4.5 million in fiscal year 2025. Even with these reductions, it is expected that BSU could need additional cash flow assistance in fiscal year 2025. The Vice Chancellor of Finance and Facilities continues to work with the university leadership team to regularly monitor and provide support in addressing these financial challenges.

St. Cloud State University (SCSU) has also continued making budget reductions to align their ongoing revenues with ongoing expenses. In addition to utilizing the one-time campus support allocation of \$9.8 million, reductions of nearly \$8 million will occur in fiscal year 2024 to help address the university's fiscal year 2024 structural gap of approximately \$23 million. University leadership continues to work with the Chancellor's Cabinet related to institutional planning that is moving the university towards financial stability.

Colleges and universities that ended fiscal year 2023 below the system threshold of having a year-end general fund cash balance less than 20 percent of general fund revenue will provide updated

financial plans to indicate a timeline and strategies to stabilize their operating budgets within the next couple of months. The Vice Chancellor of the Finance and Facilities will update the committee on this financial health indicator and others at its January 2024 meeting.

Updated fiscal year 2024 operating budgets by college and university are attached to this report.

## **CONCLUSION**

The overall assessment of the fiscal year 2024 operating budget update is that college and university enrollment and budgets are generally stable in the current year. If enrollment trends from fall semester continue into spring term, the system may end the fiscal year without enrollment loss for the first time in over a dozen years. Additional resources from the state, both directly to our colleges and universities and to our students will assist in these efforts.

With the significant amount of one-time funding in fiscal year 2024, colleges and universities are planning fiscal year 2024 budget surpluses, reallocations, and reductions to cover on-going increases in expenses in fiscal year 2025 and into the next biennium.

*Date Presented to the Finance and Facilities Committee:* 10/17/23

*Date Presented to the Board of Trustees:* 10/18/23

*Date of Implementation:* 10/18/23