

<i>Dollars in Thousands</i>	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
<b>Expenditures by Fund</b>						
Carry Forward						
General	0	0	0	1,060	424	1,484
<b>Direct Appropriations</b>						
General	151,842	163,251	151,467	185,002	185,002	370,004
<b>Statutory Appropriations</b>						
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
<b>Total</b>	<b>269,934</b>	<b>285,704</b>	<b>287,361</b>	<b>332,675</b>	<b>342,564</b>	<b>675,239</b>

<b>Expenditures by Category</b>	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
<b>Total</b>	<b>269,934</b>	<b>285,704</b>	<b>287,361</b>	<b>332,675</b>	<b>342,564</b>	<b>675,239</b>

<b>Expenditures by Program</b>	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	177,254	177,228	354,482
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	2,464	2,487	4,951
<b>Total</b>	<b>269,934</b>	<b>285,704</b>	<b>287,361</b>	<b>332,675</b>	<b>342,564</b>	<b>675,239</b>

# 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 \$2,663 for two-year institutions, and \$3,375 for four-year institutions. A 15% tuition increase in two-year institutions would increase tuition by \$400 to \$3,063, and in four-year institutions by \$506 to \$3,881. When comparing MnSCU's tuition and fees to surrounding states, the four-year institutions average tuition and fee rate of \$3,061 is \$633 higher, and the two-year institutions average tuition and fee rate of \$3,979 is \$196 higher.

### 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.

**Governor’s Recommendations:**

<b>FY 2004-05 Expenditures (\$000s)</b>			
	<b>General Fund</b>	<b>Other Funds</b>	<b>Total</b>
<b>2003 Funding Level (Biennial Base)</b>	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)
<b>Adjusted Base Funding</b>	<b>1,295,871</b>	<b>58,497</b>	<b>1,354,368</b>
<b>Change Items</b>			
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	714	815
Coleraine Grant Reduction	(2,260)	0	(2,260)
HCAF Reduction	0	(760)	(760)
LCMR Recommendations	0	934	934
<b>Governor’s Recommendations</b>	<b>1,084,611</b>	<b>59,385</b>	<b>1,144,097</b>
<b>Biennial Change 2002-03 to 2004-05</b>	<b>(185,529)</b>	<b>15,217</b>	<b>(170,312)</b>
<b>Percent Change</b>	<b>(15%)</b>	<b>34%</b>	<b>(13%)</b>

**Brief Explanation Of Budget Decisions:**

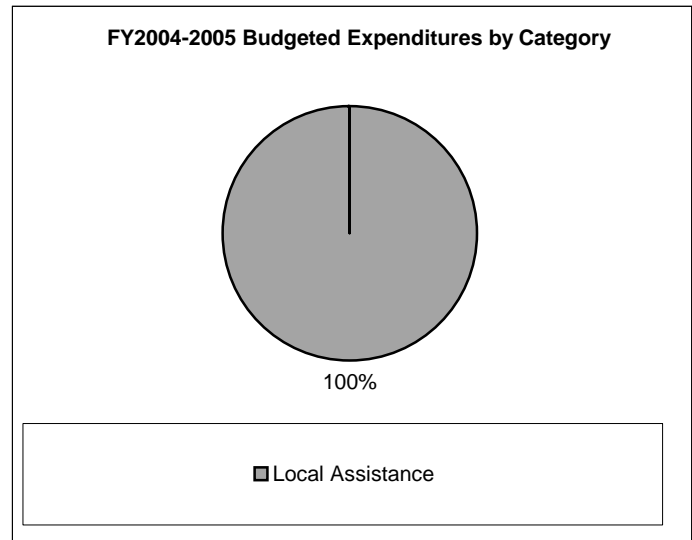
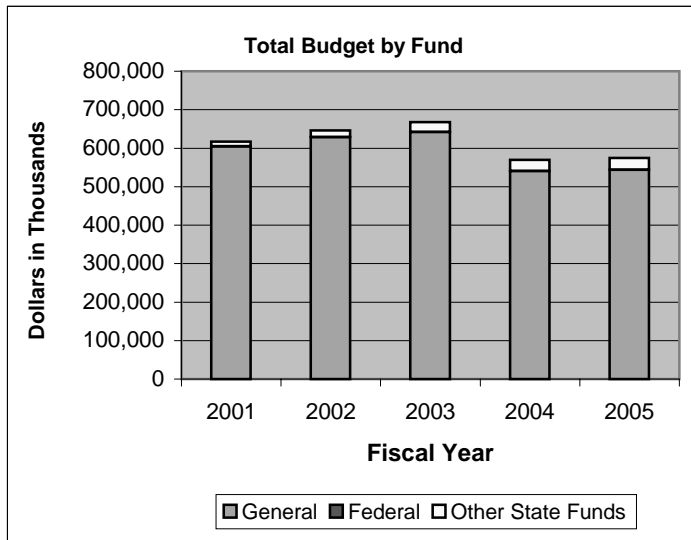
In the General Fund, the University of Minnesota received a forecast base adjustment of \$14.9 million to reflect actual enrollment changes, as allowed under Minnesota Statutes, 135A.031, subdivision 4. The University’s base appropriations have also been adjusted to reflect a legislatively-mandated base 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](http://www.budget.state.mn.us). The following table summarizes the University’s request.

<b>FY 2004-05 Expenditures (\$000s)</b>			
	<b>General Fund</b>	<b>Other Funds</b>	<b>Total</b>
<b>2003 Funding Level (Biennial Base)</b>	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)
<b>Adjusted Base Funding</b>	<b>1,295,871</b>	<b>58,497</b>	<b>1,354,368</b>
<b>Agency Change Items</b>			
Biennial Budget Partnership	96,147	0	96,147
<b>FY 2004-05 Total Agency Request</b>	<b>1,392,018</b>	<b>58,497</b>	<b>1,450,515</b>
<b>Biennial Change 2002-03 to 2004-05</b>	<b>121,878</b>	<b>14,329</b>	<b>136,207</b>
<b>Percent Change</b>	<b>10%</b>	<b>32%</b>	<b>10%</b>



<i>Dollars in Thousands</i>	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
<b>Expenditures by Fund</b>						
<b>Direct Appropriations</b>						
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
<b>Open Appropriations</b>						
General	0	0	460	0	0	0
<b>Statutory Appropriations</b>						
Special Revenue	0	0	500	22,515	22,403	44,918
Miscellaneous Agency	990	2,102	1,914	3,848	5,371	9,219
<b>Total</b>	<b>617,014</b>	<b>646,391</b>	<b>667,917</b>	<b>569,711</b>	<b>574,285</b>	<b>1,143,996</b>

<b>Expenditures by Category</b>	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	569,711	574,285	1,143,996
<b>Total</b>	<b>617,014</b>	<b>646,391</b>	<b>667,917</b>	<b>569,711</b>	<b>574,285</b>	<b>1,143,996</b>

<b>Expenditures by Program</b>	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	29,601	29,489	59,090
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
<b>Total</b>	<b>617,014</b>	<b>646,391</b>	<b>667,917</b>	<b>569,711</b>	<b>574,285</b>	<b>1,143,996</b>

# 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	22,515	22,403	22,291	22,179
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	453	362	147	(588)

### 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](http://www.ahc.umn.edu).

### Relationship to Base Budget

This recommendation is a 37% 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 Changes:** Minnesota Statutes, sections 62J.694, 137.44, and 297F.10, subdivision 10.

**UNIVERSITY OF MINNESOTA**

Change Item: HCAF REDUCTION

<b>Fiscal Impact (\$000s)</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>	<b>FY 2007</b>
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 Governor also recommends consolidating the HCAF into the general fund at the end of FY 2005. In 2006 and beyond, the appropriations for this activity will be made from the general fund.

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.