

PAGE

HIGHER ED FACILITIES AUTHORITY
HIGHER EDUCATION SVCS OFFICES
MAYO FOUNDATION
STATE COLLEGES & UNIVERSITIES
UNIVERSITY OF MINNESOTA

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Governor’s Recommendations:

FY 2004-05 Expenditures (\$000s)			
	General Fund	Other Funds	Total
2003 Funding Level (Biennial Base)	314,922	303,751	618,673
Legislatively Mandated Base	1,800	0	1,800
One-Time Appropriations	(234)	0	(234)
Adjusted Base Funding	316,488	303,751	620,239
Change Items			
Increase to Grant Program	60,000	0	60,000
Operating Reduction	(5,000)	0	(5,000)
Governor’s Recommendations	371,488	303,751	675,239
Biennial Change 2002-03 to 2004-05	56,770	45,404	102,174
Percent Change	18%	18%	25%

The Governor also concurs with Higher Education Services Office's (HESO's) request for a revenue increase of \$34,000 in FY 2004 and \$34,000 in FY 2005 for an increase in the fees charged to private institutions for licensing.

Brief Explanation of Budget Decisions:

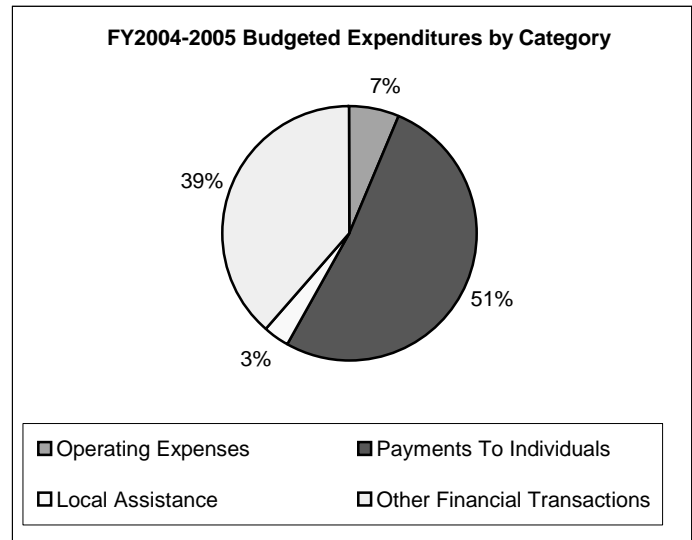
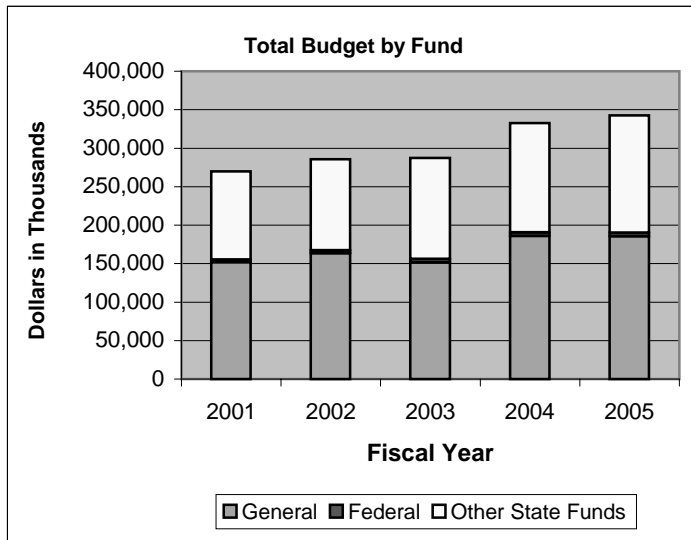
In FY 2004-05, the (HESO) received an increase of \$1.8 million to reflect a legislatively-mandated base for the College Savings Plan and a reduction of \$234,000 to reflect the sunset of the appropriation for the State Grant re-write.

Agency Request:

The Governor has submitted the Higher Education Services Council’s request to the Legislature. A narrative summary of the agency’s request is included after the transmittal letter in this document. Additional detail on HESO’s change items may be found on the Department of Finance’s budget website at <http://www.budget.state.mn.us/>. The following table summarizes the agency’s request:

FY 2004-05 Expenditures (\$000s)			
	General Fund	Other Funds	Total
2003 Funding Level (Biennial Base)	314,922	303,751	618,673
Legislatively Mandated Base	1,800	0	1,800
One-Time Appropriations	(234)	0	(234)
Adjusted Base Funding	316,488	303,751	620,239
Agency Change Items			
Student Financial Aid Services			
Increased Number of Recipients	54,340	0	54,340
Tuition & Fees	33,900	0	33,900
Living & Miscellaneous Expense	5,400	0	5,400
Tuition & Fees Maximums	2,700	0	2,700
Child Care Grants	105	0	105
Agency/Loan Administration			
State Grant Rewrite	300	0	300
Inflation	340	0	340
FY 2004-05 Total Agency Request	413,573	303,751	717,324
Biennial Change 2002-03 to 2004-05	98,855	45,404	144,259
Percent Change	31%	18%	25%

HESO also requests a revenue increase of \$34,000 in FY 2004 and \$34,000 in FY 2005 for an increase in the fees for licensing private institutions.



<i>Dollars in Thousands</i>	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Expenditures by Fund						
Carry Forward						
General	0	0	0	1,060	424	1,484
Direct Appropriations						
General	151,842	163,251	151,467	185,002	185,002	370,004
Statutory Appropriations						
Special Revenue	166	228	228	330	335	665
Federal	3,453	3,909	4,397	4,397	4,397	8,794
Miscellaneous Agency	3,445	3,516	3,673	3,673	3,673	7,346
Higher Education Svcs Office	111,028	114,800	127,596	138,213	148,733	286,946
Total	269,934	285,704	287,361	332,675	342,564	675,239

Expenditures by Category	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Operating Expenses	19,052	19,373	25,231	21,998	21,913	43,911
Payments To Individuals	138,185	146,131	135,216	174,121	174,095	348,216
Local Assistance	11,460	15,950	11,624	11,166	11,166	22,332
Other Financial Transactions	101,237	104,250	115,290	125,390	135,390	260,780
Total	269,934	285,704	287,361	332,675	342,564	675,239

Expenditures by Program	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Student Financial Aid Services	141,532	150,625	138,744	177,329	177,303	354,632
State Student Loans	110,046	113,827	126,342	136,942	147,442	284,384
Research & Program Services	1,573	1,572	1,980	1,822	1,824	3,646
Libraries And Technology	14,567	17,612	17,717	14,193	13,583	27,776
Agency/Loan Administration	2,216	2,068	2,578	2,389	2,412	4,801
Total	269,934	285,704	287,361	332,675	342,564	675,239

HIGHER EDUCATION SVCS OFFICE

Fiscal Report

<i>Dollars in Thousands</i>						
	Actual	Actual	Preliminary	Governor's Rec		Biennium
Revenue by Type and Fund	FY2001	FY2002	FY2003	FY2004	FY2005	2004-05
Non Dedicated						
General	170	660	50	51	50	101
Subtotal Non Dedicated	170	660	50	51	50	101
Dedicated						
General	67	189	0	0	0	0
Special Revenue	217	294	224	316	316	632
Federal	3,456	3,905	4,397	4,397	4,397	8,794
Miscellaneous Agency	3,445	3,516	3,673	3,673	3,673	7,346
Higher Education Svcs Office	110,376	126,875	118,221	139,513	150,033	289,546
Subtotal Dedicated	117,561	134,779	126,515	147,899	158,419	306,318
Total Revenue	117,731	135,439	126,565	147,950	158,469	306,419
Full-Time Equivalentents (FTE)	85.4	86.3	103.7	99.5	99.5	

HIGHER EDUCATION SVCS OFFICE

Change Item: INCREASE TO STATE GRANT PROGRAM

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	\$30,000	\$30,000	\$30,000	\$30,000
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$30,000	\$30,000	\$30,000	\$30,000

Recommendation

The Governor recommends \$150.575 million in FY 2004 and \$150.575 million in FY 2005 for the State Grant Program, a 23% increase over FY 2002-03 levels. This funding level is expected to provide grants for the current level of enrollment. The Child Care Program would be funded with a separate appropriation of \$4.743 million in FY 2004 and \$4.743 million in FY 2005.

The Governor is committed to maintaining a strong post-secondary education system in the state of Minnesota. He believes that moving funds into state grants helps accomplish this by providing resources directly to students, enabling them to decide where to pursue their education and encouraging a vibrant and competitive higher education infrastructure. This recommendation emphasizes the importance of providing the resources to students for financing post-secondary education.

The Governor also recommends language that would clarify eligibility for state grants and provide additional direction to the Higher Education Services Office with respect to the proration of state grant awards.

Background

The Governor's recommended changes to the State Grant Program proration language will include prioritizing available funding for core purposes before funding supplemental programs such as Work Study and Child Care.

During FY 2002, approximately \$126 million was spent to make full State Grant awards to low- and moderate-income Minnesota undergraduate students. This amount exceeded the initial \$108.8 million appropriated for grants. Several variables affected FY 2002 spending: higher actual tuition and fees than assumed in the initial appropriation, a five percent increase in enrollment over FY 2001, an increase in the number of students applying for and receiving State Grants, and an increase in State Grant recipients registering for full-time credit loads. The Higher Education Services Office (HESO) was able to make full awards with additional appropriations provided by the 2002 Legislature, by using its authority to borrow from FY 2003, and transferring unencumbered balances among several program accounts to the State Grant account.

Based on the increased demand in FY 2002, continued double-digit tuition and fee increases in FY 2003, and the uncertain effect of the economy on family incomes of State Grant applicants, HESO projected a FY 2003 State Grant shortfall of \$16 million, and transferred \$12.4 million in State Work Study funds and \$3.6 million in Child Care Grant funds to the State Grant account.

Relationship to Base Budget

The proposed State Grant adjustment represents an increase of 18 percent over FY 2002-03 funding levels, and an additional \$30 million per year over the FY 2004-05 base.

Statutory Change: Minnesota Statutes, 136A.121

HIGHER EDUCATION SVCS OFFICE

Change Item: OPERATING REDUCTION

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	-2,500	-2,500	-2,500	-2,500
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	-2,500	-2,500	-2,500	-2,500

Recommendation

The Governor recommends \$35.487 million in FY 2004 and \$34.851 million in 2005 for the Higher Education Services Office's (HESO) non-state grant programs, which includes \$1.484 million of carry forward for the biennium. None of the reductions are made to the core State Grant Program. However, these reductions eliminate funding for the summer scholarship and Advanced Placement/International Baccalaureate programs within the State Grant Program.

Background

This recommendation is intended to focus the responsibilities of HESO on its core mission of providing access and choice to Minnesota students through the State Grant Program. The Governor expects HESO to continue working on improving its State Grant forecast to ensure that reliable information is available to meet funding expectations.

The Governor will propose separate legislation to merge the functions of the Higher Education Services Council with the Higher Education Advisory Council, which would serve as an advisory committee to the Governor. The Governor will also recommend making the director of the HESO a gubernatorial appointee. This proposal will clarify HESO's role as a state agency and will provide additional accountability for the activities of the office.

As part of this proposal, specific recommendations are being made to the appropriations HESO receives. The Governor recommends the following appropriations for FY 2004-05.

- ◆ \$5.7 million for the agency's administrative budget, a 15 percent reduction from FY 2002-03 levels;
- ◆ \$7.2 million for tuition reciprocity, a 66 percent increase over FY 2002-03 levels;
- ◆ \$9 million for MINITEX, a 17.5 percent reduction from FY 2002-03 levels, which is a 6 percent reduction from FY 2004-05 base funding;
- ◆ \$9.7 million for Learning Network grants, an 11 percent reduction from FY 2002-03 levels;
- ◆ \$2.2 million for the College Savings Plan, a 186 percent increase over FY 2002-03 levels; and
- ◆ \$36 million in base funding levels for Child Care (\$9M in FY 04-05), Work Study (\$25 million in 04-05), and MnLink (\$2 million in 04-05, including carry forward).

The Governor also recommends an end date of June 30, 2005, on the MnLink appropriation in order to ensure that the project is finished by that time.

Relationship to Base Budget

The total recommendation is a 21 percent increase from FY 2002-03 levels, and a \$5 million reduction from the FY 2004-05 base.

Statutory Changes: Minnesota Statutes, sections 124D.95, 136A.011, 136A.031, 136A.121, and 136A.124.

HIGHER EDUCATION SVCS OFFICE

Change Item: PRIVATE POST SECONDARY INSTITUTION REGIS

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Other Fund				
Expenditures	34	34	34	34
Revenues	34	34	34	34
Net Fiscal Impact	0	0	0	0

Recommendation

The Governor concurs with the Higher Education Services Office's (HESO) recommendation to increase initial registration fees to \$1100 and annual renewal fees to \$950 in order to recover costs of this function.

Background

The Private Institutions Registration Program provides consumer protection services for students and prospective students. It requires that most private and non-Minnesota public post-secondary institutions which are non-profit, or grant degrees, or use the term "academy," "college," "institute," or "university," in their names to register. HESO approves degrees awarded and terminology in the institutions' names.

Registration requires an annual submission of materials and a fee (\$550 for initial registration, \$400 for annual renewal). Approval to use one of the regulated terms in an institution's name includes a review of financial audits, promotional material and policies, curriculum, faculty, and facilities. In addition to items listed above, approval of degrees requires an in-depth assessment of the institution's capacity to meet generally accepted standards for the specific degree and, if necessary, an evaluation by a consultant from outside Minnesota. As needed, HESO investigates complaints about whether an institution continues to meet the standards for approval.

After reviewing the current level of effort for this activity, HESO has determined fees should be increased in order to generate sufficient revenue to cover costs of the activity. Beginning in FY 2004, HESO recommends that fees for renewal registrations be increased to \$950 (currently \$400) and fees for new registrations be increased to \$1,100 (currently \$550).

Relationship to Base Budget

The FY 2003 base budget for this activity is \$41,000. Revenues and expenditures for subsequent fiscal years would increase by \$34,000 to a base budget of \$75,000 to cover increasing costs for site visits, lease costs, legal fees, and personnel costs.

Statutory Change: Not Applicable.



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For the Hearing Impaired
TTY Relay: (800) 627-3529

February 18, 2003

Dear Members of the 2003 Minnesota Legislature:

On behalf of the Minnesota Higher Education Services Office and Minnesota Higher Education Services Council, I am pleased to submit our Fiscal Year 2004-2005 biennial budget request.

The budget and policy recommendations of the Office and Council represent strategic investments in programs, policies, and services that have been successful in supporting access to post-secondary educational opportunities and knowledge.

While mindful of the budget challenges facing the state, the Office and Council recommend that for the upcoming biennium a high priority be assigned to need-based financial aid as an investment in Minnesota's people.

With need-based financial aid, residents, who otherwise would not have the opportunity, are able to attend post-secondary institutions that can best meet their educational needs. As a result of this education, they contribute to a healthy state economy and high quality of life.

We look forward to working with you to provide a financially accessible, high quality system of post-secondary education in Minnesota.

Sincerely,

A handwritten signature in black ink, appearing to read "R. K. Poch".

Robert K. Poch
Director

Summary of Minnesota Higher Education Services Office Budget Request

The budget recommendations of the Minnesota Higher Education Services Office and the Services Council recognize the priority state need to maintain financial access to and choice of post-secondary education opportunities for Minnesota residents as well as the budget challenges facing the state. The recommendations are mindful of projected budget deficits but also the commitment of policymakers over several decades, even during economic downturns, to support need-based financial aid as an investment in Minnesota's people and the state's future.

The recommendations take into account comments received through six public hearings (Moorhead, Winona, Duluth, St. Cloud, St. Paul, and Mankato) in fall 2002. More than 100 people testified at the hearings, and many more individuals provided written comments to the Services Office. These constituents clearly and convincingly highlighted the value of the agency's services and articulated the adverse effects of current and potentially future budget reductions to students, faculty, and the public.

Further, Services Office management and Council members reviewed the agency budget in the context of the agency mission statement as well as the current and continuing effects of budget reductions by the 2002 Legislature on programs and services.

Based on these assessments, the Office and Council developed recommendations that focus almost exclusively on increased funding for the State Grant Program except for two smaller initiatives: one supporting the effective operation of the State Grant Program and the second enabling the agency to cover inflationary costs so it can continue to deliver services effectively and efficiently. No new policy or program initiatives are proposed, and base funding is requested for all other core programs and services.

Increased State Grant funding is proposed to reflect the significant growth in demand occurring during the 2002-2003 biennium and to help low- and moderate-income undergraduate students offset an anticipated continuation of double-digit tuition and fee increases. Modest increases are proposed for the Living and Miscellaneous Expense Allowance and the Tuition and Fee maximums in the State Grant Program and to cover inflation in the Post-Secondary Child Care Grant Program.

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Transmittal Letter

Budget in Brief Report

Agency Fiscal Page

Change Items

Other Document (for Agency Use)

Other Document (for Agency Use)

Other Document (for Agency Use)

Other Document (for Agency Use)

Other Document (for Agency Use)

Agency Change Items

Program Change Items

Governor's Recommendations:

FY 2004-05 Expenditures (\$000s)			
	General Fund	Other Funds*	Total
2003 Funding Level (Biennial Base)	1,234,584	1,186,171	2,420,755
Forecast Caseload/Enrollment Changes	39,563	0	39,563
Legislatively Mandated Base	23,428	0	23,428
Adjusted Base Funding	1,297,575	1,186,171	2,483,746
Change Items			
Operating Reductions	(174,000)	0	(174,000)
Transfer to State Grant Program	(30,000)	0	(30,000)
Governor's Recommendations	1,093,575	1,186,171	2,279,746
Biennial Change 2002-03 to 2004-05	(141,009)	n.m.	(141,009)
Percent Change	(11%)	0%	(6%)

* Total includes tuition and fees, as well as other revenue.

Brief Explanation Of Budget Decisions:

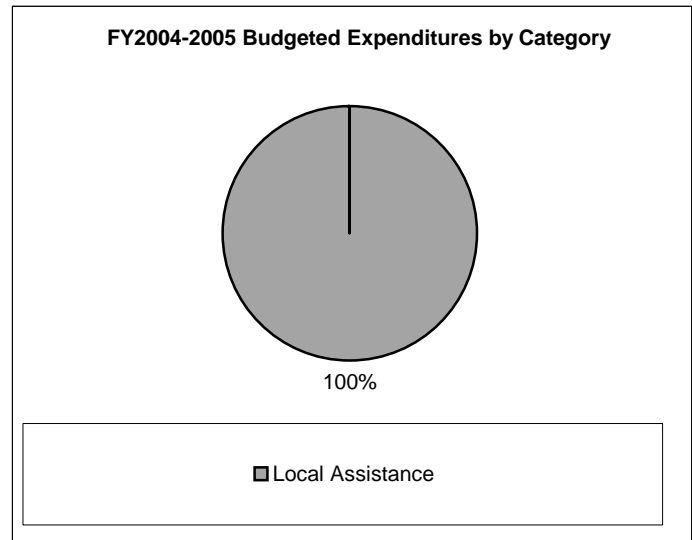
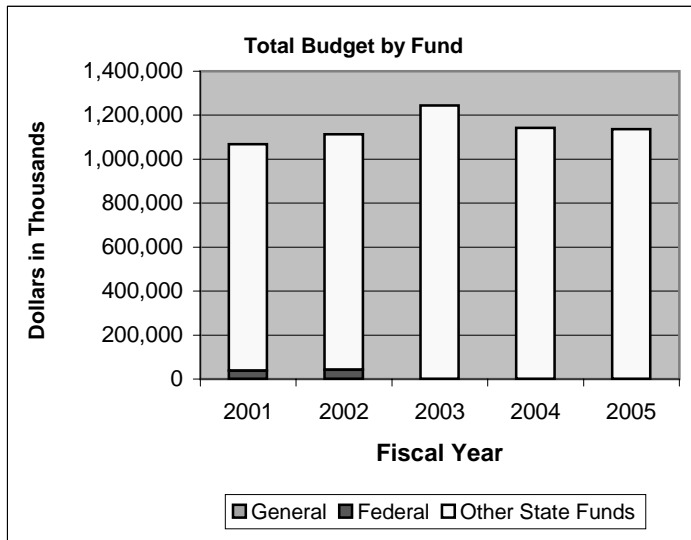
In the General Fund, Minnesota State Colleges and Universities (MnSCU) received a forecast base adjustment of \$39.6 million to reflect projected enrollment changes as allowed under Minnesota Statutes, section 135A.031, subdivision 4. MnSCU's base appropriations have also been adjusted to reflect a legislatively-mandated reduction in FY 2004-05 (-\$3.6 million) and to reinstate the base for a one-time base reduction that occurred in FY 2002-03 (\$27 million).

Agency Request:

The Governor is required to submit MnSCU's budget request to the Legislature. A narrative summary of MnSCU's request is included after the transmittal letter in this document. Additional detail on MnSCU's change items may be found on the Department of Finance's budget website at www.budget.state.mn.us. The following table summarizes MnSCU's request:

FY 2004-05 Expenditures (\$000s)			
	General Fund	Other Funds*	Total
2003 Funding Level (Biennial Base)	1,234,584	1,186,171	2,420,755
Forecast Caseload/Enrollment Changes	39,563	0	39,563
Legislatively Mandated Base	23,428	0	23,428
Adjusted Base Funding	1,297,575	1,186,171	2,483,746
Agency Change Items			
Support Core Mission	67,300	0	67,300
Health Education	6,000	0	6,000
Teacher Education	3,500	0	3,500
Instructional Equipment	6,700	0	6,700
Information Technology	6,500	0	6,500
Access & Diversity	5,600	0	5,600
Repair & Replacement	12,000	0	12,000
<i>Subtotal, Agency Change Items</i>	<i>107,600</i>	<i>0</i>	<i>107,600</i>
FY 2004-05 Total Agency Request	1,405,175	1,186,171	2,591,346
Biennial Change 2002-03 to 2004-05	170,591	n.m.	170,591
Percent Change	14%	0%	7%

* Total includes tuition and fees, as well as other revenue.



<i>Dollars in Thousands</i>	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Expenditures by Fund						
Carry Forward						
Mnscu Colleges/Universities	19	0	0	0	0	0
Direct Appropriations						
Mnscu Colleges/Universities	579,674	601,583	617,292	553,381	540,194	1,093,575
Statutory Appropriations						
Mnscu Colleges/Universities	410,859	420,950	544,241	509,061	515,936	1,024,997
Special Revenue	4,709	11,442	0	0	0	0
Mnscu Special Revenue	0	1,152	12,822	11,090	11,090	22,180
Federal	38,152	41,990	0	0	0	0
Mnscu Federal Fund	0	6,083	46,145	45,700	45,700	91,400
Miscellaneous Agency	20,330	19,189	0	0	0	0
Mnscu Agency Fund	0	834	18,144	18,050	18,050	36,100
Gift	11,908	5,519	0	0	0	0
Mnscu Gift Fund	0	834	2,211	1,672	1,672	3,344
Sub Supplemental & Ira Retire	963	987	880	875	875	1,750
Mnscu Enterprise Activities	1,983	2,725	3,196	3,194	3,194	6,388
Endowment	2	5	0	0	0	0
Mnscu Endowment Fund	0	0	6	6	6	12
Total	1,068,599	1,113,293	1,244,937	1,143,029	1,136,717	2,279,746

Expenditures by Category	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Local Assistance	1,068,599	1,113,293	1,244,937	1,143,029	1,136,717	2,279,746
Total	1,068,599	1,113,293	1,244,937	1,143,029	1,136,717	2,279,746

Expenditures by Program	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
State Colleges & Universities	1,068,599	1,113,293	1,244,937	1,143,029	1,136,717	2,279,746
Total	1,068,599	1,113,293	1,244,937	1,143,029	1,136,717	2,279,746

STATE COLLEGES & UNIVERSITIES

Fiscal Report

<i>Dollars in Thousands</i>	Actual	Actual	Preliminary	Governor's Rec		Biennium
Revenue by Type and Fund	FY2001	FY2002	FY2003	FY2004	FY2005	2004-05
Dedicated						
Mnscu Colleges/Universities	402,345	463,068	498,625	509,061	515,936	1,024,997
Special Revenue	6,851	9,226	0	0	0	0
Mnscu Special Revenue	0	958	11,090	11,090	11,090	22,180
Federal	37,818	40,859	0	0	0	0
Mnscu Federal Fund	0	7,577	45,700	45,700	45,700	91,400
Miscellaneous Agency	18,066	19,387	0	0	0	0
Mnscu Agency Fund	0	771	18,050	18,050	18,050	36,100
Gift	12,847	7,540	0	0	0	0
Mnscu Gift Fund	0	325	1,672	1,672	1,672	3,344
Sub Supplemental & Ira Retire	930	909	875	875	875	1,750
Mnscu Enterprise Activities	1,802	2,362	3,194	3,194	3,194	6,388
Endowment	7	4	0	0	0	0
Mnscu Endowment Fund	0	1	6	6	6	12
Subtotal Dedicated	480,666	552,987	579,212	589,648	596,523	1,186,171
Total Revenue	480,666	552,987	579,212	589,648	596,523	1,186,171

STATE COLLEGES & UNIVERSITIES

Change Item: OPERATING REDUCTIONS

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	(87,000)	(87,000)	(87,000)	(87,000)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(87,000)	(87,000)	(87,000)	(87,000)

Recommendation

The Governor recommends a reduction of \$87 million in FY 2004 and \$87 million in FY 2005. In addition, the Governor recommends a freeze on salaries and benefits for MnSCU employees and a cap on tuition increases at 15%. The Governor expects MnSCU to reduce duplication among its programs and reallocate funds to protect its priorities before resorting to increases in tuition.

Background

Given the current budget climate, MnSCU must be expected to eliminate duplication in its programs and focus on its core priorities in order to continue meeting student needs. This recommendation is consistent with the reductions that state agencies are expected to make in other state-funded activities. To ensure that rising costs do not unduly harm students, the Governor also encourages MnSCU to limit tuition increases to a maximum of 15%.

In FY 2003, MnSCU's average tuition was \$3,061 for two-year institutions, and \$3,979 for four-year institutions. A 15% would increase tuition in two-year institutions by \$459 to \$3,520 and in four-year institutions by \$597, to \$4,576. Compared to surrounding states, MnSCU tuition is slightly higher than average (+\$633) for two-year institutions and for four-year institutions (+\$196).

Relationship to Base Budget

This reduction represents a 14% reduction from FY 2002-03 funding levels, and a 13% reduction from the FY 2004-05 base. MnSCU's FY 2004-05 base includes a \$40 million increase for enrollment growth and a \$23 million increase to reflect legislatively-mandated base adjustments.

Statutory Change: Not applicable.

STATE COLLEGES & UNIVERSITIESChange Item: **TRANSFER TO STATE GRANTS**

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	(15,000)	(15,000)	(15,000)	(15,000)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(15,000)	(15,000)	(15,000)	(15,000)

Recommendation

The Governor recommends a reduction of \$15 million in FY 2004 and \$15 million in FY 2005 to MnSCU's operating appropriation to provide increased funding to the State Grant Program at the Higher Education Services Office.

Background

The Governor is also recommending moving \$15 million a year from the University of Minnesota's budget into the State Grant Program. Together, these recommendations will increase the resources of the State Grant Program by \$60 million in FY 2004-05.

The Governor believes that the core responsibility of government in higher education is to ensure access and choice for students who want to pursue additional education after high school. Especially in times of economic difficulty, the State Grant Program provides an efficient means of ensuring that all options are available to students. In order to secure the long-term vitality of our state, the institutions are expected to be partners in this process through their continued providing of high quality education while focusing on their core programs.

The Governor is committed to maintaining a strong post-secondary education system in the state of Minnesota. He believes that moving funds into state grants helps accomplish this by providing resources directly to students, enabling them to decide where to pursue their education and encouraging a vibrant and competitive higher education infrastructure. This recommendation emphasizes the importance of providing the resources to students for financing post-secondary education.

Relationship to Base Budget

This recommendation is a 2.5% reduction from FY 2002-03 levels and reduces MnSCU's FY 2004-05 base appropriation by \$30 million (2.3%).

Statutory Change: Not Applicable.



January 2003

To the Governor, the Legislature and the People of Minnesota:

The Minnesota State Colleges and Universities make up a diverse network of 34 public higher education institutions committed to meeting the needs of the state of Minnesota and preparing individuals to succeed.

Demand for public higher education has never been greater in Minnesota. More and more Minnesotans are recognizing the value of a Minnesota State Colleges and Universities education for improving their quality of life and earning ability. With four consecutive years of enrollment growth, and with enrollment at an all-time high for the second year in a row, the system is proving its value and worth.

In a time of economic downturn, the services offered by the state's colleges and universities are the key to restoring economic vitality. By helping Minnesotans become educated and productive workers, by helping businesses and industries thrive, by helping communities remain healthy and vital, the Minnesota State Colleges and Universities are poised to play a major role in assisting the state's economic recovery.

This budget request represents an investment in Minnesota's long-term health and growth. The system is seeking an increase of \$107.6 million to cover inflation, to repair and renew facilities on the 53 campuses within the system, and to fund several strategic investments. These include recruiting, retaining and graduating students from groups traditionally under-represented in higher education; expanding nursing and teacher education programs to meet critical shortages; and upgrading instructional equipment and technology.

Minnesota State Colleges and Universities are committed to providing high-quality, accessible educational opportunities to Minnesotans. The state's investment will help Minnesota succeed.

A handwritten signature in black ink that reads 'Mary P. Choate'.

Mary P. Choate
Chair, Minnesota State Colleges and Universities Board of Trustees

A handwritten signature in black ink that reads 'James H. McCormick'.

James H. McCormick
Chancellor, Minnesota State Colleges and Universities

Minnesota State Colleges and Universities Budget request summary

Adjusted FY 2004-2005 base state appropriation \$1.3 billion

Requested increase

Inflation	\$67.3 million
Repair and renewal projects	\$12.0 million
Strategic investments:	
<i>Access and diversity</i>	\$ 5.6 million
<i>Health education</i>	\$ 6.0 million
<i>Teacher education</i>	\$ 3.5 million
<i>Information technology</i>	\$ 6.5 million
<i>Instructional equipment</i>	\$ 6.7 million
Total strategic investments	<u>\$28.3 million</u>

Total requested increase \$107.6 million

Total biennial request \$ 1.4 billion

Every \$1 invested yields a \$6.28 return

With 53 campuses in 46 Minnesota communities, the Minnesota State Colleges and Universities play a major role in stimulating the economic development and cultural vitality of cities, suburbs, towns and rural areas in the state. A 2002 study by economist Paul Anton estimated that the total statewide economic impact of Minnesota State Colleges and Universities in 2001 was more than \$3 billion. The study estimated that the enhanced productivity of graduates of degree and training programs offered by the system contributes more than \$2 billion to the state's economy each year, a figure equal to about 2 percent of the total wages paid in the state.

Every \$1 spent in net state spending on Minnesota State Colleges and Universities returns \$6.28 in economic benefits to the state, the study found.

State's investment in higher education has decreased

By several measures, Minnesota has decreased its investment in higher education in the past 10 years, even during years when the state's economy was flourishing. In 1991, the state spent \$12.25 on higher education for every \$1,000 of personal income in the state; in 2002, the state spent only \$8.78. Since 1999, the state appropriation per student has declined both in actual dollars and in constant dollars after adjusting for inflation.

In the 2001 legislative session, the Minnesota State Colleges and Universities were granted a \$100 million increase for the 2002-2003 biennium. In 2002, as part of a budget-balancing measure, that appropriation was reduced by \$22.7 million, reducing the biennial increase to \$77.3 million, most of which was used to cover inflation.

At the same time, the number of students enrolled in credit-based courses at state colleges and universities increased by 5.5 percent, or by 8,673 students (fall 2002 headcount). The 34 state colleges and universities now serve more than 235,000 students annually in credit-based courses, as measured by unduplicated headcount enrollment. An additional 130,000 students enroll in non-credit courses each year, many through the system's customized training services. The state colleges and universities assist about 6,000 Minnesota employers each year by providing specialized training for their employees.

Colleges and universities continue to cut expenses

Historically, colleges and universities have looked for savings internally and they will continue to do so in the upcoming biennium. Over the past two years, the colleges and universities have internally redirected \$49.1 million in response to changing demand for instructional programs and student services, as well as in response to budget shortfalls. In the 2002-2003 academic year, all institutions and the Office of the Chancellor reduced or reallocated administrative and staff positions, and 26 institutions reduced faculty positions, 21 reduced student services and 10 reduced equipment purchases.

Budget request supports core educational mission

The largest portion of the system's 2004-2005 biennial budget request will support the core educational mission of the state colleges and universities. Of the requested increase, \$67.3 million will cover anticipated annual 3 percent inflation. The request also anticipates that tuition increases will be held to 3 percent per year.

Tuition and state appropriation make up nearly 80 percent of the system's revenue. If the state does not provide the requested level of funding, further increases in tuition may be needed to maintain core services to students.

The system also is seeking \$12.0 million to keep up with an estimated \$500 million backlog of needed repairs to and renewal of facilities on all of the campuses. Well-maintained facilities are essential to providing quality education. Timely repair and maintenance of facilities is more cost-effective than allowing conditions to deteriorate and having to correct more costly problems.

Beyond maintaining the core educational mission, the requested budget increase will allow the system to make progress in areas of critical concern to the state – increasing access and diversity, expanding health care and teacher education, repairing and replacing facilities on all 53 campuses, and investing in instructional equipment and information technology. All are consistent with the strategic directions and goals outlined in *Designing the Future*, the system's three-year strategic plan, which was developed with the input of more than 4,000 Minnesotans and approved by the Board of Trustees.

Initiatives seek to increase access and diversity

The system is requesting \$5.6 million to expand and develop programs and practices to successfully recruit, retain and graduate students traditionally under-represented in higher education. These include low-income students, students whose parents did not graduate from college, students of color and students for whom English is a second language. With the requested funds, the system will establish outreach and mentoring programs, create programs and services to help students make the transition to college and expand English-as-a-Second-Language services.

System responds to critical state health care needs

Currently, nearly 3,000 registered nursing positions in Minnesota are unfilled, and the number of vacant positions is expected to double by 2008. Shortages of licensed practical nurses pose a significant problem for long-term care facilities, especially in rural Minnesota. A shortage of qualified nurse educators is developing as current faculty near retirement age. The Minnesota State Colleges and Universities are seeking \$6 million in funding to meet a critical shortage of health care workers in the state. With the requested funds, the system will increase the number of its nursing graduates by 40 percent, recruit nursing faculty to teach in colleges and universities and use technology to expand online and distance education in nursing and allied health care.

More teachers needed in certain fields

The Minnesota State Colleges and Universities System is requesting \$3.5 million to recruit more teachers of color, more special education teachers and more teachers of English as a Second Language, and to retain more first-year teachers in the profession. With these funds the system will enhance recruitment of students of color into teacher preparation programs, increase the number of teachers licensed in Special Education, and establish a pilot beginning teacher induction program to reduce the number of teachers who leave the profession during the first three years on the job.

Upgrading equipment and technology is a priority

The need to upgrade instructional equipment and technology continues to be a priority for the system. Colleges and universities must continually upgrade equipment to stay current with industry needs and to teach students the skills they need to be marketable in science, health care and technical fields. The system is seeking \$6.5 million for systemwide information technology upgrades and \$6.7 million for instructional equipment upgrades at all 34 institutions. With these funds the system will expand campus bandwidth to accommodate expanding instructional use of the Internet, upgrade the Integrated Student Records System to meet demands of students for Web-based, and acquire new or updated instructional equipment (\$6.7 million).

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Change Items

Agency Change Items

Ahc--Dedication Of Cigarette Tax

Coleraine Grant Reduction

Hcaf Reduction

Lcmr Recommendations

Operating Budget Reductions

Transfer To Fund State Grant Program

Program Change Items

Governor’s Recommendations:

FY 2004-05 Expenditures (\$000s)			
	General Fund	Other Funds	Total
2003 Funding Level (Biennial Base)	1,284,680	62,561	1,347,241
February Forecast Adjustment	0	(2,850)	(2,850)
Forecast Caseload/Enrollment Changes	14,907	0	14,907
Legislatively Mandated Base	(3,716)	0	(3,716)
One-Time Appropriations	0	(1,214)	(1,214)
Adjusted Base Funding	1,295,871	58,497	1,354,368
Change Items			
Operating Budget Reductions	(179,000)	0	(179,000)
Transfer to Fund State Grant Program	(30,000)	0	(30,000)
AHC—Dedication of Cigarette Tax	0	(1,304)	(1,304)
Coleraine Grant Reduction	(2,260)	0	(2,260)
HCAF Reduction	0	(760)	(760)
LCMR Recommendations	0	934	934
Governor’s Recommendations	1,084,611	57,367	1,141,978
Biennial Change 2002-03 to 2004-05	(185,529)	13,199	(172,330)
Percent Change	(15%)	30%	(13%)

Brief Explanation Of Budget Decisions:

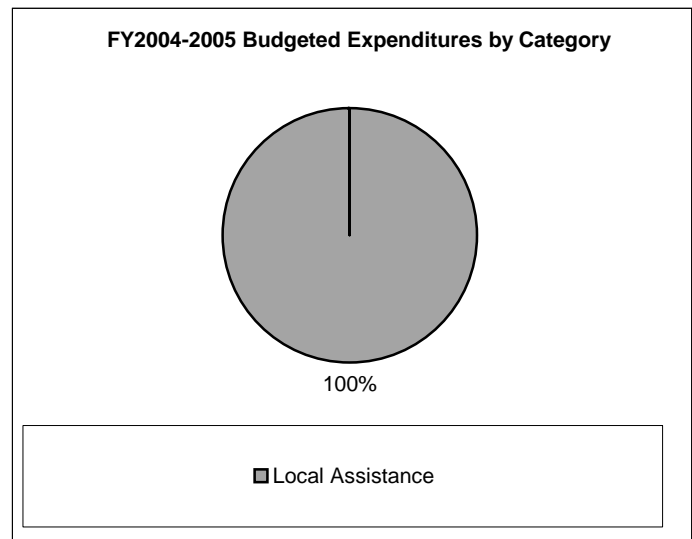
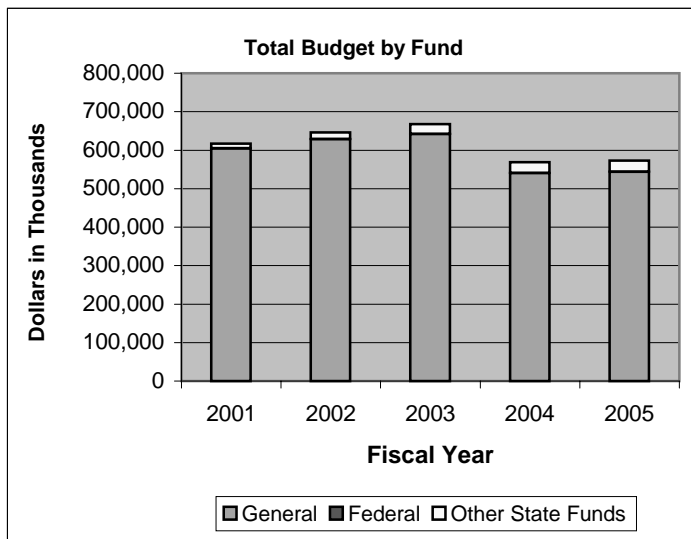
In the General Fund, the University of Minnesota received a forecast base adjustment of \$14.9 million to reflect actual enrollment changes, as allowed under Minnesota Statutes, 135A.031, subdivision 4. The University’s base appropriations have also been adjusted to reflect a legislatively-mandated base reduction (-\$3.7 million).

In other funds, adjustments were also made to the appropriations the University is estimated to receive from the tobacco endowments (-\$2.9 million) and one-time appropriations from the Environment and Natural Resources Trust Fund (-\$1.2 million).

Agency Request:

The Governor is required to submit the University of Minnesota’s budget request to the Legislature. A narrative summary is also included after the University’s transmittal letter. Additional detail on the University’s change item may be found on the Department of Finance’s budget website at www.budget.state.mn.us. The following table summarizes the University’s request.

FY 2004-05 Expenditures (\$000s)			
	General Fund	Other Funds	Total
2003 Funding Level (Biennial Base)	1,284,680	62,561	1,347,241
February Forecast Adjustment	0	(2,850)	(2,850)
Forecast Caseload/Enrollment Changes	14,907	0	14,907
Legislatively Mandated Base	(3,716)	0	(3,716)
One-Time Appropriations	0	(1,214)	(1,214)
Adjusted Base Funding	1,295,871	58,497	1,354,368
Agency Change Items			
Biennial Budget Partnership	96,147	0	96,147
FY 2004-05 Total Agency Request	1,392,018	58,497	1,450,515
Biennial Change 2002-03 to 2004-05	121,878	14,329	136,207
Percent Change	10%	32%	10%



<i>Dollars in Thousands</i>	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Expenditures by Fund						
Direct Appropriations						
Environment & Natural Resource	1,836	480	734	467	467	934
General	604,382	628,470	641,210	540,724	543,887	1,084,611
Minnesota Resources	0	475	0	0	0	0
Health Care Access	2,837	2,537	2,537	2,157	2,157	4,314
Medical Education & Research	6,969	12,327	20,562	0	0	0
Open Appropriations						
General	0	0	460	0	0	0
Statutory Appropriations						
Special Revenue	0	0	500	21,450	21,450	42,900
Miscellaneous Agency	990	2,102	1,914	3,848	5,371	9,219
Total	617,014	646,391	667,917	568,646	573,332	1,141,978

Expenditures by Category	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Local Assistance	617,014	646,391	667,917	568,646	573,332	1,141,978
Total	617,014	646,391	667,917	568,646	573,332	1,141,978

Expenditures by Program	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Maintenance & Operations	531,053	554,561	567,563	477,357	480,520	957,877
Agriculture Special	57,588	58,838	58,838	50,625	50,625	101,250
Health Science Special	15,652	20,710	28,828	28,536	28,536	57,072
Permanent University Fund	990	2,102	2,374	3,848	5,371	9,219
Special Projects	0	0	500	0	0	0
Technology Special	1,645	1,645	1,612	1,387	1,387	2,774
System Specials	7,430	7,580	7,468	6,426	6,426	12,852
Lcmr/Mn Resources	2,656	955	734	467	467	934
Total	617,014	646,391	667,917	568,646	573,332	1,141,978

<i>Dollars in Thousands</i>	Actual	Actual	Preliminary	Governor's Rec		Biennium
Revenue by Type and Fund	FY2001	FY2002	FY2003	FY2004	FY2005	2004-05
Dedicated						
General	0	0	12,700	17,400	22,100	39,500
Health Care Access	0	2,537	2,537	2,157	2,157	4,314
Special Revenue	0	0	500	4,900	4,900	9,800
Medical Education & Research	0	4,891	4,900	0	0	0
Subtotal Dedicated	0	7,428	20,637	24,457	29,157	53,614
Total Revenue	0	7,428	20,637	24,457	29,157	53,614

UNIVERSITY OF MINNESOTA

Change Item: OPERATING BUDGET REDUCTIONS

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	(89,500)	(89,500)	(89,500)	(89,500)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(89,500)	(89,500)	(89,500)	(89,500)

Recommendation

The Governor recommends a reduction of \$89.5 million in FY2004 and \$89.5 million in FY 2005. In addition, the Governor encourages the University to freeze salaries and benefits for its employees as a way to manage this reduction without undue impact on core services and activities.

The Governor respects the Constitutional autonomy of the University and calls upon the Board of Regents to closely examine the operations and business processes of the University in order to find ways to reduce duplication among its programs and reallocate funds to protect its priorities before resorting to increases in tuition.

Background

Given the current budget climate, the University must be expected to eliminate duplication in its programs and focus on its core priorities in order to continue meeting student needs. This recommendation is consistent with the reductions that state agencies are expected to make in other state-funded activities.

To ensure that rising costs do not unduly harm students, the Governor also encourages the University to limit tuition increases to a maximum of 15%. In FY 2003, the University's annual resident undergraduate tuition and fees totaled \$6,280, ranked fifth among Big Ten universities. A 15% increase would be \$942, totaling \$7,222.

The operating reductions should be distributed among the maintenance and operations appropriations, and the state special appropriations as needed for the University to prioritize its programs.

Relationship to Base Budget

This reduction represents a 14% reduction from FY 2002-03 funding levels. The University's FY 2004-05 base includes a \$15 million increase for enrollment growth and a \$3.7 million decrease to reflect legislatively-mandated base adjustments. This recommendation is a \$179 million decrease from FY 2004-05 base levels.

Statutory Change: Not applicable.

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	(15,000)	(15,000)	(15,000)	(15,000)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(15,000)	(15,000)	(15,000)	(15,000)

Recommendation

The Governor recommends a reduction of \$15 million in FY 2004 and \$15 million in FY 2005 to the University of Minnesota’s operating appropriation to provide increased funding to the State Grant Program at the Higher Education Services Office.

Background

The Governor is also recommending moving \$15 million a year from the Minnesota State Colleges and Universities’ appropriation into the State Grant Program. Together, these recommendations will increase the resources of the State Grant Program by \$60 million in FY 2004-05.

The Governor believes that the core responsibility of government in higher education is to ensure access and choice for students who want to pursue additional education after high school. Especially in times of economic difficulty, the State Grant Program provides an efficient means of ensuring that all options are available to students. In order to secure the long-term vitality of our state, the institutions are expected to be partners in this effort through their continued providing of high quality education while focusing on their core programs.

The Governor is committed to maintaining a strong post-secondary education system in the State of Minnesota. He believes that moving funds into state grants helps accomplish this by providing resources directly to students, enabling them to decide where to pursue their education and encouraging a vibrant and competitive higher education infrastructure. This recommendation emphasizes the importance of providing the resources to students for financing post-secondary education.

Relationship to Base Budget

This recommendation reduces the University’s base appropriation by \$30 million, a 2.4% reduction from FY 2002-03 funding levels.

Statutory Change: Not Applicable.

UNIVERSITY OF MINNESOTA

Change Item: AHC--DEDICATION OF CIGARETTE TAX

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
Special Revenue Fund (200) —				
Dedicated Account				
Expenditures	21,450	21,450	21,450	21,450
Revenues	0	0	0	0
Tobacco Endowment Fund (571)				
Expenditures	(22,062)	(22,041)	(22,144)	(22,767)
Revenues	0	0	0	0
Net Fiscal Impact	(612)	(591)	(694)	(1,317)

Recommendation

The Governor recommends dedicating 6.5 cents of the cigarette tax to replace endowment revenue for the Academic Health Center at the University of Minnesota. These funds will be placed in a special revenue fund for payment to the University.

Background

In September 1998, the State of Minnesota began receiving settlement payments from tobacco companies. These revenues were set up as endowments in Laws 1999, Chapter 245, article 11, section 2. The endowments funded three different areas: tobacco use & prevention (TUPE), the Academic Health Center (AHC), and medical education research costs (MERC).

Both the MERC and AHC endowments provide supplemental funding for activities at the University of Minnesota's AHC. The AHC receives 42% of the 5% appropriation from the MERC endowment. The payment is calculated on fair market value and funds the instructional costs of health professional programs at AHC. The University also receives *up to* 5% of the fair market value of the AHC account to fund instructional costs of health professional programs and for interdisciplinary academic initiatives within the AHC. While the forecast has shown the maximum amount allowed in law, the fund has been losing value, so future forecasts might not reflect the full 5% of the fair market value in order to maintain the corpus of the fund.

Additional information on the Academic Health Center's activities can be found at www.ahc.umn.edu.

Relationship to Base Budget

This recommendation is a 30% increase over FY 2002-03 levels. In FY 2004, AHC's appropriation is estimated to be \$6.5 million from the MERC endowment and \$15.57 million from the AHC endowment. In FY 2005, AHC is estimated to receive \$6.2 million from the MERC endowment and \$15.8 million from the AHC endowment. The 6.5 cents is intended to replace the current (FY 2003) funding level the AHC would receive from both endowments.

Statutory Change: Minnesota Statutes, sections 62J.694 and 297F.10, subdivision 10.

UNIVERSITY OF MINNESOTA

Change Item: COLERAINE GRANT REDUCTION

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	(940)	(1,320)	(1,500)	(1,500)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(940)	(1,320)	(1,500)	(1,500)

Recommendation

The Governor recommends eliminating the Taconite Mining Grant Program. This recommendation eliminates a projected \$940,000 in FY 2004 and \$1.32 million in FY 2005 for taconite mining grants administered by the University of Minnesota’s Coleraine Laboratory. The dollar amounts are based on projections of future taconite royalties from school and university trust lands.

Background

Laws of 2001, First Special Session Chapter 6, Article 1, Sections 1 to 3 provides for 20% of the taconite lease payments deposited to the School Fund Mineral Lease Suspense Account and to the University Fund Mineral Lease Suspense Account during the preceding year to be transferred to the General Fund, with an amount equal to the transfers appropriated annually for taconite mining grants.

The funds appropriated to the University of Minnesota are available for grants to aid in developing technology from the Coleraine Laboratory for taconite mining companies for: 1) taconite pellet product improvements; 2) value-added production of taconite iron ore; or 3) cost-savings production improvements at Minnesota taconite plants.

Funds are also appropriated to the Department of Natural Resources (DNR) under this program for grants to taconite mining companies for 1) taconite pellet product improvements; 2) value-added production of taconite iron ore; or 3) cost-savings production improvements at Minnesota taconite plants. In FY 2004-05, these funds are estimated to amount to \$2.02 million, and are also recommended for elimination in the Governor’s budget for DNR.

Relationship to Base Budget

The budget recommendation removes projected funding for taconite mining grants made available to the Department of Natural Resources and the University of Minnesota’s Coleraine Laboratory under M.S. 93.2235.

Statutory Change: Amendment of M.S. 93.2235, subdivisions 1 and 2.

UNIVERSITY OF MINNESOTA

Change Item: HCAF REDUCTION

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Health Care Access Fund				
Expenditures	(380)	(380)	(380)	(380)
Revenues	0	0	0	0
Net Fiscal Impact	(380)	(380)	(380)	(380)

Recommendation

The Governor recommends \$2.157 million in FY 2004 and \$2.157 million in FY 2005 from the Health Care Access fund to the University of Minnesota, a reduction of \$380,000 a year from current funding.

Background

Administered by the Department of Human Services, the Health Care Access Fund (HCAF) funds MinnesotaCare and various other health-related activities. In the November 2002 forecast, the fund was projected to have an operating deficit of \$89.5 million in FY 2003. In order to help address this deficiency, the Governor recommends that agencies receiving appropriations from the HCAF take a 15% reduction in funding.

The University of Minnesota's appropriation funds activities related to primary care medical school programs.

Relationship to Base Budget

This change is a 15% reduction from FY 2002-03.

Statutory Change: Not Applicable.

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
Environmental Trust Fund				
Expenditures	467	467	0	0
Revenues	0	0	0	0
Future Resources Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	467	467	0	0

Recommendation

The Governor has recommended the elimination of dedicated funding for the Future Resources Fund. The Governor is not making specific recommendations on LCMR projects at this point, but intends to provide a statement of the administration's priorities for Environmental Trust Fund projects at a later time.

Background

The Legislative Commission on Minnesota Resources (LCMR) recommends projects for funding through the Environmental Trust Fund and the Future Resources Fund. For the FY2004-05 biennium, the following projects were recommended by the LCMR:

Environmental Trust Fund (Fund 030) Projects:

- ⇒ *Developing Pheromones for Use in Carp Control:* \$50,000 in FY 2004 and \$50,000 in FY 2005 was recommended by the LCMR for research on new options for controlling carp.
- ⇒ *Land Acquisition for the Minnesota Landscape Arboretum:* \$350,000 in FY 2004 and \$350,000 in FY 2005 was recommended by the LCMR for an agreement with the Landscape Arboretum Foundation to acquire in-holdings within the Arboretum's boundary. This appropriation must be matched by an equal amount of nonstate money.
- ⇒ *Mesabi Iron Range Geologic and Hydrologic Map and Data Bases:* \$67,000 in FY 2004 and \$66,000 in FY 2005 was recommended by the LCMR for the Minnesota geological survey to develop geologic and hydrogeologic maps of the Mesabi Iron Range.

Future Resources Fund (Fund 130) Projects:

- ⇒ *Laser Assessment of Streambank Erosion in the Minnesota River Basin:* \$200,000 in FY 2004 was recommended by the LCMR to determine sediment and phosphorus inputs due to bank erosion along major rivers in the Minnesota River Basin.
- ⇒ *The Laurentian Vision: Rebuilding the Mesabi Iron Range:* \$250,000 in FY 2004 was recommended by the LCMR to partner with local communities, mining companies, and other resource interests to enable mine land reuse.

Additional information can be found on the LCMR website: <http://www.lcmr.leg.mn/>.

Relationship to Base Budget

Grants from these projects are determined annually and are not included in the base budget.

Statutory Change: None applicable.

February 18, 2003

Members of the 2003 Legislative Session:

I am pleased to present to you the University of Minnesota's 2004-2005 biennial budget proposal. This is a thoughtful proposal, built on past progress and defined by continuity, responsibility, and partnership. It seeks to preserve the University's strengths and to provide continuity for sustained improvement in academic programs and the student experience.

As we approach the next biennium, the University is in a position of strength. For a second straight year, we have been ranked as one of the top three public research universities in the nation. We've made major gains in establishing and sharpening our focus on academic priorities; recruiting and retaining top faculty; improving the student experience and outcomes; and enhancing our physical environment to better support great teaching and learning.

Now is not a time to take a step backwards or to mark time. This is a time to ensure the University can continue on course and maintain its momentum.

Fully cognizant of our state's budget situation, the University is committed to wise stewardship of its resources. To that end, we present to you a responsible statement of the University's needs that, while falling short of fully funding the University's aspirations, addresses our needs within the context of the state's current financial outlook.

We are asking the State of Minnesota to enter into a 50-50 financial partnership with the University of Minnesota—a partnership that calls upon the University to honor its commitment to the people of Minnesota and upon the state to fully participate in the University's mission. This proposed partnership ensures that the University will be able to continue to make good on its promise to educate, discover, and serve and thereby enhance our state's vitality and quality of life.

Sincerely,



Robert H. Bruininks
President

Brief Explanation of Budget Decisions:

The University of Minnesota's 2004-2005 biennial budget proposal is built on continuity, responsibility, and partnership.

The University of Minnesota has made tremendous progress in improving the student experience and its physical and academic environments. The University has delivered on the expectations of the state to build excellence in teaching, research, and public service. The University's 2004-2005 biennial budget proposal builds on this progress and provides continuity for sustained momentum.

The University is committed to wise stewardship of its resources. This proposal reflects a realistic but responsible statement of the University's needs. The proposal, while falling short of fully funding the University's aspirations, addresses its legitimate needs within the context of the state's current financial outlook.

Therefore, this proposal asks the State of Minnesota to enter into a 50-50 financial partnership with the University of Minnesota—a reasoned partnership that calls upon the University to honor its commitment to the people of Minnesota, and for the state to fully participate in the University's mission.

The University has set forth the following strategies for building and maintaining excellence.

- ◆ Put academic priorities into practice
- ◆ Support talented faculty and staff
- ◆ Help students realize their educational goals
- ◆ Build and maintain an infrastructure that will enhance academic excellence

To provide for these strategies, the University's biennial financial needs are:

- ◆ Put academic priorities into practice -- \$26 million
- ◆ Support talented faculty and staff -- \$88.1 million
- ◆ Help students realize their educational goals -- \$ 20 million
- ◆ Build and maintain the academic infrastructure -- \$ 58.1 million

To implement these strategies over the next biennium, the University proposes a reasoned partnership of shared responsibility with the State of Minnesota that calls for a 50-50 financial partnership.

The 50-50 partnership is built on the following financial assumptions:

- ◆ \$96 million, over the biennium, in additional state commitment
- ◆ 4.5% annual increase in tuition, generating \$46.2 million over the biennium
- ◆ 2.5% annual reallocation of current base funding, generating \$50 million over the biennium

Put Academic Priorities into Practice

By an ongoing process, the University identifies new opportunities for growth, current areas of excellence that must be sustained, and areas to invest in to seize new opportunities. An ongoing evaluation of past investments guides the reallocation of University resources to high-priority departments and programs through a rigorous planning and budgeting process. It is the process by which the University evaluates the delivery of its commitment to the state. With the state's support each year, an investment is made in the University's vision to achieve excellence.

Investments in academic priorities vary in size, scope, and source of funding, but they are all focused on improving the quality of University of Minnesota academic programs. A helpful taxonomy for describing the types of investments that the University utilizes to implement high-priority academic directions includes: establish and maintain major investments, build on recent investments, seize opportunities, and sustain the best.

Major initiatives require large-scale, long-term funding and commitment but have the potential for enormous returns. They are established through careful analysis and planning. To succeed, such initiatives require creative, strategic combinations of state, private, federal, and University resources. Though the University does not

propose any large-scale initiatives in the 2004-2005 biennium, the University will continue to implement past initiatives including building University strength in areas such as molecular and cellular biology, genomics, and digital technology; reestablishing the prominence of the University's Academic Health Center (AHC); and maintaining the competitive advantages of the coordinate campuses.

Investments made to reestablish the prominence of the University's AHC resulted from a creative partnership with the state, begun in 1999. The Minnesota legislature set aside tobacco settlement proceeds into two endowments that provide funding to the AHC. The University is grateful for the state's vision in its use of the tobacco settlement funds. Minnesota did what few other states have been able to do—utilize tobacco settlement funds for the long-term health benefit of the state.

The investment income from the two endowments supports costs related to delivering core educational programs in the Medical School; rebuilding the Medical School faculty; developing interdisciplinary and community-based education programs; field and addressing the state's health professional workforce needs.

Support Talented Faculty and Staff

The University is committed to attracting and maintaining world-class faculty and talented staff. Having a strong faculty is not only a critical component of a university, it is the cornerstone. The best and brightest faculty will attract Minnesota's best students. These faculty not only nourish the minds of students, they also feed Minnesota's knowledge economy. And they are a key link to the University's long-term prosperity with the ability to attract research funds, stimulate more patentable ideas, and develop licensable technology.

Finding and keeping talented faculty is a fluid process, based on continuing examination of the University's academic directions. Forty percent of current faculty has been hired in the last 10 years. Each year, the University hires approximately 120 new faculty to replace those who have left or retired, and is confronted with more than 50 serious retention decisions; that is, trying to retain top faculty who are being recruited nationally by other premier public and private institutions. Competing financially can be a difficult proposition; in fiscal year 2001, the average faculty salary on the Twin Cities campus ranked 23rd among the top 30 research universities, up slightly from previous years but still in the bottom third.

The University's faculty are supported by professional staff along with graduate research and teaching assistants. These individuals are dedicated to the missions of teaching, research, and public service. They are also attracted to the University of Minnesota and sustained by competitive compensation. Recruiting and retaining these skilled employees is imperative to the University's success.

Help Students Realize Their Educational Goals

In partnership with the state, the University has made significant strides in improving the student experience—both undergraduate and graduate—and fostering student success. The University has invested substantially in improving the student experience, and these investments have resulted in tangible momentum. Seventy-five percent of freshmen now live on campus. Both retention rates and graduation rates are improving, and the average number of credits University students are taking is on the rise. Applications to the University have increased by twenty-three percent over the past seven years, applicants are better prepared, and ACT scores of incoming freshmen have increased. Additional improvements include an enhanced technology system that provides students with online registration and “paperless” financial aid processes, and the modernization of classrooms. Student learning has also been enhanced through the development and expansion of the freshman seminar program that connects students to distinguished faculty members in a small-group setting.

To maintain the progress the University has made in improving the student experience, continued investment in several key areas is necessary. One area the University is committed to is improving recruitment efforts and scholarship funds to increase the quality and diversity of the entering freshman class, thus keeping the best and brightest in Minnesota. By expanding and enhancing its honors programs, the University will be able to meet the needs of these exceptional students.

A second area for investment is in enhanced learning programs such as the Undergraduate Research Opportunities Program, student service learning programs that engage students in community service, and the

expansion of learning communities where students live and learn with students who have similar interests. Research shows that when students are connected early to the University community they are more likely to stay in school.

Finally, the University plays a major role in the state in educating graduate and professional students. These students come to the University because of the opportunities for working with first-rate faculty in highly regarded programs and access to outstanding libraries and research facilities. As well, the comprehensive nature of the University affords graduate students the opportunity to engage in interdisciplinary studies. New programs in the Law School and Carlson School of Management are strengthening the preparation of professional students. Strong graduate and professional programs ensure the scientific, cultural, and professional renewal of the state.

Maintaining the University's focus on the academic mission and sustaining this support for students is paramount to the well-being of Minnesota.

Build and Maintain the Academic Infrastructure

Research and education have changed dramatically in the past decade. They are far more information- and technology-intensive and require the University to continually build and maintain the academic infrastructure. This includes the research infrastructure, facilities, and information technology and financial systems. The University cannot adequately support its students and carry out its missions of education, research, and public service without a solid infrastructure.

To attract and retain the best and brightest faculty and staff, the University must build and maintain a strong research infrastructure. This includes world-class research facilities such as libraries and laboratories, staff support for research and grants application and administration, the equipment to carry out the research, and an environment that encourages learning and discovery. Investments made in the University's research infrastructure have a tremendous multiplier effect and leveraging capacity. This infrastructure enables the University to attract top faculty and students who in turn attract significant research dollars to the state.

The University of Minnesota relies on very large data networks on each of its four campuses. The University's data networks support more than 40,000 computers that access applications that support administrative business systems, e-mail, Internet access, online library resources, Web enhanced courses, online Web courses for distant education, research computing, streaming-video lectures and performances, and many other applications.

The University's data networks are quickly becoming obsolete and will be unable to support many new applications that promise to further enhance the quality of teaching, research, public service, and administrative processes. The installation of new data networks will also enhance network security. Managing network security has become a very difficult task. Criminal activity on the Internet is on the rise and threatening to overwhelm current security methods. Investing in new data networks will help enhance the effectiveness, efficiency, accountability, and security of the University of Minnesota.

The University of Minnesota relies on five computer systems to support its mission of teaching, research, and public service. Over the last decade, the University has replaced or upgraded the human resources and payroll, grants management, library, and student systems. The final system in need of replacement is the financial system.

The current financial system was installed 11 years ago. The system has performed well and has contributed to significant improvement in financial accountability at the University. However, due to the age and obsolescence of certain system components, the University must replace its current financial system. Investing in a new financial system increases the University's capacity to adequately support the growth in teaching, research, and public service programs, and decreases the risks of system failures.



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February 18, 2003

The Minnesota Legislature
State Capitol
St. Paul, Minnesota

Dear Legislators,

I respectfully submit for your consideration the FY 2004-05 Governor's budget proposals for the Mayo Foundation and the Higher Education Facilities Authority in the Higher Education omnibus bill. These agencies collectively administer \$3.258 million (all funds) for the FY 2004-05 biennium. The Governor encourages the agencies to work diligently to be effective stewards of taxpayer resources and focus operations and spending on their highest service priorities.

The funding recommended for these agencies for FY 2004-05 represents a general fund reduction of \$492,000 (13 percent) from the FY 2002-03 biennium. The Mayo Foundation receives state funds for grants to Minnesota students enrolled in the Mayo Medical School, the Mayo Rochester Family Medicine Residency Program, and the St. Cloud Hospital/Mayo Family Residency Program. The residency programs prepare doctors to practice primary care medicine in rural areas of the state. The Higher Education Facilities Authority (HEFA) assists Minnesota's nonprofit institutions of higher education finance capital construction projects by issuing tax-exempt revenue bonds. HEFA does not receive a state appropriation—its activities are financed through fees paid by participating institutions. HEFA's budget is \$476,000 for FY 2004-05.

The recommended reductions to the funding for the Mayo Foundation are distributed proportionally across the three programs receiving state funds. The pages that follow provide more detailed information on individual agency spending history and budget plans for the next biennium.

My staff, the agencies, and the Governor's Office all stand ready to provide you with additional information and assistance as necessary as you go about the difficult task of crafting a sound budget for the upcoming biennium.

Sincerely,

A handwritten signature in black ink that reads "Dan McElroy".

Dan McElroy
Commissioner

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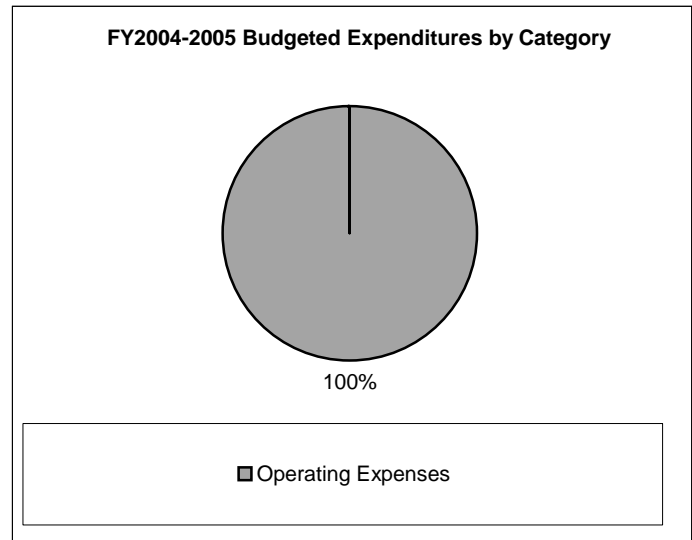
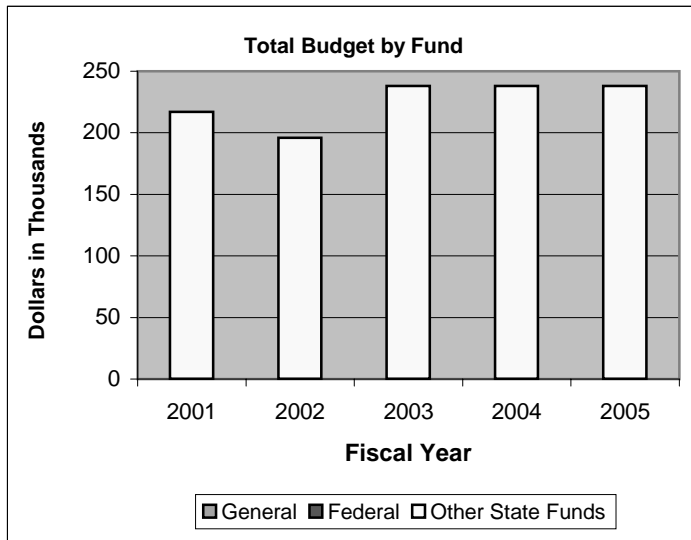
Program Change Items

HIGHER ED FACILITIES AUTHORITY

Budget in Brief

FY 2004-05 Expenditures (\$000s)

	General Fund	Other Funds	Total
2003 Funding Level	0	476	476
Adjusted Base Funding	0	476	476
Governor's Recommendations	0	476	476
Biennial Change, 2002-03 to 2004-05	0	42	42
Percent Change	n.m	10%	10%



<i>Dollars in Thousands</i>	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Expenditures by Fund						
Statutory Appropriations						
Miscellaneous Agency	217	196	238	238	238	476
Total	217	196	238	238	238	476
Expenditures by Category						
Operating Expenses	217	196	238	238	238	476
Total	217	196	238	238	238	476
Expenditures by Program						
Hgher Educ Fac Authr	217	196	238	238	238	476
Total	217	196	238	238	238	476
Revenue by Type and Fund						
Dedicated						
Miscellaneous Agency	217	204	230	238	238	476
Subtotal Dedicated	217	204	230	238	238	476
Total Revenue	217	204	230	238	238	476
Full-Time Equivalents (FTE)	2.7	2.3	2.3	2.3	2.3	

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Operating Budget Reductions

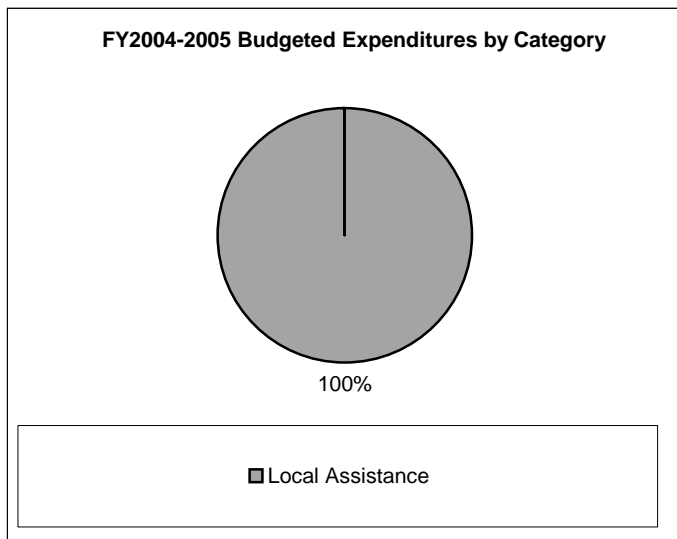
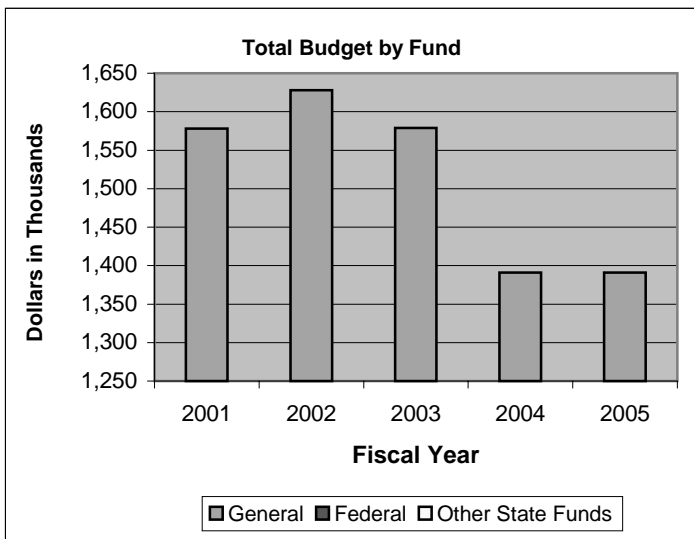
Program Change Items

FY 2004-05 Expenditures (\$000s)

	General Fund	Other Funds	Total
2003 Funding Level	3,158	0	3,158
Biennial Appropriations	116	0	116
Adjusted Base Funding	3,274	0	3,274
Change Items			
Operating Budget Reductions	-492	0	-492
Governor's Recommendations	2,782	0	2,782
Biennial Change, 2002-03 to 2004-05	-425	0	-425
Percent Change	-13%	n.m.	-13%

Brief Explanation Of Budget Decisions:

The Mayo Foundation receives funding for Minnesota students in three programs: the Mayo Medical School, Mayo Family Residency in Rochester, and the Mayo Family Medicine/St. Cloud Hospital programs. The Mayo Foundation received a base adjustment of \$116,000 to even the spending levels in the Mayo Medical School Program appropriation between years.



<i>Dollars in Thousands</i>	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Expenditures by Fund						
Direct Appropriations						
General	1,578	1,628	1,579	1,391	1,391	2,782
Total	1,578	1,628	1,579	1,391	1,391	2,782

Expenditures by Category	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Local Assistance	1,578	1,628	1,579	1,391	1,391	2,782
Total	1,578	1,628	1,579	1,391	1,391	2,782

Expenditures by Program	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Mayo Medical School	591	663	547	514	514	1,028
Rochester Family Med Residency	580	558	625	531	531	1,062
St Cloud Hospital/Family Med	407	407	407	346	346	692
Total	1,578	1,628	1,579	1,391	1,391	2,782

MAYO FOUNDATION

Change Item: OPERATING BUDGET REDUCTIONS

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	(\$246)	(\$246)	(\$246)	(\$246)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(\$246)	(\$246)	(\$246)	(\$246)

Recommendation

The Governor recommends \$1.391 million for FY 2004 and \$1.391 million for FY 2005. This change would reduce the appropriations to the three programs of the Mayo Foundation proportionately.

Background

The state of Minnesota provides supplemental funding to Minnesota residents in the Mayo Foundation's rural and family medicine programs, as well as for students in the Mayo Medical School.

This funding level provides \$514,000 in both years for the Mayo Medical School; \$531,000 in both years for the Mayo Family Practice and Graduate Residency Program; and \$346,000 in both years for the Mayo Family Practice-St. Cloud Hospital Residency Program.

Relationship to Base Budget

This change reflects a 12.3% reduction from FY 2002-03 levels and would reduce the base level appropriations to the Mayo Foundation by \$492,000.

Statutory Change: Not Applicable.