



MINNESOTA STATE
Board of Trustees

AGENDA ITEM SUMMARY

NAME: Finance and Facilities Committee

DATE: October 15, 2024

TITLE: 2026-2027 Biennial Budget Request (First Reading)

Action

Review and Discussion

This item is required by policy

PRESENTERS

Bill Maki, Vice Chancellor for Finance and Facilities

Carrie Brimhall, President, Minnesota State Community and Technical College

Ken Janz, President, Winona State University

Steve Ernest, System Director, Financial Planning & Analysis

PURPOSE

Every two years the Board of Trustees submits its biennial operating budget request to the governor and the state legislature for their review and consideration. Board Policy 5.9, State Budget Requests and Annual Operating Budget Planning and Approval, requires the board to approve the system's biennial request. This is the first reading of the request for the fiscal years 2026-2027 biennium.

BACKGROUND INFORMATION

Minnesota State is the nation's fourth largest system of colleges and universities, with 54 campuses in 47 communities across the state. The system's 28.5 million square feet of total facility space comprises a large percentage of all space owned by the State of Minnesota. Roughly 270,000 students are provided credit and non-credit education each year. Approximately 63 percent of all Minnesota residents pursuing an undergraduate credential do so at a Minnesota State college or university. The seven universities and 26 colleges offer over 4,000 academic programs and provide the bulk of the state's health care workers, peace officers, teachers, welders, plumbers, etc., by awarding over 36,000 degrees, certificates, and diplomas each year. Fourteen thousand faculty and staff across the state account for over a third of all State of Minnesota employees, and actively partner with local business and industry to provide educational opportunities that fit the community, including 9,600 customized training, occupational, and professional classes.

State appropriation is one of two primary sources of funding for our colleges and universities, the other main source being tuition. At the system level, the relationship between state appropriation and tuition was nearly a 2/3 appropriation and 1/3 tuition in fiscal year 2002, which is the goal set by the legislature in Minnesota Statute. In 2013, largely because of record-high enrollment in response to the recession annual double-digit percentage tuition increases from

2002 to 2005, the state appropriation share hit an all-time low at 40 percent, with tuition revenue providing 60 percent of annual revenues. Since that time, changes on both sides of the partnership have moved the relationship back towards the statutory goal.

In the decade before the 2024-2025 biennium, tuition revenues had experienced downward trends as system enrollment had decreased and cumulative tuition increases had been less than the rate of inflation. Fiscal year 2011 was the apex in the system’s enrollment of 157,903 full-year equivalent (FYE) credit students. Since that peak, the system has roughly 45,000 (28.5 percent) fewer FYE in fiscal year 2025 budgets compared to fiscal year 2011. Legislative limitations and freezes on tuition rate increases in recent bienniums have also kept tuition revenues lower than they might have been otherwise. While appropriation amounts have increased over the years, those increases have not always offset tuition rate limitations that have been included in legislation since fiscal year 2014.

Adding complexity to the appropriation and tuition relationship is the fact that each college and university has its own mix of tuition and appropriation, based on the history of each institution. Due to their funding history going back to premerger, lower tuition rates, and two-year sector specific funding from the legislature, colleges tend to be more reliant on state appropriation, whereas universities tend to be more reliant on tuition revenues. Institutions that rely more on tuition or have lower tuition rates than their system peers have found that tuition limitations have made financial planning more difficult.

State funding for the 2024-2025 biennium provided substantial new support—including \$50 million in one-time funding to help offset lost tuition as enrollment levels come back from pandemic lows—and has brought the current relationship to nearly 56 percent appropriation and 44 percent tuition. Out of concern for potential future state general fund limitations, however, the amounts set as beginning base numbers for next biennium are significantly lower. Table 1 compares new funding requested for the 2024-2025 biennium, amounts received, and amounts set by the legislature as base 2026-2027 funding.

Table 1: 2024-2025 Biennial Increases Requested, Received, and continuing in Base

Biennial Appropriation Increase Amounts (dollars in thousands)						
Request Area	Requested 2024 and 2025		Received 2024 and 2025		Base for 2026 and 2027	
Minnesota State Stabilization	\$40,000	\$85,000	\$64,000	\$64,000	\$41,500	\$41,500
Student Support	\$50,000	\$75,000	\$29,158	\$54,158	\$40,658	\$40,658
Workforce & Economic Development	\$50,000	\$50,000	\$13,500	\$13,500	\$0	\$0
Other*	\$0	\$0	\$52,627	\$1,963	\$1,974	\$1,985
Totals	\$140,000	\$210,000	\$159,285	\$133,621	\$84,132	\$84,143
		\$350,000		\$292,906		\$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

Even though the base funding for the fiscal years 2026-2027 biennium is just a starting point for the 2025 legislature, planning for fiscal year 2024 and fiscal year 2025 budgets could not be done without consideration of the fact that 35 percent of the new Minnesota State Stabilization money would go away without legislative action. Not only did the \$50 million in one-time support have to be planned for as one-time money, \$45 million in ongoing operation money also had to be treated as potentially one-time. Funding to replace tuition increases also drops by \$25 million in the fiscal years 2026-2027 base as compared to the fiscal year 2025 funding level. Developments that occurred after enactment of the fiscal years 2024-2025 biennial budget added to budgetary challenges. Increases in compensation and non-compensation costs were higher than anticipated in many cases across the system. To address the cost increases and pressures that colleges and universities were facing, a supplemental budget request of \$61 million was made to bridge the gaps in fiscal year 2024 and fiscal year 2025 budgets. This amount was calculated as the gap between the \$128 million in system stabilization funding received and the \$264 million in adjusted estimate of biennial compensation and operating cost increases. Because this request was not funded, more current one-time funding has had to be used for ongoing costs. This mismatch has made budgetary challenges even more difficult for colleges and universities.

LISTENING SESSIONS

Between September 11 and October 1, 2024, the chancellor, board chair and vice chair and several other trustees participated in a series of listening sessions held across the state. A total of nine listening sessions were held on campuses of the Minnesota State system. Locations and dates included:

Southwest Minnesota State University	Marshall, September 11
Riverland Community College	Austin, September 11
Winona State University	Winona, September 12
Minnesota North College	Hibbing, September 19
Pine Technical and Community College	Pine City, September 19
Minnesota State University Moorhead	Moorhead, September 26
St. Cloud Technical and Community College	St. Cloud, September 26
Century College	White Bear Lake, October 1
North Hennepin Community College	Brooklyn Park, October 1

The goal of these sessions was for internal and external stakeholders to identify key priorities to help guide Minnesota State's fiscal years 2026-2027 biennial budget request. There was strong turnout at each of the nine sessions. Participants included students, faculty, staff, business and community leaders, college and university foundation board members, legislators, legislative staff, and other elected officials.

The host college or university president facilitated these conversations. An overview of the Minnesota State system and a financial overview that included context and history of biennial budget requests was shared at the beginning of the session. The majority of each 90-minute listening session was spent listening to participants offering opinions and ideas on the key issues and needs that should be addressed in the biennial budget request. The chancellor summarized the themes he heard at the end of each session followed by closing remarks from board of

trustees leadership.

While each session had a slightly different emphasis depending on the composition of the audience, overall, there were consistent themes that emerged across the nine sessions. Some of the themes were not directly related to Minnesota State's budget request but were critically important to the relationships our students and external partners have with their local college or university. Examples included the parameters of the North Star Promise. Business leaders in the southern part of the state asked if there could be a requirement that student recipients stay and work in Minnesota for a certain period (like the Build Dakota Scholarship requirements in South Dakota) while many inquired if the family income levels could be adjusted. Office of Higher Education Commissioner Dennis Olson attended one of the sessions and had the opportunity to hear the impact the program has had directly from students. Another theme that emerged in several sessions was the relationships between our institutions and K-12 related to PSEO and college in the schools. Changes in the current state funding model, the credentials of high school instructors teaching college courses, and the expansion of partnerships for career and technical education were topics mentioned in multiple sessions.

The priorities that emerged from the sessions related to developing our biennial budget request included focusing on student affordability while ensuring there are sufficient wraparound services, continuing and increasing the investments in workforce development, providing adequate funding for college and university operations, and securing funding to address critical facility maintenance and repair projects.

Students at multiple sessions provided powerful personal testimonies where they expressed appreciation for the new financial aid programs and the support they receive from faculty and staff in their educational journey. These students stressed that college affordability does not only include the cost of tuition and fees, but the total cost of attendance which could include day care, transportation, housing, and other basic needs. Faculty, staff, and administrators discussed the need for additional staff and resources to be able to fully support students and the increased demand that is being experienced due to enrollment increases. They talked about the crucial need for financial support directly to students, including additional student scholarships; additional student emergency grants; and making all required internships, practicums, student teaching, and other non-classroom activities paid experiences. We also heard about the need for additional student services in the form of mental health resources, social workers, community resource connectors, and additional college and university staffing to provide services, including campus counselors.

Business and industry partners consistently provided testimony on the value of the relationships they have with college and university faculty and leadership in providing graduates to meet the workforce needs of the region and the state. Specific examples were given where workforce shortages are still being experienced and more graduates are needed.

Participants also spoke about expanding career, technical, and professional programs, including funding for equipment, additional supplies, and for competitive salaries to be able to recruit and retain faculty. In addition to existing programs, participants talked about the need to fund new, innovative programs, including non-credit training opportunities and adult learning

opportunities. We also heard from employers about the need to remove or reduce financial barriers in materials and other costs outside of tuition (i.e., cost of tools for certain programs). There was strong support to build off the industry sector programming funding and the upgrading of equipment and learning environment funding that was received in the 2024-2025 biennium. In addition, many supported the continuance and expansion for the leveraged equipment program and workforce development scholarships.

Increased funding for basic college and university operations was also recognized as an essential need area. Participants supported direct campus support to cover inflation to address local cost pressures. Without that support, examples were given of budget reductions and unfilled faculty and staff positions at some institutions that were implemented to support unfunded inflationary increases. Faculty and staff compensation not keeping up with the market and inflation was a concern. There was testimony about making sure the system asks for what we need, not what we think we can get and to continue to advocate for the state to return to funding two thirds of a student's education. The more the state invests in campus operations, the less reliance there will be on tuition revenue to support campus operations. Flexibility in setting tuition and fee rates was also high on participants' minds, as there are local factors that need to be considered such as the costs of high demand programs and ensuring the student's campus needs are met by providing an appropriate level of student services and student life experiences.

All sessions also included testimony about the need for asset preservation funding. The backlog of deferred maintenance continues to grow at a faster pace than the resources received from the state to address those issues. There was concern expressed about there being no bonding bill last session that has added to that backlog. The lack of a continuous predictable investment in facilities has had an impact not only on the operating budget, but more importantly on the student's learning experience. At a few sessions, there were also requests from campus leadership to seek demolition funding to address buildings that are at the end of their useful life or have been mothballed.

PROPOSED BIENNIAL BUDGET REQUEST

The proposed fiscal years 2026-2027 legislative operating budget request focuses on protecting Minnesota State's commitment to inclusive excellence and ensuring all Minnesotans receive an extraordinary, affordable, accessible education and provide our businesses the workforce they need. The proposed request totals \$465 million in additional funding over the biennium, with ongoing funding for the most crucial operating needs and one-time funding to address immediate critical infrastructure needs. Table 2 provides a summary of the components of the request.

Table 2: Proposed FY2026-27 Biennial Budget Request

\$365 million in Requests for Ongoing State Funding Support	\$100 million in Requests for One-Time Critical State Funding
<p>\$285 million to address cost increases across personnel and non-personnel budgets and to limit tuition changes to instances with compelling need to align rates better with costs and related rates</p> <p>\$40 million for campus-based services and assistance to address</p> <ul style="list-style-type: none"> *textbook and other costs above tuition *navigating school and life challenges *mental health support *emergency grants to address unforeseen needs *other local student support needs <p>\$40 million to renew funding for undergraduate, graduate, and non-credit programs that address high-demand workforce needs but have high infrastructure and student costs, including</p> <ul style="list-style-type: none"> *advanced, industry-specific equipment *related infrastructure upgrades *scholarship support for students 	<p>\$50 million to address critical asset preservation needs</p> <p>\$25 million for the costs of building demolition to avoid on-going maintenance for un-usable facilities that undermine a campus’s sense of community</p> <p>\$25 million to develop the new Workday student planning system, a system significantly more complex than any yet developed in the nation, to provide students with extensively valuable online resources</p>

The request is designed to support students, strengthen communities through workforce and economic development, and provide the system resources necessary to maintain the programs and services critical for the success of all students.

Combining the one-time funds into one request, Table 3 shows biennial amounts for each area.

Table 3: Proposed FY2026-27 Biennial Budget Request by Area

FY2026-FY2027 Biennial Appropriation Request (dollars in thousands)			
Request Area	Base Funding	One-Time Funding	Total
Student Affordability and System Operations	\$285,000	\$0	\$285,000
Critical Infrastructure	\$0	\$100,000	\$100,000
Student Support	\$40,000	\$0	\$40,000
Workforce-Focused Support	\$40,000	\$0	\$40,000
Total	\$365,000	\$100,000	\$465,000

STUDENT AFFORDABILITY AND SYSTEM OPERATIONS

This request is designed to meet the evolving needs of ongoing college, university, and system office operations while allowing the Board of Trustees to set tuition through its extensive consultation process. This process allows decision making to be respected at the campus level. Both the state appropriation side of college and university funding and the tuition revenue side of funding would be addressed by this request. Potential overall tuition increases would be directly related to the amount of additional base funding received out of the \$285 million request. Specific tuition rate changes would focus on instances where compelling needs exist to align rates better with costs and other rates within the institution or system. The \$285 million amount is calculated to allow for an average increase across all costs of 5 percent, based on the fiscal year 2025 approved budget. The approved fiscal year 2025 budget includes the budgets of the 26 colleges, the 7 universities, and the system office. Table 4 shows the calculations.

Table 4: Calculations, Student Affordability and System Operations

General Fund Operating Budgets (June 2024) and Biennial Budget Request Calculations				
Expenses (\$s in millions)	FY2025 Budget	FY2026 5% Increase	FY2027 5% Increase	Total Increase over FY2026-FY2027 Biennium
Compensation	\$1,371	\$68	$\$68 + \$73 = \$141$	\$209
Operating Costs	\$499	\$25	$\$25 + \$26 = \$51$	\$76
Total	\$1,870	\$93	$\\$93 + \\$99 = \\$192$	\$285

Freezes on tuition increases enacted in recent bienniums have kept increases in student costs minimal. Limited exceptions have been provided. For example, differential tuition rates have been allowed to increase where costs for course or program delivery have increased due to extraordinary circumstances beyond the control of the college or university. Also, during the fiscal years 2022-2023 biennium, universities were allowed to increase base tuition to adjust for the reduction of online differential charges, provided the change was revenue-neutral to the university's operating revenue. This adjustment was made by most of the universities, based on student input showing that rate simplification and acknowledgement that all courses now use online content made sense to them. Pressure to choose a lower-priced on-campus version of the same course but worry about transportation was one concern expressed by students.

For the fiscal years 2026-2027 biennium, the intention would be that institutions would be allowed to increase tuition in limited instances where:

- costs for course or program delivery have increased due to circumstances beyond the control of the college or university,
- online differential tuition rates are combined into base tuition rates to reduce the complexity of tuition choices,
- high-cost programs are not covering unique program costs with the current rate, and
- other compelling reasons indicate that tuition adjustments are justified.

CRITICAL INFRASTRUCTURE

This funding would address the most urgent immediate needs in critical infrastructure.

Asset preservation is a critical need that has increased over many years due to budgetary limitations and limited funding received through the Higher Education Asset Preservation and Replacement (HEAPR) program. \$50 million in one-time funding would be allocated to work towards addressing the backlog of asset preservation needs. As noted in the system's FY2024 Capital Request, almost \$3 billion is needed over the next decade to address Minnesota State's backlog renewal need.

Funding for building demolition is another pressing need on several campuses. Demolition of a facility that can no longer be used is not a cost that can be supported with state bond proceeds. However, the need is significant because costs to maintain un-usable facilities take funds away from other areas where they are urgently needed. Also, having run-down and unattractive facilities on campus undermines the campus's sense of community. \$25 million in one-time funding would be allocated to support campuses that have identified buildings in their comprehensive facilities plan that need to be demolished.

The Workday student system, part of the broader NextGen Enterprise Resource Planning system, is in the beginning stages of development. This student system will be significantly more complex than any yet developed in the nation. The data that will be tracked, managed, and made readily accessible to students will provide colleges and universities with extensively valuable new online resources. \$25 million in one-time funding would be allocated to the development and the implementation of this system.

STUDENT SUPPORT

This request would increase critical campus-based services and assistance that enable student success. Many of the challenges students face are outside of the classroom, but they can be significant barriers to academic completion even when students are progressing in the classroom. Core student support staff continues to evolve to address more timely issues of mental health and life challenge navigation.

Campus leaders consistently report that they are seeing increases in the number of students that are seeking support resources and services including, but not limited to, basic needs and mental health. With increased enrollment and programs in place like the North Star Promise, American Indian Scholars, and others designed to increase access to higher education, student support resources designed to support persistence and retention are increasingly important so we can provide the support necessary for our students to be successful. Minnesota State students come to our campuses at many different ages, different points in their personal and professional lives, with different family needs, with different financial needs, with different emotional and mental health needs. Student support services help students plan how their educational efforts will fit into their other life activities, coordinate educational concerns with other concerns, navigate requirements, take advantage of opportunities, and manage complex activities made more difficult by a student's personal challenges. Each college and university will have access to a specific allocation of funds. Currently, this is determined by the Access & Opportunity funding allocation formula.

The emergency grant program that was launched in March 2024 has now surpassed \$1.3 million in funding distributed. This number demonstrates that the need for this program is widespread among our students. One campus indicated that its allocation was gone in two days and there seems to be extensive need for this type of funding. It does not appear that current funding of \$2.25 million per year through the budget of the Office of Higher Education (OHE) will be able to meet this need.

A new mental health resources service was launched through Mantra Health in September 2024 and is now available at all 33 of our colleges and universities. Maintenance of this and other mental health services is incredibly important in aiding staff and faculty as they help students navigate and become aware of resources available to provide the support they need.

Assistance to help students avoid costs through the availability of free online course materials would also be included in this request.

A preliminary distribution of the \$40 million is:

- \$32.5 million to provide campus staffing to connect students to essential resources that have been created like the basic needs supports, emergency grants, the Mantra Health mental health resource, and other campus-based resources
- \$5.5 million for emergency grants, which would add \$2.75 million per year to the \$2.25 million per year currently available through OHE
- \$2 million (\$1 million per year) to continue current funding levels for the development of free course materials

WORKFORCE DEVELOPMENT

One-time funding of \$27 million (\$13.5 million for upgrading college and university equipment and learning environments and \$13.5 million to develop and expand industry sector programming) was not included in base for 2026-2027. This funding would continue highly successful 2024-2025 support for the equipment and programming required to address the most in-demand workforce needs of the state. Funding will support high-cost and high-demand baccalaureate and graduate programs. Funding will support workforce development scholarships.

Minnesota State will continue to enhance state-of-the-art skill and applied research laboratories using interactive, hands-on, and multi-disciplinary approaches in science, technology, and career or technical programs. State-of-the-art equipment and learning environments are defined as those that are the best available because they represent the most modern techniques and technology. Minnesota is at risk of falling behind investments made by neighboring states in learning environments that attract and retain students and workers.

Solving complex problems in the modern world requires collaboration across many fields, including social, behavioral sciences, and technical fields. Colleges and universities will utilize funding to enhance stand-alone equipment, technologies or learning environments, such as: labs for applied research, data visualization spaces, and spaces for collaboration. For example, this program would permit sharing equipment across our institutions, such as highly technical and high-powered tractors equipped with precision ag software and equipment that can be used by our agricultural programs. Shared spaces would be encouraged; for example, regionally based simulation “hubs” for nursing and allied health programs. Simulation laboratories are an essential part of student learning that provide a foundation for critical reasoning, synthesis, and analysis of increasingly complex health care situations. Labs are complete with simulated patient care equipment and video cameras for analysis of student learning.

This request would also expand the Workforce Development Scholarship program to increase affordability for college and university students and to encourage enrollment in high-demand fields to meet the state’s workforce needs.

The program is currently funded with \$4,500,000 annually, with a 10 percent hold-back of funds matched 1:1 with private dollars. Scholarships may be awarded in the following areas: healthcare, information technology, agriculture, transportation, manufacturing, early childhood education, construction, education and public safety. Colleges may also select an additional area based on regional workforce needs.

Industry sector program development will continue to focus on high-demand occupations that are experiencing extraordinary changes in occupational skills due to technological changes in Minnesota’s increasingly advanced and diverse economy. Focusing on industry partnerships, these program developments will build capacity and adequate support for new and re-designed curricular options. As a growing number of students pursue certificates or industry-recognized credentials, engaging with students over their career by addressing emerging skills, rather than

solely focusing on traditional degrees, is vital to the relevance of our college and university programs.

With a focus on Minnesota’s key industry sectors in healthcare, information technology, agri-business/agri-science, transportation, manufacturing, engineering and energy, this request will support development of new or multi-disciplinary programs at colleges and universities. In addition, funding preference will be given to programs that include work-place experiences, such as “earn & learn”; micro-credentials; internships; or applied research.

A preliminary distribution of the \$40 million is:

- \$13.5 million to continue the work of upgrading college and university equipment and learning environments for high-cost, high-need workforce programs,
- \$13.5 million to continue to develop and expand industry sector programming to build capacity and support new and redesigned curricular options with an emphasis on offering students work-based learning experiences,
- \$8.5 million to support the maintenance of high-cost and high-demand career & technical, baccalaureate, and graduate programs., and
- \$4.5 million for workforce scholarship, which would increase the base for these scholarships by \$2.25 million (50 percent) per year and broaden the types of programs the scholarships can be used for.

NEXT STEPS

Major milestones between now and the beginning of the fiscal years 2026-2027 biennium include the following.

Sep-Nov 2024	System develops fiscal years 2026-2027 biennial budget request
Oct 15-16, 2024	Board hears first reading of biennial budget request
Nov 5, 2024	Election day
Nov 19-20, 2024	Board approves biennial budget request; submits request to MMB
Late Nov 2024	State releases November Budget and Economic Forecast
Jan 14, 2025	Legislative Session Begins
Jan 28, 2025	Governor sends budget to legislature; may differ from Board request
Late Feb 2025	State releases February Budget and Economic Forecast
May 19, 2025	Legislative Session Ends
May 20-21, 2025	Board hears first reading of fiscal year 2026 operating budgets
June 17-18, 2025	Board approves fiscal year 2026 operating budgets
July 1, 2025	System begins fiscal year 2026

The 2024-2025 biennial budget request was submitted at a time when the state of Minnesota was projecting an \$18 billion budget surplus. The most recent forecast, issued by MMB in February 2024, showed an improved economic outlook compared to the November 2023 forecast. The February forecast projected that the 2024-25 biennium would end with a surplus of \$3.715 billion, an increase of \$1.324 billion compared to November projections. Higher collections for all major tax types improved the economic outlook, with growth expected to persist through 2027. With spending estimates largely unchanged from November, the higher

revenue forecast throughout the fiscal years 2024-27 planning horizon showed in improvement to the structural budgetary balance, but spending was still projected to exceed revenue through fiscal year 2027. Regular MMB Monthly Revenue Review reports show that FY 2025 year-to-date receipts are now \$4.2 billion, \$197 million (4.9%) more than forecast.

Ongoing conversations with stakeholder groups will continue between now and the second reading of the proposed biennial budget request. These consultations will help to strengthen the final request, which will be presented to the Board of Trustees in November for approval.

RECOMMENDED ACTION (FIRST READING DRAFT)

Under development

Date Presented to the Finance and Facilities Committee: 10/15/2024

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

Date of Implementation: TBD