

MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES STUDY SESSION MINUTES
SYSTEM FINANCE (Finance 101)
OCTOBER 21, 2014

Board of Trustees Members Present: Chair Thomas Renier, Trustees Margaret Anderson Kelliher, Duane Benson, Kelly Charpentier-Berg, Alexander Cirillo, Jay Cowles, Dawn Erlandson, Philip Krinkie, Maleah Otterson, Elise Ristau, Louise Sundin, Michael Vekich

Leadership Council Representatives Present: Chancellor Steven Rosenstone and Vice Chancellor Laura King

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The Minnesota State Colleges and Universities (MnSCU) Board of Trustees held its meeting on October 21, 2014, 4th Floor, McCormick Room, 30 East 7th Street in St. Paul. Chair Renier called the study session to order at 11:07 a.m. and asked Trustee Vekich to lead the discussion.

Trustee Vekich stated that this presentation is meant to introduce new members to the system finance structure and provide review for returning members. Trustee Vekich turned the discussion to Vice Chancellor King. Vice Chancellor King recognized Deb Bednarz, Denise Kirkeby and Brian Yolitz, who helped put the presentation together.

Vice Chancellor King introduced a detailed presentation contained in the meeting materials. The presentation focused on the board policy and control framework, and overview of operating and capital budget management, and a discussion of the allocation framework for allocation of state funds.

Vice Chancellor King said the board's primary role is to set fiscal policy and carry out responsibilities defined in state statute, law or board policy. In general, the board's attention should be focused on the "big picture" and the future, while ensuring that proper policies, procedures and systems are place to ensure fiscal integrity. The board, by action, delegates certain decisions and responsibilities to the chancellor, who keeps the board apprised of financial issues as necessary. In turn, the chancellor delegates to the campus presidents, who are responsible for administrative, financial, and budget management. Board policy requires the system office to report to the board on the financial wellbeing of the system and each college and university. The system office oversees the financial health of the system and its institutions through monitoring, reporting and certification requirements.

Vice Chancellor King reported that the control environment of the system is very layered. The board, the chancellor, and the presidents all have oversight and monitoring methods. MnSCU depends on three primary operating revenue sources – state appropriation, tuition, and federal and state grants.

Factors influencing revenues include the state economic outlook, public support for higher education, tuition rates, enrollment and federal and state financial aid. State support has been declining, but it is still very important to access and affordability. The financial aid funding is sensitive to unemployment rates.

Vice Chancellor King said MnSCU has remained committed to affordability for many years. In terms of tuition and fees as a percent of median family income, the state college percent has been essentially flat from 2011 – 2014, and increased less than one percent since 2005. The state university has increased less than one percent since 2009. In addition, financial aid lowers the household contribution for a considerable portion of MnSCU students.

In FY2015, estimated net student tuition cost for very low income students and families is very affordable after state and Pell grants are applied. For students receiving a state grant, the average annual cost of tuition for a full-time student is \$1,247 at a state college and \$2,022 dollars at a state university. Even for students receiving no financial grant aid, the average annual cost of tuition at a state college is \$4,816 and at a state university is \$6,782. Chancellor Rosenstone added that tuition would be even lower if scholarships were applied.

MnSCU has been exercising revenue and expense controls. Per FYE costs are down 8 percent since FY2002. Institutional support spending, which includes executive, Human resources, Finance, IT spending, and similar non classroom costs, receives close attention.

Another measure is the cost of the system office as a measure of total system revenues. This cost has been driven steadily downward over the past ten years and currently sits at 2.3 percent of revenue. Like the campuses, there is constant pressure on this number as service demands and campus assistance push for growth.

Vice Chancellor King noted that the system ranks 38th out of 51 in institutional spending per FYI and is 15 percent below the national average. While predicting the future economic performance of the state is difficult, Minnesota's budget and economic outlook has improved significantly over the past few years: Minnesota's employment picture is considerably better than the nation as a whole (4.5 percent compared to 6.2 percent nationwide), the state budget is structurally balanced, and state reserve accounts have been restored and K-12 shifts repaid. But, recent economic updates have shown some signs of concern for the state's budget outlook. Minnesota's Budget and Economic Forecast will be updated in November, resulting in a much better understanding of the state's budget outlook at that time.

Investment requirements for quality academic and student support are pressured by the affordability commitment, enrollment growth strategies, continued increases in state investments, capital investments (which compete for operating funds), and the focus on financial sustainability by the board and accreditation agencies.

The Composite Financial Index (CFI) is used to measure of each college and university's balance sheet and income statement condition and performance based upon full accrual financial statements. The target ratio is in the range of 3.0, allowing for some considerable complexity in the underlying calculations.

The CFI is influenced by net operating income and capital spending. The results can be volatile, therefore, calculations are made every two years and there continues to be variability between campuses.

The State of Minnesota has invested only seven percent of its general fund to higher education. Of that, MnSCU received 43 percent, the University of Minnesota (41percent), and the Office of Higher Education (16 percent). This distribution has been relatively constant for many years. In 2015, \$618 million was allocated to the board by the legislature.

The state support allocation model was developed in 2000 – 2001 and fully implemented in 2006. The purpose was to find a single model that equitably recognized the diversity of MnSCU students' needs and supported the unique educational goals of each institution. The model was built based on enrollment, cost of instruction, national benchmark data, and institutional data, rewarding cost efficient instruction at the campus level. The allocation formula was developed by workgroups and approved by the board. The framework can only distribute what the state provides, and that has declined over \$100 million since the model was first approved.

Efforts have been made in the past five years to move as much of the state support from special initiatives and into the base allocation because the base allocation is the most flexible funds distributed through the model. The framework is now under the study of the Charting the Future implementation team. In addition, the Technical Advisory Group, made up of employees throughout the system, studies elements and dynamics where concerns have emerged.

Capital investments come from three sources: Campus resources which comes from the operating budget or gifts; General obligation bonds sold by the state to finance new construction, renovation or demolition to improve learning; Revenue bonds sold by the board to finance revenue producing facilities such as dormitories, dining halls and student unions.

Vice Chancellor King added that there needs to be substantial regular investments to maintain the system's facilities and the goal has been to decrease project backlog by 50 percent.

Trustee Vekich thanked Vice Chancellor King for the presentation and adjourned the meeting at 12:03 p.m.

Respectfully submitted,
Laury Anderson, Recorder