MINNESOTA STATE
Board of Trustees

AGENDA ITEM SUMMARY

NAME: Finance and Facilities Committee **DATE:** April 18, 2023

TITLE: FY2023-2025 Operating Budget and Enrollment Update

☐ Proposed New Policy or Amendment to Existing Policy ☐ Approvals Required by Policy ☐ Other Approvals

☐ Monitoring/Compliance ☒ Information

PRESENTERS
Bill Maki, Vice Chancellor for Finance and Facilities
Steve Ernest, System Director for Financial Planning and Analysis

PURPOSE
This item provides the Board of Trustees with an update on System Enrollment, the Fiscal Year 2023 Annual Operating Budget, and the 2024-2025 Biennial Budget Request currently being considered by the legislature.

BACKGROUND INFORMATION
Fiscal year 2023 is the second year of the state's 2022-2023 biennium As Minnesota State's colleges and universities manage the final months of this year's operating budgets, they are also planning for a variety of factors that will largely define the parameters of their operating budgets for the coming two years. One of the main revenue factors institutions need to plan for is the level of state funding that will be appropriated to the system and what additional requirements or limitations may be included in the state budgetary legislation.

Some of the key features of operating budgets during the pandemic years have been significant losses of operating revenue, extraordinary additional costs, and unprecedencted amounts of one-time funding. While some of the one-time federal Higher Education Emergency Relief Funds (HEERF) assistance has matched well in terms of budgetary structural balance (revenues pairing well with expenditures), a structural imbalance can be created or exacerbated if dollars claimed as lost revenue are not subsequently replaced in budgets by traditional revenues returning at levels sufficient to cover the expense patterns that were maintained during the pandemic. Two of the original purposes of federal assistance were to provide financial support to those students that have the most need and to retain personnel to minimize the negative impact on the economy during the pandemic. A side effect of this, however, in some cases was to make it harder for institutions to conduct normal budgetary planning and budgetary balancing activities. Where long-term declines in revenue streams had already existed prior to the pandemic, most budget restructuring was delayed and may be even more difficult after the federal assistance goes away.

This report will provide an update on the scope of the challenges colleges and universities are overcoming as they close out their fiscal year 2023 operating budgets. It will then provide an update on the legislative developments that are setting the stage in terms of state appropriation, tuition rates, student assistance, and other issues that will play critical roles in developing operating budgets in the coming biennium.

ENROLLMENT UPDATE

At its October 19, 2022, meeting, the Finance and Facilities Committee was provided with an update on system enrollment. At that time, enrollment had weakened as compared to the projections used when the fiscal year 2023 budget was approved. As a system, the October report adjusted the original projected decline of 2.4 percent to a projected system decline of 3.8 percent for the year. College enrollment projections worsened from a 2.2 percent decline to a 3.0 percent decline, and university enrollment projections worsened from a 3.0 percent decline to a 5.0 percent decline. As Table 1 shows, current projections somewhat reverse the October assessment. Both college and university sectors are now projecting better enrollment than in October. Enrollment for the college sector is now projected to be slightly better than the original budget assumption, at 1.8 percent down from the prior year. Enrollment for the university sector is now projected at 4.3 percent down from the prior year, still below the originally budgeted level.

Table 1
System Enrollment Outlook for Fiscal Year 2023

	May 2022		October 2022		February 2023	
FY2023 Compared to FY2022	**% Change FY23 vs. FY22**	**FY2023 FYE**	**% Change FY23 vs. FY22**	**FY2023 FYE**	**% Change FY23 vs. FY22**	**FY2023 FYE**
Colleges	-2.2%	63,430	-3.0%	62,763	-1.8%	63,543
Universities	-3.0%	42,039	-5.0%	41,160	-4.3%	41,464
System	-2.4%	105,469	-3.8%	103,923	-2.8%	105,007

Twelve colleges are now projecting higher enrollment than they were in October and seven colleges are now projecting lower enrollment than they were in October. All seven universities are projecting better numbers than in October, though four of them are still projecting lower enrollment than they had originally budgeted for.

Looking further ahead, both the college and university sectors are projecting a slight decline of approximately one percent for fiscal year 2024, followed by an increase of a little less than one percent in fiscal year 2025. This means that by the end of the 2024-2025 biennium, most colleges and universities expect to have about the same enrollment they have this year, which is a twelve-year low for the system.

GENERAL FUND BUDGET UPDATE

In February 2023, in an effort to better understand the need for Minnesota State's biennial budget request, the House Higher Education Finance Committee asked for an institution-specific analysis of the sources-versus-uses structural balance we would likely have if the system's biennial budget request is appropriated as requested. Included in this request was an update of fiscal year 2023 college and university operating budgets.

Table 2 compares the General Fund budgetary balance between the time the budget was approved in June to the latest update for Spring of 2023.

Table 2
Fiscal Year 2023 General Fund Budget Gaps
Approved Budget, Fall Update, Spring Update

$s in millions	Approved Budget (June 2022)	Budget Update (Fall 2022)	Budget Update (Spring 2023)
Revenue/Sources	$1,633.4	$1,623.6	$1,624.7
Expenses/Uses	$1,702.4	$1,701.3	$1,699.6
Budget gap	($69.0)	($77.6)	($74.8)

This table reflects the slight fluctuations in projected enrollment discussed above, and also shows marginal reductions in projected spending. The net between the two does show a small increase in structural gap, but this is not necessarily a problem in itself since there can be a variety of reasons why a structural gap might exist for a college or university.

Structural gaps can be caused by pre-planned one-time spending on projects where the revenue may have come in over many years, but the spending occurs in just one or two years. Other causes of gaps can be changes that are more difficult to plan for. Since planning for changes to programs and courses that will be offered in an upcoming academic year needs to be completed many months before the year begins, expenditure budgets usually take longer to catch up with changes in revenue streams.

For years, college and university gaps have been caused by long-term declines in enrollment (tuition revenues) and state appropriations that provided smaller shares of overall budgets than they had in the past. More recently, gaps have been exacerbated by unforeseen external variables such as the pandemic supply chain issues and low unemployment. These changes have been difficult to anticipate and plan for.

Many recent revenue declines have hit universities harder than colleges because most universities have a residential component and more on-campus activities that contribute to revenue streams as well as needing a longer time period to recover from enrollment declines during the pandemic. While some colleges are still able to claim federal HEERF dollars to replace lost revenues in fiscal year 2023 and apply those towards their budgetary gaps, most universities utilized available HEERF resources much more quickly than colleges did. One of the main reasons for this was the losses related to on-campus housing and other on-campus activities.

Of the 26 colleges, 15 currently show remaining fiscal year 2023 budgetary gaps of less than five percent of their budgeted expenditures; 9 show gaps from five to ten percent; and 2 show gaps from ten to fifteen percent. Of the 7 universities, 4 currently show remaining fiscal year 2023 budget gaps of less than five percent of their budgeted expenditures; 2 show gaps from five to ten percent; and 1 shows a gap from ten to fifteen percent.

At the system level, the general fund budgetary gap is less than five percent of the year's budgeted spending. It is anticipated that approximately one-third of this will be covered using institutions' remaining HEERF funds and approximately two-thirds will be covered with programmed use of fund balance. Individual colleges and universities will experience various levels of strain on resources and the system office is actively working with several to help manage these issues. Continued prudent planning and decision-making will make it possible for our institutions to close out the year's budgets successfully.

LEGISLATIVE ACTIONS TO DATE ON STATE BIENNIAL BUDGET REQUEST

At its November 16, 2022, meeting, the board approved a biennial budget request of $350 million for the 2024-2025 biennium. The request includes:

- $125 million over the biennium to support college and university operations, systemwide technology costs and other system-level operations,
- $125 million over the biennium to freeze tuition rates across the system, provide additional staffing to directly support students, provide additional resources for student basis needs, and to provide student financial assistance in the form of scholarships, emergency grants, and free course materials, and
- $100 million over the biennium to be matched by non-state contributions from local community partners and invested in regionally significant advanced technologies and learning environments, program development specific to locally important industry sectors, and scholarships to incentivize new students and students returning from the workforce to enter high-demand occupations upon graduation.

In his revised biennial budget, issued after the State's February Economic Forecast was released, the Governor supported the full $125 million amount of the system operations request. He also supported the full $26 million requested for student support and basic needs, the full $12 million requested for transfer scholarships, $11.5 million of the request for advanced technologies and learning environments, and an additional $521,000 to raise the employer contribution rate for certain retirement accounts so they will match the employee contribution rates.

As the legislature began its spring break two weeks ago, the Higher Education Committee in each body had completed a biennial budget bill and passed it on for coordination with other bills and approval by the full House or Senate. By the time of today's Board of Trustees meeting, it is expected these bills will be in conference committee to work out the differences. Table 3 compares the funding provisions currently in each bill.

Table 3
2024-2025 State Biennial Budget Positions as of April 5, 2023

New Appropriations in Thousands of Dollars	System Request	Governor's Budget	House Bill	Senate Bill
System Stabilization	$125,000	$125,000	$125,000	$125,000
One-time Operation Support			$50,000	$74,000
IRAP Employer Contributions		$521	$1,733	$521
Unemployment Insurance			$1,618	
Tuition Freeze	$75,000		$75,000	
Student Support, Basic Needs	$26,000	$26,000	$26,000	$26,000
Menstrual Products				$764
Transfer Scholarships	$12,000	$12,000		
Emergency Grants	$10,000			
Z-degrees/Free Materials	$2,000		$2,000	
Advanced Technology/Facilities	$49,000	$11,500	$25,000	$20,000
Industry Sector Development	$25,500		$12,500	$10,000
Workforce Scholarships	$25,500		$12,500	
Total	**$350,000**	**$175,021**	**$331,351**	**$256,285**

The most significant difference between the two bills that will need to be resolved is the status of tuition rates for the coming biennium. The system's request to fund a freeze on tuition is included in the House bill, while the Senate (and Governor) did not include the funding and remained silent on this. The $75 million in the system's request is calculated to replace a 3.5 percent increase in tuition rates.

Although in both bills, the next largest difference in funding is for one-time operational support for college and university operations. The House bill includes $50 million for this purpose and the Senate bill includes $74 million. This funding is provided in response to the structural gaps remaining in institutional budgets as the effects of the pandemic continue to recede. Allocation of this money would be based upon each institution's estimated tuition revenue loss due to declines in enrollment from fiscal year 2019 to fiscal year 2023, except that no institution would receive less than a certain amount: $200,000 in the House bill and $300,000 in the Senate bill. Table 4 shows enrollment changes from 2019 to 2023, using February 2023 projections until more definitive numbers are available.

Table 4
Enrollment Change, Fiscal Year 2019 Compared to Projected Fiscal Year 2023

FY2019 Compared to FY2023 Projected	FY2019 FYE	FY2023 Projected FYE (February 2023)	Difference	% change
Colleges	76,219	63,543	(12,676)	-16.6%
Universities	49,874	41,464	(8,410)	-16.9%
System	126,094	105,007	(21,086)	-16.7%

Other items that are in one bill but not the other include
- $12.5 million in the House bill for workforce scholarships
- $2 million in the House bill for Z-degrees/Free Materials
- $1.618 million in the House bill to fund costs incurred due to extending potential unemployment benefit eligibility to postsecondary educational institution employees who are between terms, but only if they worked in a capacity other than instruction, research, or principal administration.
- $764,000 in the Senate bill to ensure free menstrual products are available in restrooms across all Minnesota State college and university facilities.

In addition, both bills provide funding for the employer retirement contributions increase included in the Governor's budget. The House increases the contribution rate all at once, whereas the House phases in the increase, as in the Governor's budget.

Both bills differ from the system's request in the provisions they include for the continuity of appropriations into the 2026-2027 biennium. Table 5 shows amounts tracked for inclusion in 2026 and 2027 base budgets.

Table 5
2026-2027 State Biennial Budget Positions as of April 5, 2023

New Appropriations in Thousands of Dollars	System 2026-2027	Governor 2026-2027	House 2026-2027	Senate 2026-2027
System Stabilization	$170,000	$168,000	$96,000	$170,000
IRAP Employer Contributions		$1,245	$1,777	$1,245
Unemployment Insurance			$1,618	
Tuition Freeze	$100,000		$100,000	
Student Support, Basic Needs	$26,000	$26,000	$4,000	$10,000
Menstrual Products				$564
Transfer Scholarships	$12,000	$12,000		
Emergency Grants	$10,000			
Z-degrees/Free Materials	$2,000			
Advanced Technology/Facilities	$49,000	$10,000		
Industry Sector Development	$25,500			
Workforce Scholarships	$25,500			
Total	**$420,000**	**$217,245**	**$203,395**	**$181,809**

While the 2026 and 2027 amounts are not actual appropriations, appropriation language that provides for inclusion in future base budgets is an indication that appropriations will be made by the following legislature. Significantly, under the House language, colleges and universities would need to plan for a decrease in state support in fiscal year 2026. Since employee compensation is the largest item in institutional budgets, colleges and universities will need to manage investments in new positions in a similar fashion to when they receive external grant funding by determining a sustainment plan for new positions or determining the length of the positions will align with the available funding.

UPCOMING TIMELINE

The latest possible date the 2023 legislative session can end is May 22nd. This is a week after the Board has its May meeting, during which the first reading of the fiscal year 2024 annual operating budget will be presented.

- May 16-17 Board meeting: first reading of FY24 budget
- May 22 End of 2023 legislative session
- June 20-21 Board meeting: second reading of FY24 budget

Likely legislative outcomes will at least be narrowing by the May board meeting. As those become known, colleges and universities will finalize the details of their budgets to account for anticipated appropriation amounts, any potential language related to tuition, and the effects of any new programs enacted by the legislature. At its June meeting, the board will be presented with detailed annual operating budgets for approval.