October 26, 2016

FY2018-FY2019 Operating Budget and 2017 Capital Bonding Proposals

Minnesota Management and Budget

Minnesota State
Outline

1. Serving Minnesota
2. The financial challenges facing Minnesota State colleges and universities threatens our ability to serve students and Minnesota
3. What’s at stake for the State of Minnesota
4. Our request
1. Serving Minnesota

**396,000 Students**
- 260,000 in credit classes
- 136,000 in non-credit programs
- 58% in greater Minnesota
- 133,000 from underrepresented groups
- 50,000 first generation students
- 10,500 veterans

**37 Colleges and Universities with 54 Campuses**
- 7 universities
- 30 colleges

**47 Communities across the State**
- From International Falls to Worthington
- Enrollment ranges from 445 to 32,131
Our core value

Provide an opportunity for all Minnesotans to create a better future for themselves, for their families, and for their communities

Our core commitments

Minnesota State colleges and universities play an essential role in growing Minnesota’s economy and opening the doors of educational opportunity to all Minnesotans. To that end, we:

• Ensure access to an extraordinary education for all Minnesotans
• Are the partner of choice to meet Minnesota’s workforce and community needs
• Deliver to students, employers, communities and taxpayers the highest value/most affordable higher education option
Our colleges and universities serve:

- 62,000 students of color
- 50,000 first-generation college students
- 92,000 low-income students
- 95,000 students 25 years or older
- 10,500 veterans

In each of these categories, our colleges and universities serve more students than all of Minnesota’s other higher education options combined.
Minnesota State: The most affordable higher education option

- Minnesota State
- Private colleges and universities; University of Minnesota

Source: Minnesota State System Office Research, June 2016
We deliver the talent Minnesota needs

Each year, Minnesota State colleges and universities produce more than 40,000 graduates:

- 9 out of 10 of Minnesota’s mechanics
- 9 out of 10 in manufacturing
- 8 out of 10 in law enforcement
- 7 out of 10 in trades
- 7 out of 10 in agriculture
- 4 out of 10 business graduates
- 3 out of 4 nurses
- 1/2 of all teachers
- 1/2 of those in information technology
2. The financial challenges facing Minnesota State colleges and universities threaten our ability to serve students and Minnesota
Minnesota’s funding of higher education has plummeted and significantly trails the U.S. average.

Source: SHEEO (2015). SHEF FY 15. Estimates have been adjusted for inflation.
The drop in Minnesota’s funding of higher education has had significant impacts

- Minnesota spends **25% less than** the national average on its thirty community and technical colleges
- Minnesota spends **24% less than** the national average on its seven state universities
The long-term reductions in state support have caused more dependency on tuition revenue.
State appropriation revenue (in millions)

- 2002: $606 million
- 2003: $597.1 million
- 2004: $564.4 million
- 2005: $551.2 million
- 2006: $607.0 million
- 2007: $607.0 million
- 2008: $670.7 million
- 2009: $667.2 million
- 2010: $574.6 million
- 2011: $565.9 million
- 2012: $545.4 million
- 2013: $545.8 million
- 2014: $587.9 million
- 2015: $622.1 million
- 2016: $672.9 million
- 2017: $673.5 million

Bar graph showing the state appropriation revenue from 2002 to 2017.
Financial pressures threaten the ability of our campuses to serve students

Revenue

• Between FY2008 and FY2017, state appropriation and tuition revenue combined increased an average of 1.17% per year. (State appropriation increased an average of 0.12% per year; tuition increased an average of 2.26% per year.)

Expenses

• MMB negotiates fully 1/3 of our compensation costs and its results strongly influence the other 2/3 of our costs.

• Our college, university, and system office administrative spending is among the lowest in the country: the system ranks 35th out of 50 states and DC in administrative spending per student FYE – 15% below the national average and below similar systems in all contiguous states (IA, WI, ND, SD).

• The total number of employees, system-wide, has declined by 10.6%; only 3.1% (525) of the system-wide employees are administrators, down 9% since 2009.

• The system office base budget has dropped from $43.5 million in FY2009 to $33.1 million in FY2016 (from 3.0% of the system-wide budget to 2.1%).
Significant shortfalls are expected in the future (case A)
Significant shortfalls are expected in the future (case B)

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<tbody>
<tr>
<td>Case B Revenue</td>
<td>$1,900,000,000</td>
<td>$2,000,000,000</td>
<td>$2,100,000,000</td>
<td>$2,200,000,000</td>
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<td>$2,700,000,000</td>
<td>$2,800,000,000</td>
<td>$2,900,000,000</td>
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$475 Million Shortfall
3. What’s at stake for the State of Minnesota?
What’s at stake? Our ability to deliver the talent Minnesota needs

By the year 2020, 74% of the jobs in Minnesota will require some post-secondary education.

Minnesota’s labor force growth is projected to slow

Source: Minnesota State Demographic Center
Presentation to Association of Minnesota Counties by Susan Brower, Minnesota State Demographer, January 2015
The dip in population growth coupled with an aging population and an increasing demand for a highly educated workforce will produce a shortage of people with postsecondary credentials in the State of Minnesota.
What’s at stake? Minnesota’s ability to reduce disparities

Our colleges and universities serve:

• 62,000 students of color
• 50,000 first-generation college students
• 92,000 low-income students
• 10,500 veterans

In each of these categories, our colleges and universities serve more students than all of Minnesota’s other higher education options combined.
Minnesota by race, ethnicity, and age


Presentation to Emerging Workforce Coalition by Susan Brower, Minnesota State Demographer, February 2015.
Minnesotans will be increasingly diverse over the years ahead

Over the next 25 years:

• 70% of the state’s population growth will be among people of color
• 100% of the Twin Cities metro’s population growth will be among people of color
4. Our request

• Serves our students, communities, and the state of Minnesota
  – Reduces Minnesota’s economic and racial disparities
  – Helps meet Minnesota’s critical need for talent
  – Improves student success (particularly for underserved students)
  – Protects access and affordability
  – Ensures essential enterprise-wide technology infrastructure is in place
  – Funds inflationary costs

• Supports the financial health of our campuses
Total FY2018-FY2019 incremental needs

- Campus support
- ISRS Next Generation
- Student grants to reduce disparities

= Total FY18-FY19 needs
The proposal requests $178 million in new funding over the biennium

A. $143 million to keep our tuition affordable by funding inflationary costs at three percent each year of the biennium to protect campuses

B. $25 million to support ISRS Next Gen, a mission-critical, multi-year technology infrastructure project to replace our out-of-date enterprise technology system and substantially improve the student experience

C. $10 million in targeted financial support to help our students advance and succeed, especially diverse student groups

*Full funding will enable the Board to hold undergraduate tuition flat in FY2018 and FY2019*
A. $143 million is needed to cover the incremental inflationary costs over the biennium to support our campuses.

3% compensation increases (salary, steps and fringe) = $107 million
3% inflationary increases in operating costs = $ 36 million
Total required = $143 million
B. ISRS Next Generation is a critical system investment that must be made

- Replaces the system’s outdated 20-year old ISRS data system that is reaching its technological end of life
- Plays a critical role in the success of our students – from applicant to graduate and nearly every process in between
- Serves as the cornerstone data system for our enterprise and requires high security
- Touches everyone and nearly every activity: application, registration, course schedule, housing, financial aid, transcripts, system finance, accounting, and HR
B. Funding partnership for ISRS Next Gen

- 50/50 cost sharing between the state and Minnesota State
- State funding to support base cost increases and small portion of one time costs ($12.5M/year starting in FY2018)
- Minnesota State would commit to support the balance of the one time costs of the project (estimated at $12.5M/year for six years starting in FY2019)
C. Proposed student grant initiative aimed at reducing disparities

$10 million in ongoing state support beginning in FY2019 to reduce outcome disparities and improve student success

• Provide one-time $500 incentive grant to students making satisfactory academic progress but identified as at-risk for dropping out

• Provide one-time $500 scholarship incentives for college students who complete a two-year transfer pathway degree and enroll in the related bachelor’s degree program at one of our universities
FY2018-FY2019 legislative operating budget request totals $178 million in new money

$s in millions

<table>
<thead>
<tr>
<th>Change Item</th>
<th>FY2018</th>
<th>FY2019</th>
<th>FY2018-19</th>
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<tr>
<td>ISRS Next Generation</td>
<td>$12.5</td>
<td>$12.5</td>
<td>$25.0</td>
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<td>Student Grants to Reduce Disparities</td>
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<td>$10.0</td>
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<td><strong>Total Request</strong></td>
<td>$60.1</td>
<td>$117.9</td>
<td>$178.0</td>
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FY2019 appropriation continues as base funding into the future
2017 capital bonding priorities

• No bonding bill approved in 2016 legislative session
  – System’s 2016 request of $254.5 million remains unfunded
• Governor has indicated support for 2017 bonding
• Request: $270.8 million total program
  – $219.4 million state / $51.4M system financing
Proposed sources of incremental funds for FY2018-FY2019

- State support: $178M
- Tuition rate increases: $0
- Our contribution to Next Gen: $75M

Total FY18-FY19 resources: $253M
Request has three important goals

• Protect programs and campuses so we can meet the workforce needs in communities across Minnesota

• Reduce economic and racial disparities by protecting affordability, access and advancing student success

• Provide the faculty, staff, and IT infrastructure needed to deliver these programs
Public Associates Colleges - State and Local Appropriations per FTE Student during 2013-14

Public Master’s Universities - State and Local Appropriations per FTE Student during 2013-14

Public Research Universities:
State and Local Appropriations per FTE Student during 2013-14

<table>
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<tr>
<th>State</th>
<th>Appropriations per FTE Student</th>
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<tbody>
<tr>
<td>Illinois</td>
<td>$6,942</td>
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<tr>
<td>Indiana</td>
<td>$6,761</td>
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<td>Iowa</td>
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<td>Kansas</td>
<td>$8,331</td>
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<td>Michigan</td>
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<td>Minnesota</td>
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<td>Missouri</td>
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<td>Nebraska</td>
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<td>North Dakota</td>
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<td>Ohio</td>
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<td>South Dakota</td>
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<td>Wisconsin</td>
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<td>U.S.</td>
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# ISRS Next Gen Estimated Project Costs

## $150M Breakdown

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<tr>
<th>Category</th>
<th>FY18</th>
<th>FY19</th>
<th>FY20</th>
<th>FY21</th>
<th>FY22</th>
<th>FY23</th>
<th>Total</th>
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<td>FTE (cost based on rate) (Doesn’t include ITS existing staff)</td>
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<td>New (Software or Hardware)</td>
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<td>Total</td>
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<td>$22,964</td>
<td>$28,564</td>
<td>$33,014</td>
<td>$41,514</td>
<td>$19,014</td>
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## ISRS Next Gen Estimated Project Costs

### $150M Breakdown

<table>
<thead>
<tr>
<th></th>
<th>FY 2018</th>
<th>FY 2019</th>
<th>FY 2020</th>
<th>FY 2021</th>
<th>FY 2022</th>
<th>FY 2023</th>
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<td>1,250,000</td>
<td>10,550,000</td>
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<tr>
<td><strong>Sub-total</strong></td>
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<td>18,400,000</td>
<td>21,000,000</td>
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<td>33,000,000</td>
<td>13,250,000</td>
<td>111,550,000</td>
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<tr>
<td><strong>Internal costs</strong></td>
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<td>Software integration</td>
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<td>950,000</td>
<td>950,000</td>
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<td>7,564,000</td>
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<td>31,250,000</td>
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<tr>
<td><strong>Sub-total</strong></td>
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<td>4,564,000</td>
<td>7,564,000</td>
<td>9,014,000</td>
<td>8,514,000</td>
<td>5,764,000</td>
<td>38,450,000</td>
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<tr>
<td><strong>Total</strong></td>
<td>4,930,000</td>
<td>22,964,000</td>
<td>28,564,000</td>
<td>33,014,000</td>
<td>41,514,000</td>
<td>19,014,000</td>
<td>150,000,000</td>
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A High Level Roadmap

APPENDIX 1: Minnesota State NextGen ERP Implementation Project Timeline [DRAFT]