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STATE COLLEGES
& UNIVERSITIES

Minnesota State Colleges and Universities System Financial Overview

**Presented to the House Higher Education Policy and
Finance Committee**

February 24, 2011





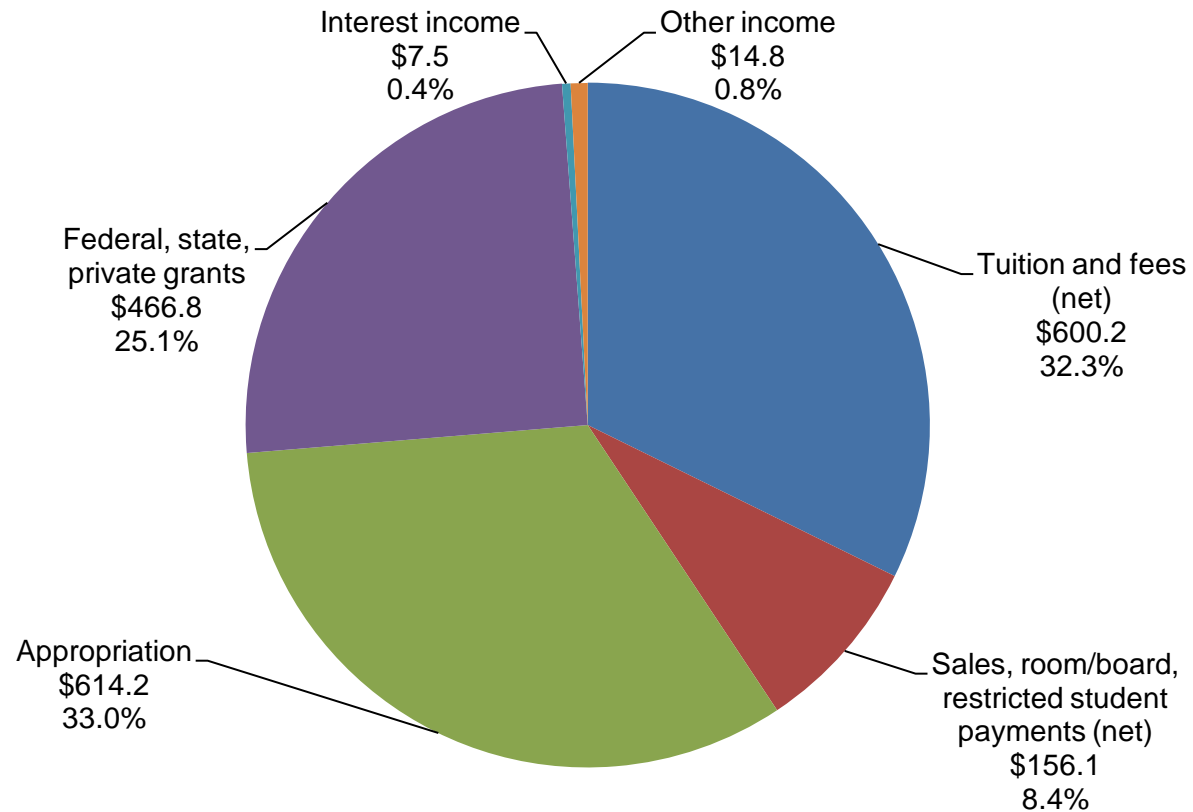
Financial health and compliance

- Board of Trustees holds colleges/universities accountable for financial performance
- Framework for on-going monitoring of financial condition at each college and university
- Defines required remediation if performance levels are not achieved
- Risk indicators focus on financial stability and healthy financial administration



Diversification of revenues

Total FY2010 System Revenues = \$1,860 million



Note: Dollar values in graph are in millions.



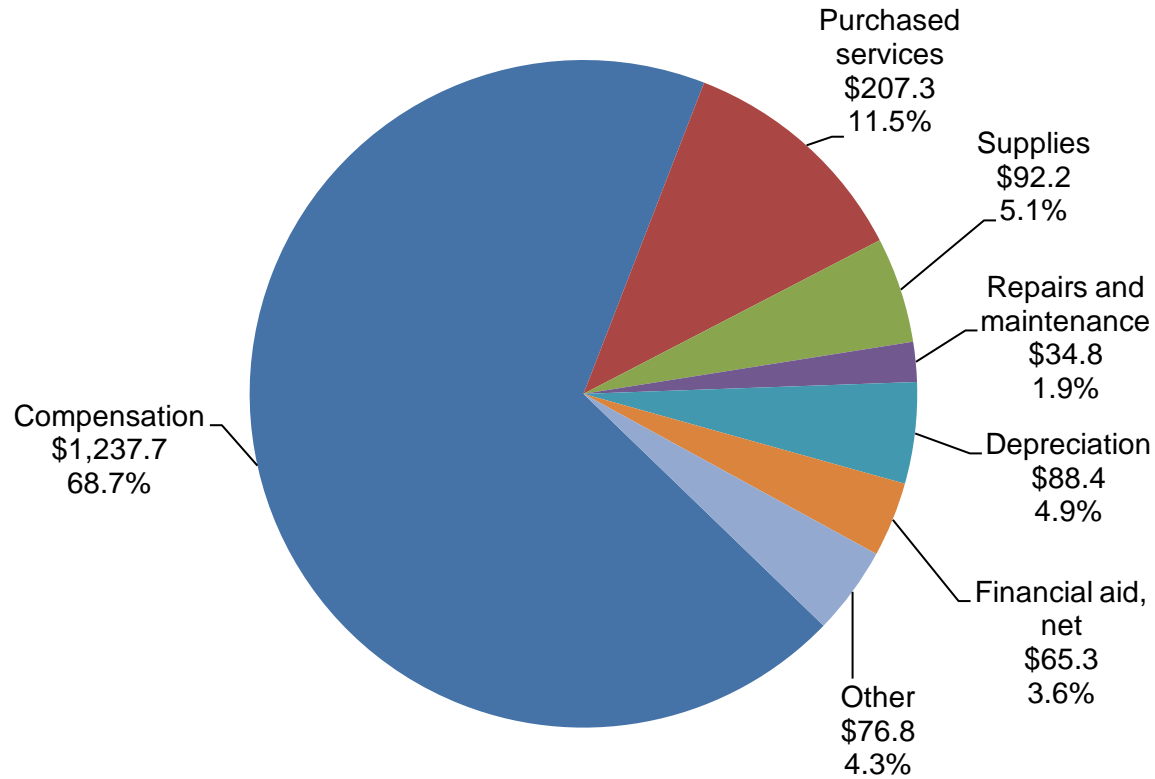
Revenue change

| Revenue Source (\$ in millions) | FY2005 | % of Revenues | FY2010 | % of Revenues | Average Annual Change (2005-2010) |
|---|-----------------|------------------|-----------------|------------------|--|
| Appropriation | \$546.4 | 39.5% | \$614.2 | 33.0% | 2.5% |
| Tuition and fees (net) | \$456.0 | 32.9% | \$600.2 | 32.3% | 6.3% |
| Sales, room/board, restricted student payments (net) | \$111.9 | 8.1% | \$156.1 | 8.4% | 7.9% |
| Federal, state, private grants | \$242.7 | 17.5% | \$466.8 | 25.1% | 18.5% |
| Interest income | \$7.2 | 0.5% | \$7.5 | 0.4% | 0.8% |
| Other income | \$19.8 | 1.4% | \$14.8 | 0.8% | -5.0% |
| Total | \$1,384 | 100% | \$1,860 | 100% | 6.9% |
| Revenue per FYE student | \$10,214 | | \$11,951 | | 3.4% |
| FYE student enrollment | 135,494 | | 155,601 | | 3.0% |



Compensation large portion of expenses

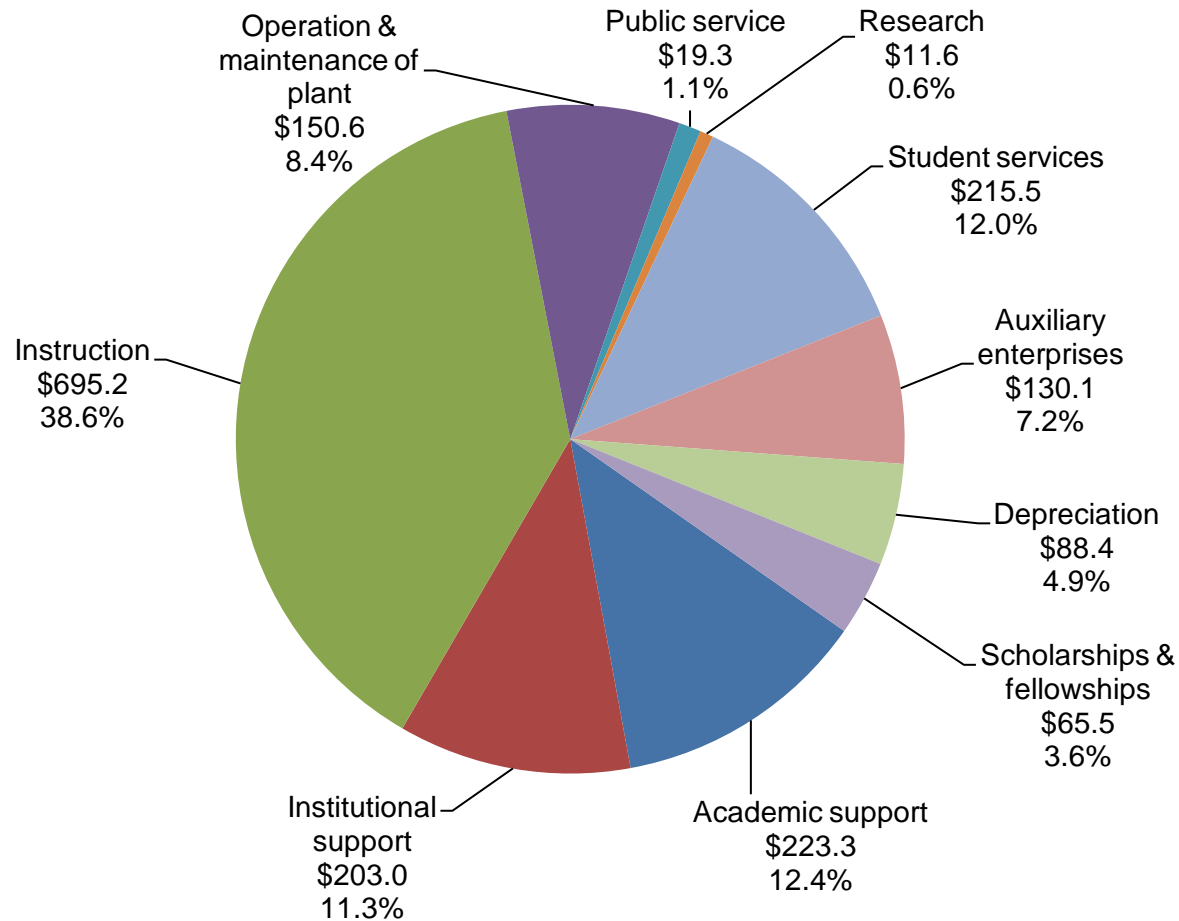
Total FY2010 System Expenses = \$1,803 million



Note: Dollar values in graph are in millions.



Fiscal year 2010 expenses by functional category



Note: Dollar values in graph are in millions.



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Expense change

| Reporting Category (\$ in millions) | FY2005 | % of Expenses | FY2010 | % of Expenses | Average Annual Change (2005-2010) |
|---|-----------------|--------------------------|-----------------|--------------------------|--|
| Compensation | \$954.1 | 68.4% | \$1,237.7 | 68.7% | 5.9% |
| Purchased services | \$157.3 | 11.3% | \$207.3 | 11.5% | 6.4% |
| Supplies | \$77.6 | 5.6% | \$92.2 | 5.1% | 3.8% |
| Repairs and maintenance | \$31.7 | 2.3% | \$34.8 | 1.9% | 2.0% |
| Depreciation | \$70.1 | 5.0% | \$88.4 | 4.9% | 5.2% |
| Financial aid, net | \$22.4 | 1.6% | \$65.3 | 3.6% | 38.2% |
| Other | \$82.3 | 5.9% | \$76.8 | 4.3% | -1.4% |
| Total | \$1,395 | 100% | \$1,803 | 100% | 5.8% |
| Expense per FYE student | \$10,299 | | \$11,584 | | 2.5% |
| FYE student enrollment | 135,494 | | 155,601 | | 3.0% |



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Fiscal year 2010 financial performance

| (\$ in millions) | FY2010 | FY2009 | Change | Percent |
|----------------------------------|-------------|-------------|---------|---------|
| Enrollment | 155,601 | 143,924 | 11,677 | 8.1% |
| Revenue | \$1,982.8 | \$1,850.5 | \$132.4 | 7.4% |
| Net Assets | \$1,723.8 | \$1,544.1 | \$179.6 | 11.6% |
| Operating fund reserve | \$81.7 | \$72.1 | \$9.6 | 13.3% |
| Composite Financial Index | 3.21 | 1.62 | | |



Composite Financial Index: Components

Primary Reserve *{resource availability}*

- MnSCU **3.2** months vs 5 months

Viability *{debt coverage}*

- MnSCU **100%** vs 125%

Net Operating Revenue *{surplus or deficit}*

- MnSCU **3.3%** vs 2% – 4%

Return on Net Assets *{asset stewardship}*

- MnSCU **12%** vs 6%

MnSCU CFI 3.21 vs Mid-line Goal 3.0



Composite Financial Index: Variability in the 32 Colleges and Universities

| | High | Low | System |
|---|------|--------|--------|
| Primary Reserve - <i>resource availability</i> | 1.24 | 0.12 | 0.70 |
| Viability - <i>debt coverage</i> | 3.50 | 0.23 | 0.84 |
| Net Operating Revenue - <i>surplus or deficit</i> | 1.00 | (0.10) | 0.48 |
| Return on Net Assets - <i>asset stewardship</i> | 2.00 | 0.26 | 1.19 |
| Composite Financial Index (CFI) | 6.66 | 0.97 | 3.21 |



Fiscal year 2010 net assets

| Net Assets (\$ in millions) | General Fund | Special Revenue | Enterprise | Revenue Fund | Total |
|---|-------------------------|----------------------------|-------------------|-------------------------|------------------|
| Invested in capital assets, net of related debt | \$1,161.6 | \$0.9 | \$18.7 | \$91.3 | \$1,272.5 |
| Restricted expendable, bond covenants | | | \$0.3 | \$56.8 | \$57.2 |
| Restricted expendable, other | \$32.5 | \$3.4 | \$4.0 | \$25.9 | \$65.8 |
| Unrestricted | \$237.4 | \$19.8 | \$71.1 | | \$328.3 |
| Total | \$1,431.5 | \$24.2 | \$94.0 | \$174.0 | \$1,723.8 |



General fund reserves

- Board policy requires 5-7 percent of general fund revenues
- Fiscal year 2010 total reserves
 - Colleges/universities = \$81.7 million (5.6 percent of revenues)
 - System = \$9.4 million (1.5 percent of appropriation)
- College/university reserve levels range from \$450,000 to \$9.3 million
- Total reserves would cover two payrolls

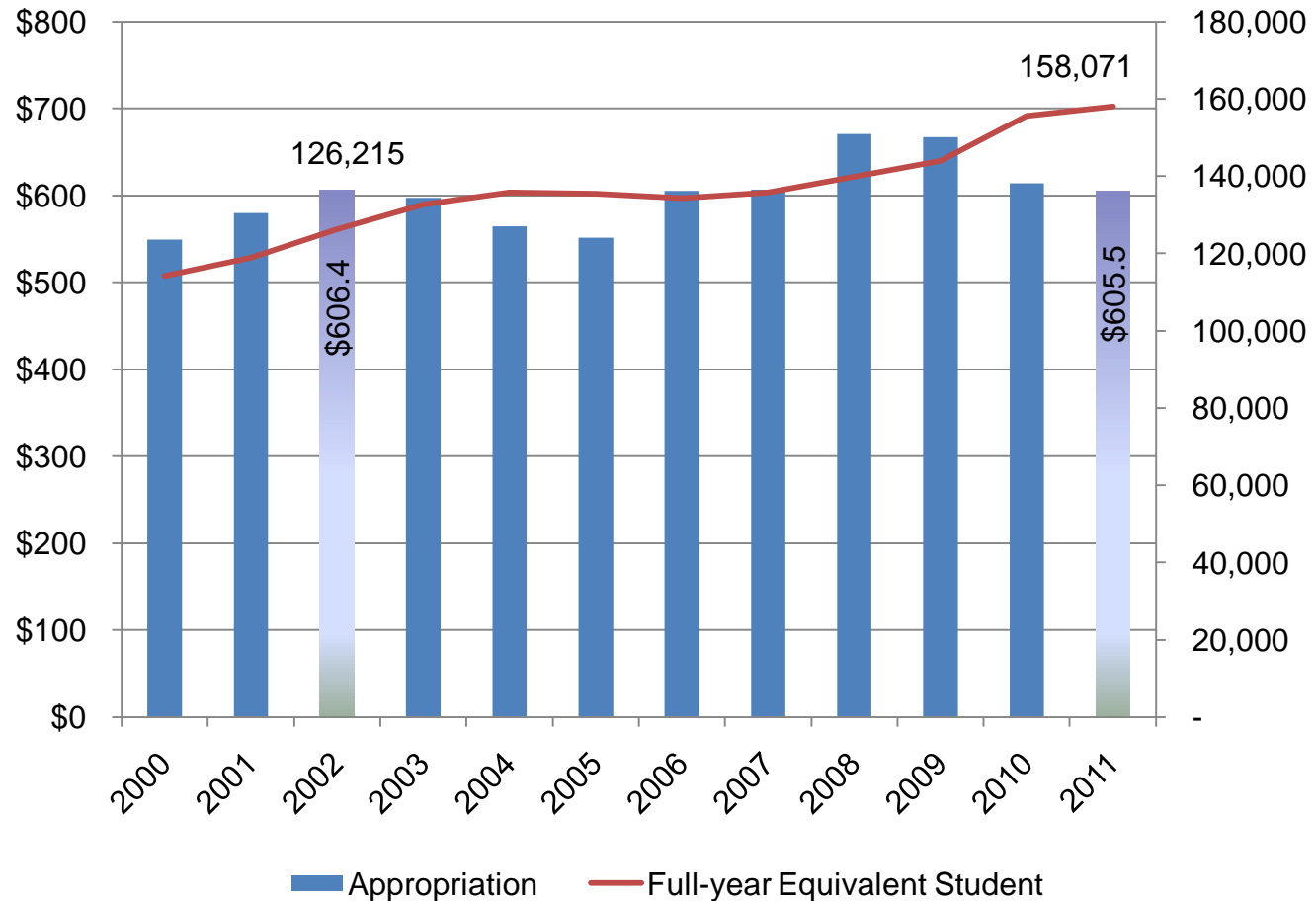


Reserves a measure of financial health

- Reserves available to:
 - Protect system and colleges/universities in cases of sudden shortfalls in revenue
 - Cover unanticipated expenses
 - Provide for extraordinary one-time investments
- Higher Learning Commission's emphasis on strong financial health (as measured by financial ratios) – ability of a college/university to carry out its mission
- Solid financial position resulting in 2011 Revenue Fund bond sale at Aa2/AA- rating



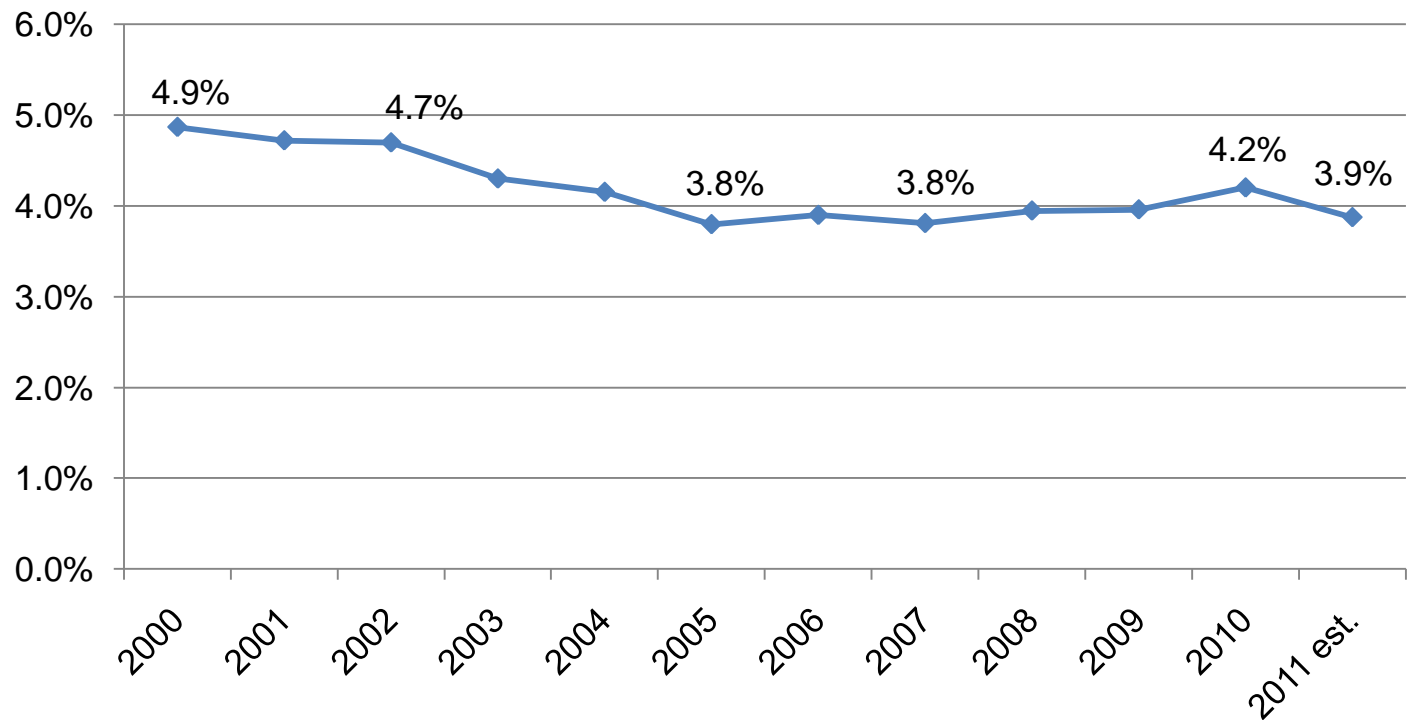
State funding decline at time of record enrollment growth





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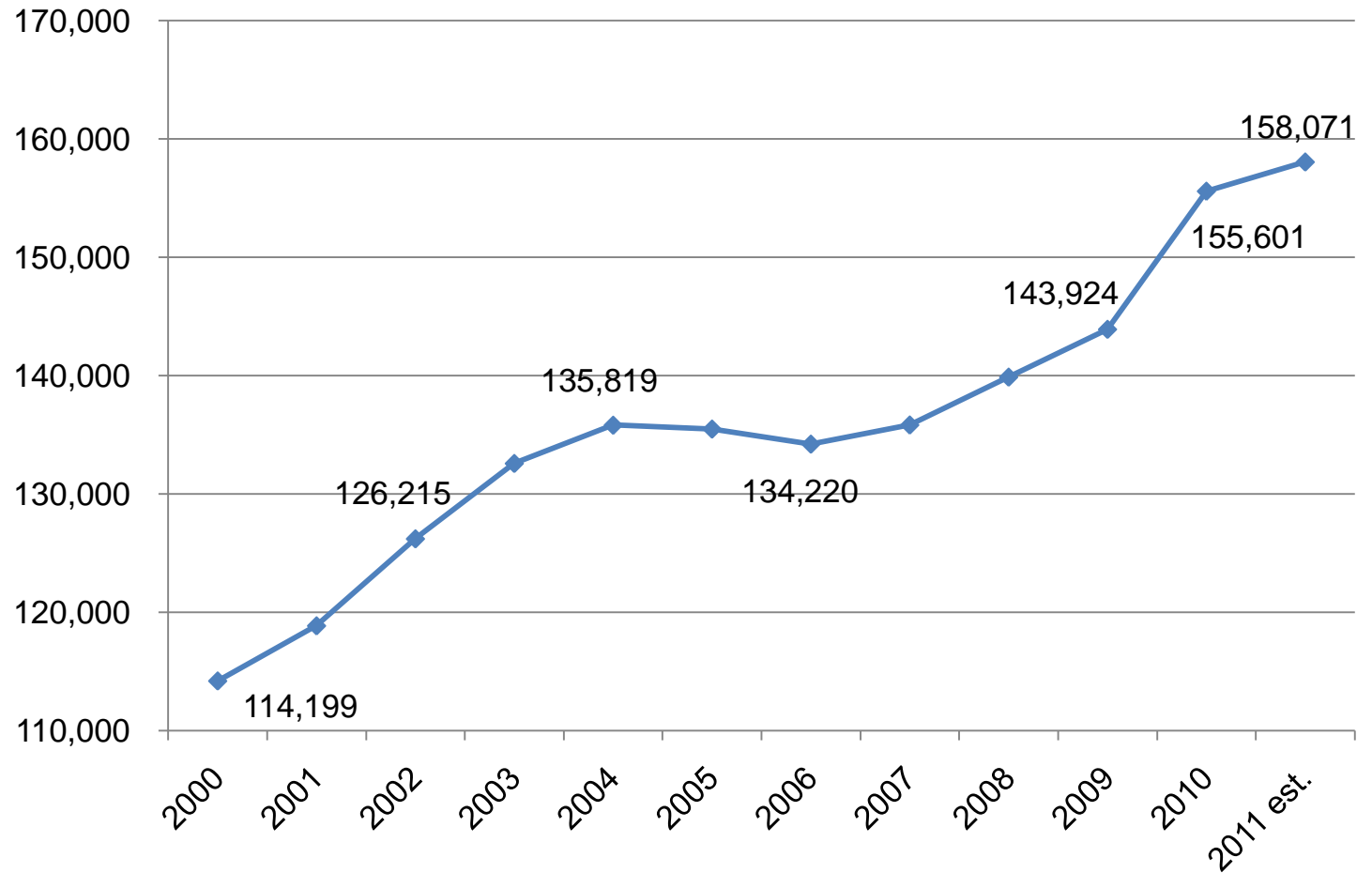
Appropriation support for the Minnesota State Colleges and Universities as percent of total state spending





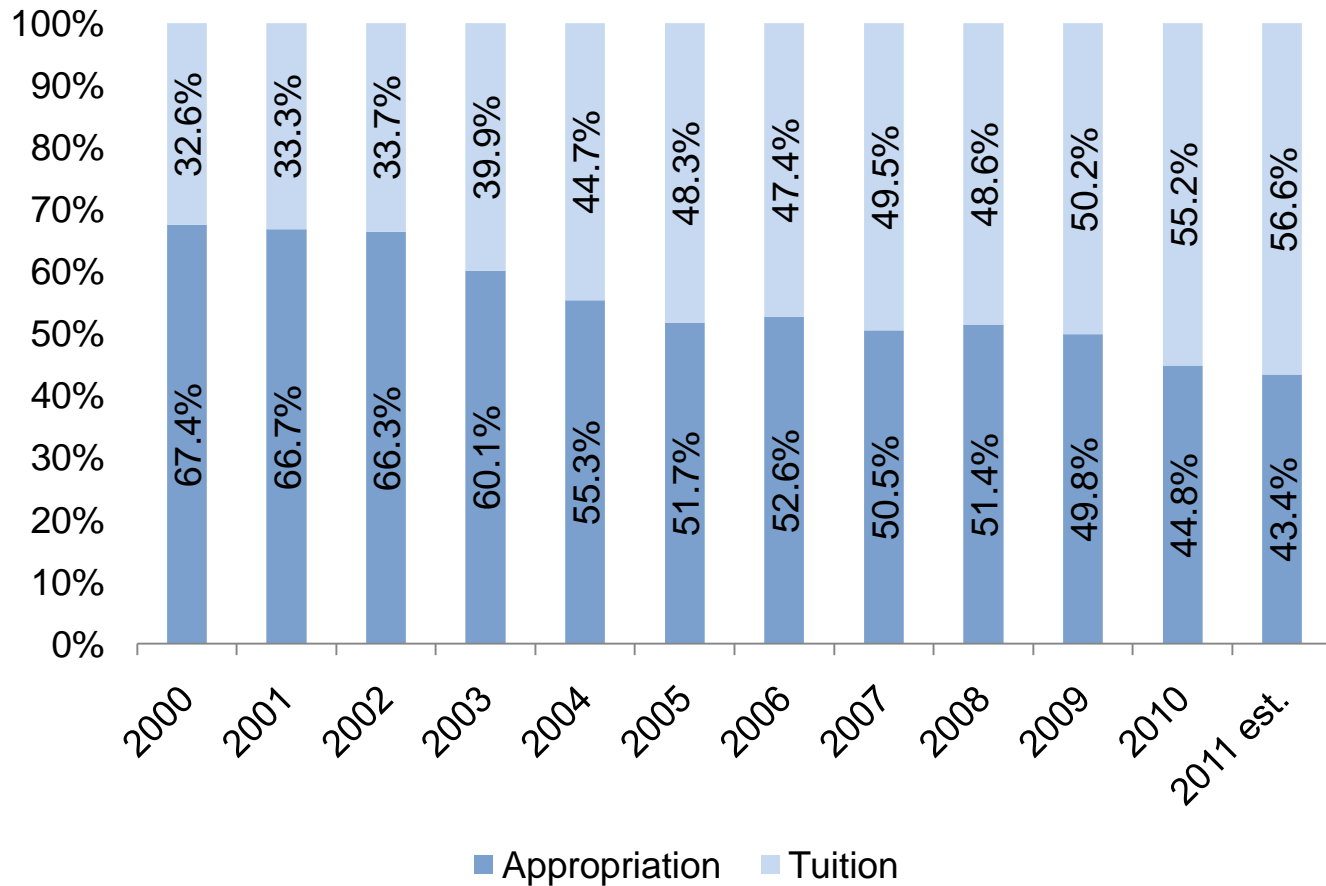
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Enrollment continues to grow



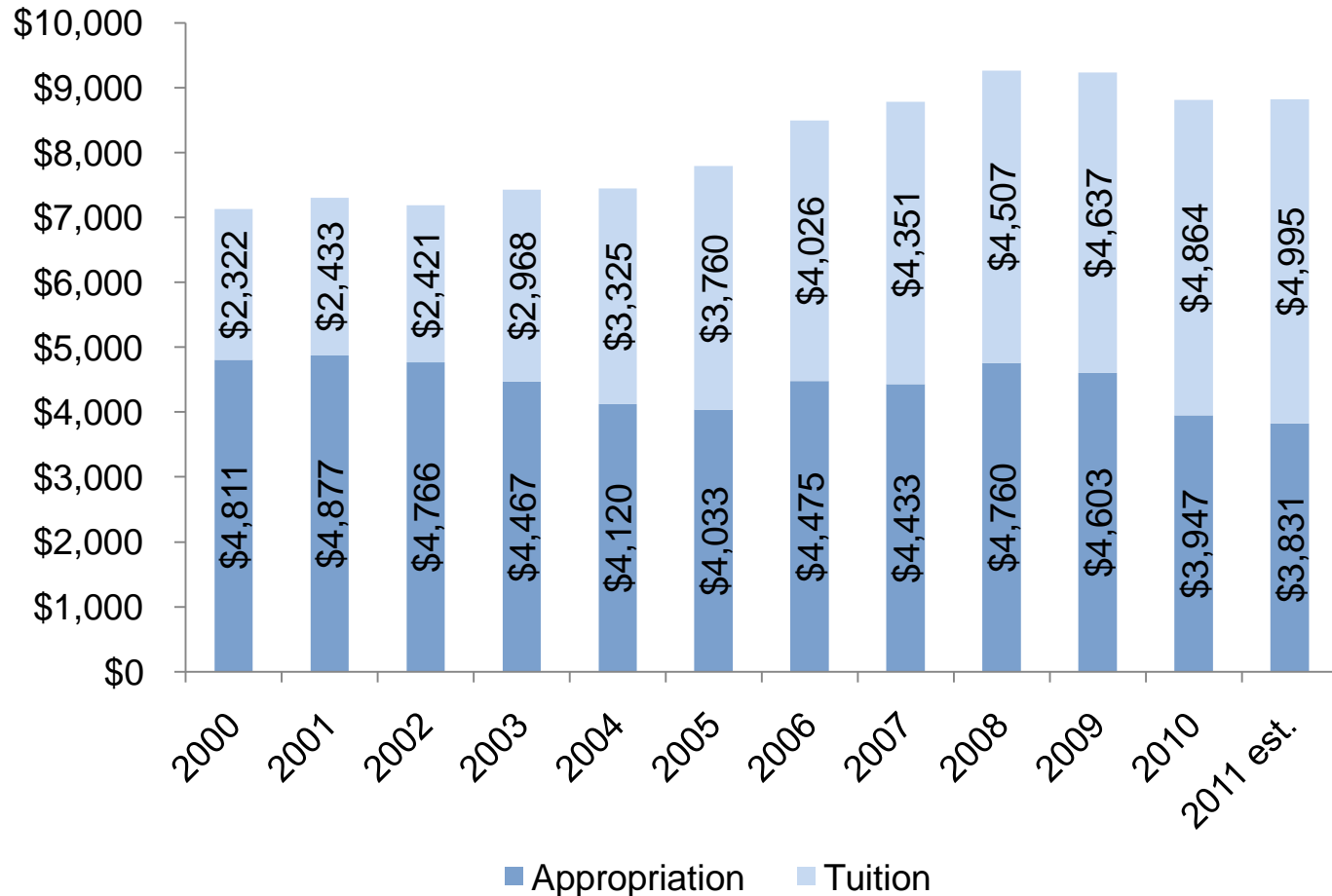


Percent of state appropriation and tuition revenue



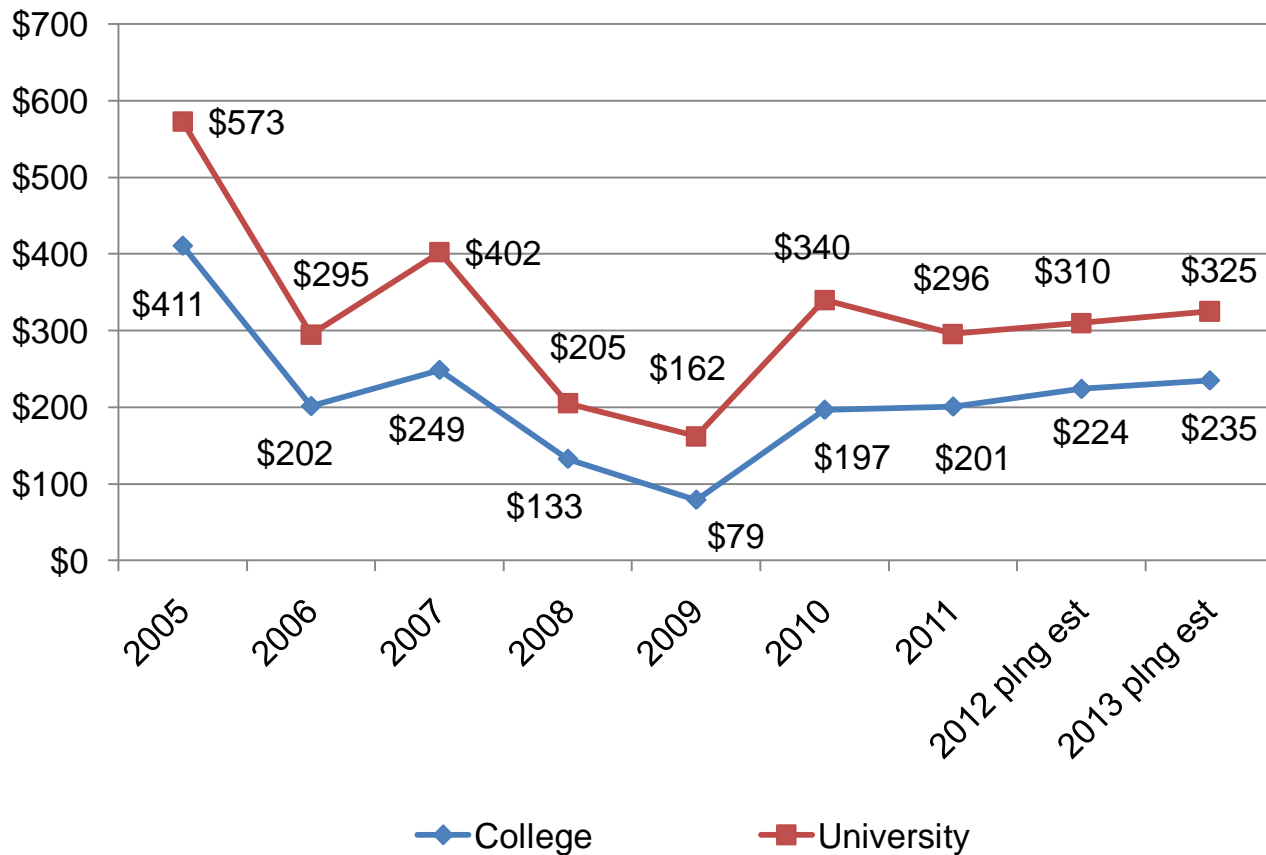


Total state appropriation and tuition revenue per student





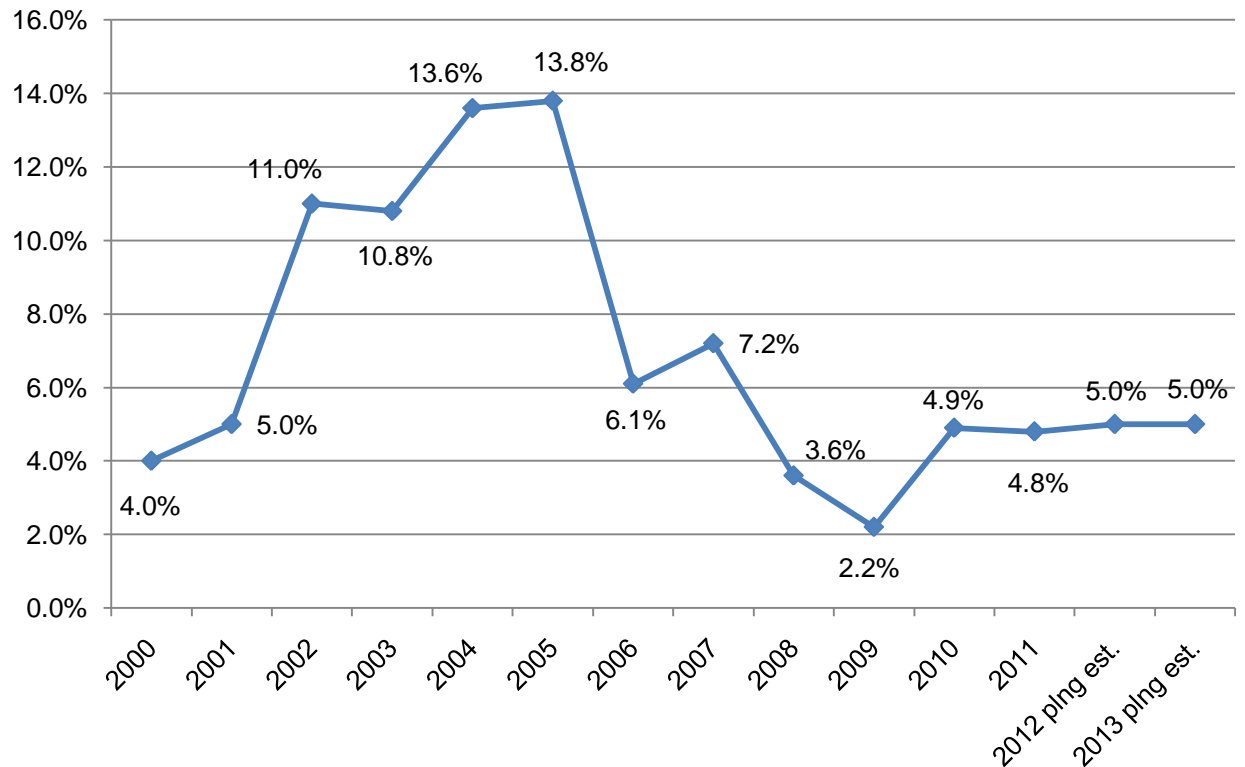
Average annual tuition increase for resident undergraduate full-year equivalent student





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Average annual percentage tuition increase for resident undergraduate student





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Competitive tuition and fees: 2010-2011

Two-Year Colleges

Minnesota State Colleges Average **\$4,902**

| | |
|--|-------------------|
| Aveda Institute | \$9,600-\$18,000 |
| University of Phoenix | \$11,520 |
| Brown College | \$15,921 |
| Dunwoody Institute | \$17,559-\$19,921 |
| Minnesota School of Business/Globe College | \$19,575 |

Four-Year Colleges and Universities

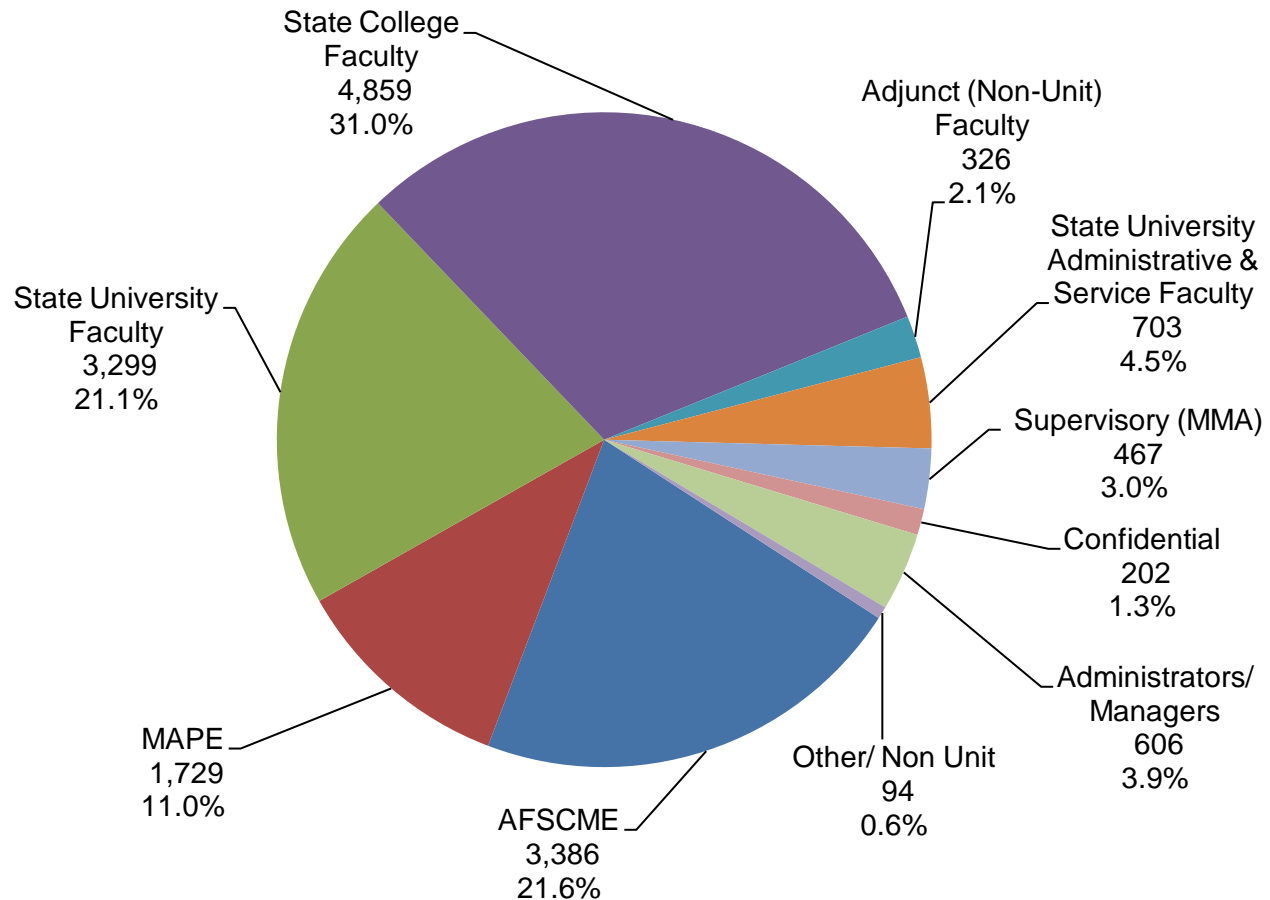
Minnesota State Universities Average **\$6,596**

| | |
|---------------------------------|----------|
| University of Minnesota, Duluth | \$10,763 |
| Concordia College (Moorhead) | \$27,160 |
| Bethel University | \$28,080 |
| College of St. Scholastica | \$28,374 |
| Hamline University | \$30,763 |
| St. John's University | \$31,576 |
| College of St. Benedict | \$32,246 |
| Gustavus Adolphus College | \$33,858 |



Employee full-time equivalent

Total FY2010 Total System FTE = 15,671





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State appropriation resources

| | FY2011 | FY2012 Forecast Base | FY2012 Governor's Budget Rec |
|--|----------------|----------------------------|------------------------------------|
| College/University O & M | \$555.9 | \$580.9 | \$543.8 |
| Office of the Chancellor/Shared Services Division | \$44.7 | \$44.7 | \$44.2 |
| Learning Network | \$4.8 | \$4.8 | \$4.5 |
| Total state resources | \$605.5 | \$630.4 | \$592.5 |



Appropriation reduction: 15 and 20 percent scenarios

| | FY2012 | FY2013 | Biennium |
|----------------------|---------------|---------------|-----------------|
| Forecast base | \$630.4 | \$630.4 | \$1,260.8 |
| 15 percent reduction | \$535.8 | \$535.8 | \$1,071.7 |
| Change from forecast | (\$94.6) | (\$94.6) | (\$189.1) |
| 20 percent reduction | \$504.3 | \$504.3 | \$1,008.6 |
| Change from forecast | (\$126.1) | (\$126.1) | (\$252.2) |



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Budget challenge 2012-2013

| | 15 percent reduction | 20 percent reduction |
|-----------------------------------|-------------------------|-------------------------|
| Transformational initiatives | \$50.0 | \$50.0 |
| Appropriation reduction | \$189.1 | \$252.2 |
| Contractual benefit cost increase | \$49.9 | \$49.9 |
| Budget challenge | \$289.0 | \$352.1 |
| No transformational initiatives | (\$50.0) | (\$50.0) |
| Remaining budget challenge | \$239.0 | \$302.1 |



Office of the Chancellor budget planning

- The 2012-2013 budget planning framework assumed reduction in state support
- Rigorous review of services resulted in a reorganization that:
 - strategically focuses work in support of Board of Trustees' established priorities; and
 - suspended, eliminated and redefined selected services
- Budget reductions totaling \$4.2 million
- Eliminated 41 positions through retirements, resignations, and layoffs



Colleges/universities have taken strong budget actions already

- 27 have announced position reductions; approximately 680 positions to date
- 17 have implemented early retirement programs
- 14 have announced planned closure of 81 programs
- 21 have preliminary 2012 budget plans using fund balance



Impact of 15 and 20 percent appropriation reduction scenarios

Although each method below would be sufficient to cover reduction, it is probable a combination of all or most would be applied.

| Action | 15 percent reduction | 20 percent reduction |
|------------------|----------------------|----------------------|
| Staff FTE | 1,000 | 1,450 |
| Percent of Total | 15.5% | 22.5% |
| Faculty FTE | 880 | 1,280 |
| Percent of Total | 9.9% | 14.4% |
| Course sections | 9,200 | 13,380 |
| Percent of Total | 10.7% | 15.5% |
| Student FYE | 16,150 | 23,480 |
| Percent of Total | 10.7% | 15.5% |



Budget pressures

- Compensation
 - Salary
 - Employer-paid health insurance rate increases
 - Employer-paid retirement rate increases
- Other operating costs
 - Utility rate increases
 - Change in square footage
 - Debt service obligation
 - Facility repair and replacement investment



Colleges and universities strategy

- Revenue growth
 - Tuition increase greatest potential
 - Enrollment growth
 - Outside revenue sources (federal/private operating grants)
- Expense containment
 - Productivity
 - Collaborative sourcing
 - Shared services



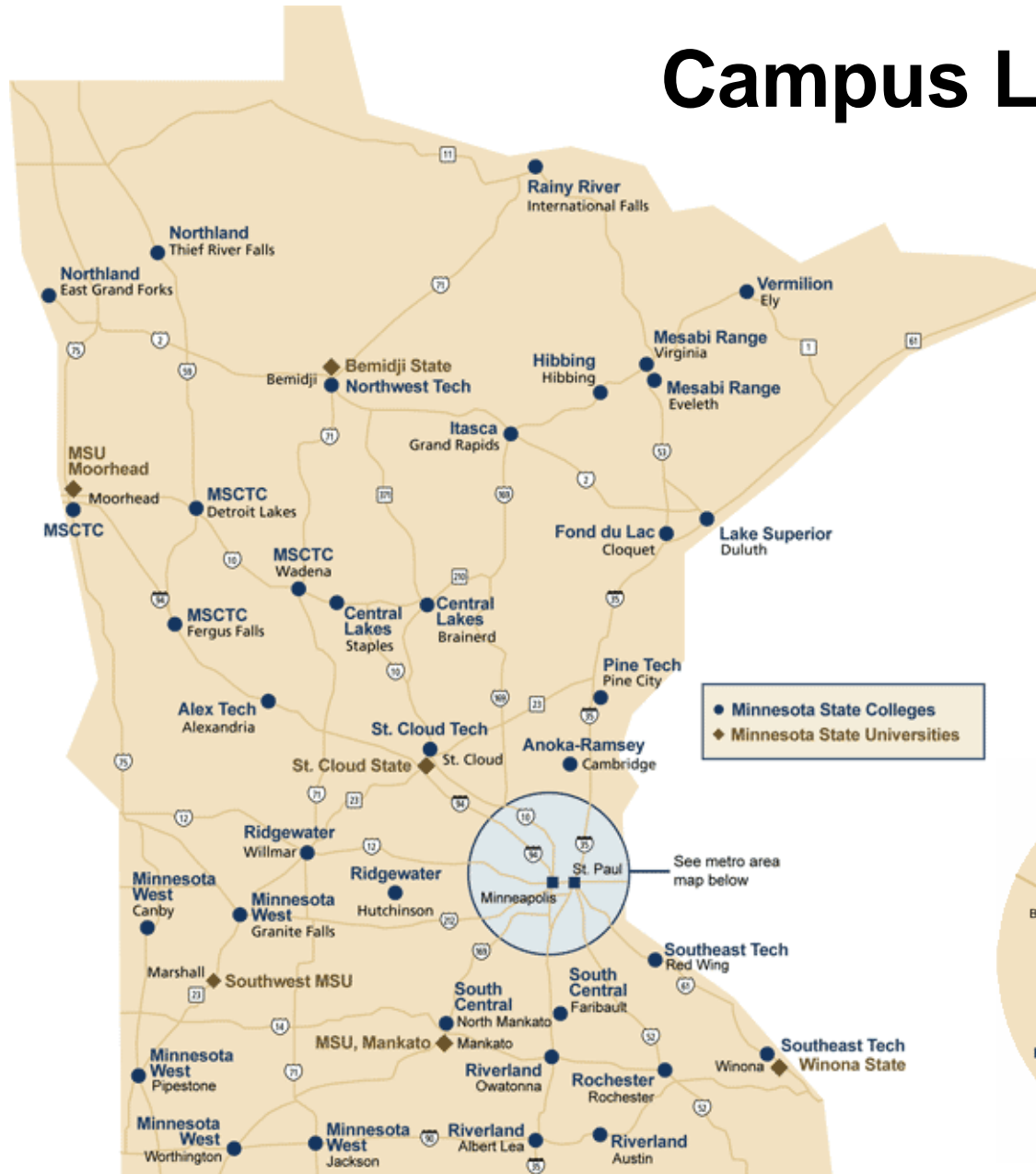
System financial strategies

- Multi-year budget planning with balanced budgets
- Regionally competitive tuition policy
- Development of outside revenue sources
- Allocation of state aid based on efficiencies at the division and program level
- Possible modest tuition increases
- Collective bargaining outcomes

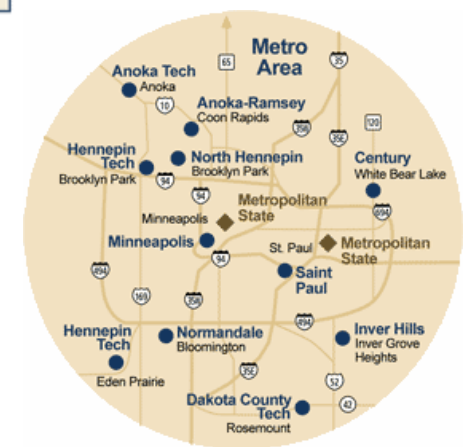


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Campus Locations



● Minnesota State Colleges
◆ Minnesota State Universities



MINNESOTA STATE UNIVERSITY

M A N K A T O



University Budget Planning

February 24, 2011

Dr. Richard Davenport

Rick Straka

Budget Assumptions

- ◆ **Estimated state budget gap of \$5.8 - \$7.0 Billion**
- ◆ **Base reductions at 15% - 22% of appropriation**
- ◆ **Results in spending reductions of \$6M to \$10M at MSU, Mankato**
- ◆ **University challenged to balance budget for FY12**



Budget Process Consultation

- ◆ Monthly meet and confers
- ◆ Special joint meetings of planning, budget and assessment sub-meet and confers
- ◆ “All Staff” e-mail messages and updates
- ◆ Town hall open forums
- ◆ Proposed reduction plans available via Intranet for all MSU faculty, staff and students
- ◆ Online comment portal on MSU budget website



Academic Metrics

- ◆ **Shared Governance Process Used to Develop Academic Metrics**
 1. **Relationship to institutional mission (Mandates)**
 2. **Cost and enrollment (MnSCU instructional cost study)**
 3. **Mission centrality**
 4. **Quality (i.e. accreditation & program review)**
 5. **Job market needs and placement**



FY12-13 Budget Decisions

- ◆ **Utilize data and program metrics for all programs**
- ◆ **Administrative reorganization and downsizing**
- ◆ **Academic program decisions announced**
 - ◆ Appeals heard from each unit
 - ◆ Individual faculty retrenchment notices filed
- ◆ **Non-academic program decisions**
 - ◆ Appeals heard from each unit
 - ◆ Individual staff layoff notices filed



Outcomes of Budget Process

- ◆ **Identified \$5.7M (6%) in instructional reductions**
 - 77.5 Faculty positions
 - 15 Program closures (1 Academic dept. eliminated)
- **Identified \$1.9M (7%) in non-instructional reductions**
 - 28.5 staff positions
 - Reorganizations in Finance and Admin., University Advancement, Extended Learning
 - 5 administrative positions eliminated
 - (In addition to FY10 consolidation of Academic and Student Affairs)
- **Identified 4 varsity sports for elimination**



Budget Impact on Campus

- ◆ **Larger class sizes**
- ◆ **Fewer major program tracks and courses offered**
- ◆ **Fewer sections of courses offered (less flexibility)**
- ◆ **Increased response time to student inquiries – especially during heavy demand periods**
- ◆ **Heavy teaching, advising and/or counseling loads**
- ◆ **Delayed equipment purchases for instruction and classroom technology**
- ◆ **Campus morale**

