



MINNESOTA STATE
Board of Trustees

AGENDA ITEM SUMMARY

NAME: Finance and Facilities Committee

DATE: May 22, 2024

TITLE: FY2025 Annual Operating Budget (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

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. The first reading of this agenda item occurs annually in May. At this time, the legislative session is just ending, the budgetary implications of legislation enacted are being reviewed, and discussions are being held with stakeholders on campuses to finalize budgetary plans as the academic year is coming to a close.

The second reading will take place in June, so that colleges and universities have approved tuition and fee rates and operating budgets in place before the fiscal year (FY) begins on July 1. The June committee report will include the following information:

- Enterprise-level all funds and general fund operating budgets
- Tuition and fee tables
- College and university FY2025 operating budgets
- Revenue fund proposed charges and operating budgets
- System Office budget
- Enrollment projections
- System, college, and university financial reserves
- Health service fee budgets
- Student consultation letters

Since this is the first reading of the FY 2025 Operating Budget, no action is required.

UPDATE ON LEGISLATIVE FUNDING

State appropriations are the largest single source of funding for our colleges and universities. In May 2023, the legislature and Governor enacted the Biennial Operating Budget for higher education for fiscal years 2024 and 2025. Significant amounts of the Board’s requests were funded in this budget, but much of what was enacted was in one-time funding. As Table 1 shows, over \$124 million in one-time 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*

Pressure on the cost side of budgets adds urgency to the need to budget strategically. Based on systemwide estimates of increases in operating costs compared to the operating funding received (including funding in-lieu of tuition increases), a gap in needs of \$61 million was identified. Table 2 shows the calculation.

Table 2
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)

Based on these concerns, Minnesota State submitted a supplemental budget request of \$61 million for consideration during this year’s legislative session. This amount 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.

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 FY 2027.

This legislative activity taken together—keeping down tuition rates, 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 FY 2025 and beyond.

STUDENT SUPPORT AND WORKFORCE FUNDING UPDATE

Targeted funding for several aspects of student support and workforce-based programming was received this biennium. As a result, program and service expansion is being implemented this year and in FY 2025.

In March 2024, the Finance and Facilities Committee recommended and the board approved execution of a contract with Mantra Health for up to \$8.75 million over five years for systemwide access to public health, clinical mental health, and peer support resources. A student basic needs resources hub now offers confidential help by phone or text 24 hours a day, seven days a week. This first of its kind partnership with United Way was utilized by over 1,200 students in the first few months it was available.

Additional student support funding 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.

In FY 2024, \$13.5 million in one-time funding for equipment/learning environments and industry sector programming was distributed to colleges and universities to provide students with state-of-the-art learning experiences for career and technical education and enhance applied research opportunities for interactive, hands-on, and multi-disciplinary approaches to learning. Some of the benefits being achieved with this funding include making new credentials available to students and making it possible for students to be awarded credentials faster.

In FY 2025, the second \$13.5 million will be distributed. This entire amount will be matched with non-state sources, which will leverage both the funding and relationships with community and statewide industry development efforts. Approximately \$2.8 million of the industry sector programming funds will be awarded on a competitive basis, to direct those dollars more strategically.

ENROLLMENT UPDATE

The latest projections made for system enrollment were done in February. As Table 3 shows, at that time, colleges were projecting FY 2024 enrollment would be 3.7 percent higher than FY 2023 and universities were projecting enrollment would be 0.6 percent lower than FY 2023.

**Table 3
Minnesota State Enrollment by Sector
FY 2024 Projected Compared to FY 2023 Actual**

	May 2023		October 2023		February 2024	
Sector	% Change FY24 vs. FY23	FY2024 FYE	% Change FY24 vs. FY23	FY2024 FYE	% Change FY24 vs. FY23	FY2024 FYE
Colleges	-0.8%	63,492	1.2%	64,760	3.7%	66,386
Universities	-1.0%	41,073	-0.3%	41,379	-0.6%	41,260
System	-0.9%	104,545	0.6%	106,139	2.0%	107,646

Since the February projections, weekly enrollment monitoring reports for both sectors show continued improvements. When the final numbers are in, it appears likely that universities will probably still end the fiscal year with an enrollment decline that is somewhere between -0.3 to -0.6 percent, while enrollment growth at the colleges will contribute to the system overall, increasing enrollment by slightly more than 2 percent. Updated enrollment projections will be included in the June board packet.

Looking ahead to FY 2025, one factor that may play a role in improving enrollment numbers further will be the start of the North Star Promise (NSP) scholarship program. The NSP program is designed to provide tuition and fee free education for students with an Adjusted Gross Income (AGI) of less than \$80,000, as a last-dollar scholarship after other aid has been subtracted from the cost of tuition and fees. In response to concerns that some other aid is intended to cover costs related to attendance beyond the cost of tuition and fees, legislation is being considered to exclude aid amounts specifically designated for books, required supplies, childcare, emergency assistance, food and housing from consideration when determining the total aid subtracted from the tuition and fees to determine the NSP award amount. If this change is enacted, options for providing financial aid to these students would be increased.

It should also be noted that, while the FAFSA (Free Application for Federal Student Aid) Simplification Act has made improvements to the FAFSA form for families applying for financial aid, problems with the process have created hardships for financial aid staff at colleges and universities throughout the country. Roughly 20 percent of files transmitted from the U.S. Department of Education have required corrections. System office IT staff has made significant ISRS updates ensuring the proper processing of this information. Based on the current guidance

from the U.S. Department of Education, financial aid staff should be able to process these applications and students should expect to receive communications about their FAFSA this month.

COLLEGE AND UNIVERSITY BUDGET PLANNING

As the academic year is ending and colleges and universities are having their final conversations with students for the year, budget plans for the coming year are also being finalized. The \$128 million in biennial support provided by the legislature, together with the \$50 million in one-time support, has allowed colleges and universities to maintain many activities they would not otherwise have been able to maintain. However, this is not equally true across all institutions. Moreover, the appropriation available for base allocations will go down by \$1 million in FY 2025. Table 4 breaks down new state appropriation and tuition freeze funding by year.

**Table 4
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

Each institution needs to consider how the levels and distribution of funding provided by the legislature impact its operating budget. Enrollment projections and long-term strategic enrollment management plan goals both drive revenue projections as well as needed investments in academic programs and student services. And the latest revenue and cost challenges need to be addressed, including for programs that rely on dedicated revenue for their funding. Even flat funding over the biennium generally requires reductions in programs and services to cover on-going inflationary cost increases.

Once finalized, General Fund and all-funds budgets will be prepared and summarized for the June packet. Additional information will also be provided addressing how college and university budgets support the system’s focus areas of student success and equity, financial sustainability (including strategies to mitigate budget imbalances), and workforce and economic development. Information will also be included on how much of the FY 2024 \$50 million one-time funding colleges and universities are including in their FY 2025 budgets, what roles that funding plays, and any significant budget reductions being implemented or considered for FY 2025.

TUITION RATES

As part of the biennial state funding legislation, undergraduate tuition rates are frozen. The law states that *“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 place of tuition increases, \$75 million was appropriated for distribution to the colleges and universities. This amount was based on a 3.5 percent estimated rate of increase and is distributed based on actual rates and

enrollment levels at each institution.

However, in addition to freezing undergraduate tuition rates, the bill language also states 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.

For FY 2025, 16 requests to set new or increase existing differential tuition rates were received from 5 colleges and 4 universities. Six requests met the legislative limitations on increasing rates and will be proposed for approval in the June materials. Program and course areas primarily affected include science labs and technology equipment. A summary of the rationale for these differential tuition rate increases will be included as part of the attachments in the board’s June packet.

FEE RATES

Where campus discretionary fees are charged for purposes different from what tuition dollars are used for, fee rates may be increased within the parameters of board policy. Overall, campuses made efforts to hold many fees flat or with minimal increases to limit the overall increase to students. Per statutory requirements, increasing fees for student activities by more than 2 percent requires approval by students voting in local referendums. Below is a current summary of some of the changes that will appear in the June materials.

Fees Requiring Local Referendums

Six universities and one college held referendums to increase athletics fees. These increases ranged from \$0.47 to \$1.75 per credit. One university and two colleges held referendums to increase student life/activities fees. These increases ranged from \$1.04 to \$2.60 per credit. One of these increases included the creation of a separate sustainability fee. All referendums passed with between 60 and 86 percent of eligible votes cast.

Revenue Fund Fees

Fees that flow through the Revenue Fund to support specific facilities or services are also being reviewed for possible increases. Of the nine campuses that have student unions, four are not increasing the fee, while five are increasing the fee by \$3.18 to \$23.36 (3.0 to 8.0 percent). Residence hall fees are anticipated to increase by \$100 to \$578 (1.4 to 9.0 percent) on six of the seven campuses. Dining hall fees, where food costs have increased significantly recently, are anticipated to increase between \$100 to \$318 (2.0 to 8.0 percent) on all campuses. Most residence hall students have room and board plans; universities strive to balance the adjustments made in residence hall fees and meal plans. The FY 2024 average of room and board fee increase was 3.7 percent. It is anticipated the overall amount will be in that range or slightly higher for FY 2025. One out of five campuses is proposing an increase for the wellness fee of \$10.32 (5.5 percent). Parking fees are anticipated to increase at two out of seven campuses between \$0.05 and \$0.08 (1.3 to 2.0 percent), which is \$0.75 to \$1.20 at 15 credits per semester.

Fee rates and rate changes by college and university will be listed in the June packet.

RECOMMENDED ACTION (FIRST READING DRAFT)

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 X.*
- *Approve the proposed tuition structure recommendations and differential tuition rationale for fiscal year 2025 as detailed in Attachments X through X.*
- *Tuition rates are effective summer term or fall term 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 2025 tuition recommendations are presented to the Board of Trustees.*
- *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 X through X, 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: 5/22/2024

Date Presented to the Board of Trustees: First reading – no action taken.

Date of Implementation: TBD