

The 2004-2005 Minnesota Budget A Fiscal Policy Review

Higher Education



**Minnesota State Senate
Office of Fiscal Policy Analysis
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Higher Education

Overview

Jurisdiction

The Higher Education Budget Division of the Senate Finance Committee oversees the financing of all of the public higher education operations in the state. That includes the four campus **University of Minnesota** system with campuses in the Twin Cities, Duluth, Morris and Crookston; the University center in Rochester; six research and outreach centers in Crookston, Grand Rapids, Morris, Waseca, and Lamberton and Rosemount; a forestry center in Cloquet; and until January 2004, an extension presence in each county. The Higher Education Budget Division also makes decisions affecting the **Minnesota State Colleges and Universities** (MNSCU) system of 34 institutions on 53 campuses throughout the state. MNSCU was created in the mid 1990's with the merger of seven state public universities, the two-year community college system, and the technical college system which previously had been affiliated with local public school districts throughout the state. The higher education funding panel also makes budget decisions that determine the amount of state support for the **Higher Education Services Office** (HESO) which operates the state's financial aid system including state grants, student loans, college intervention activities like Get Ready and Gear Up as well as TRIO, tuition reciprocity arrangements with neighboring states, and college savings programs including 529 plans. Finally, state general fund resources for medical education are channeled through the **Mayo Medical Foundation** to support medical school students who are Minnesota residents and medical residents who choose family practice as their specialty.

Context

In 2003 the Legislature had to solve a \$4.2 billion state general fund budget deficit for fiscal years 2004-2005 without increasing state taxes. As a result, state general fund revenues to the University of Minnesota and the Minnesota State Colleges and Universities were reduced by a combined total of just under \$385 million for the biennium. The Higher Education Services Office was the only higher education sector that had increased funds made available for fiscal years 2004 and 2005 due to the infusion of additional state resources into the State Grant Program.

The increased level of funding made available to HESO was not the result of new state general fund revenues injected into the higher education system. Instead it was largely a reallocation of funding that had previously been part of the U of M and MnSCU base funding. This shift of operating funds from the state's public higher education systems to the financial aid system--which finances student education at private schools as well as public ones--was the major higher education policy change undertaken during the 2003 session. The governor's original 2004-2005 budget recommendation had called for funding reductions at the University of Minnesota in the amount of \$209 million and reductions at MnSCU totaling \$204 million. Within those recommendations was a \$60 million reallocation of resources from those systems to the state grant program. The final bill reallocated \$40 million of general fund resources to the state grant while making base appropriation cuts of \$189 million at MnSCU and \$196 million at the U of M.

History

Minnesota was not unlike more than half of the other states in reducing state support for the financing of public higher education. The average cut nationwide was approximately five percent of base funding, according to the State Higher Education Executive Officers Group. That same group has estimated that in budgeting for 2003 and 2004, approximately \$1.2 billion was cut from higher education spending by states last year without accounting for the full impact of actions in California and New York. Historically, state support for higher education measured as a portion of personal income, has declined over the past 20 years on a national average and in Minnesota. In 1980, spending on higher education nationally was 1.1 percent of personal income while in Minnesota state spending was 1.05 percent of income. By 2000, the national comparison had declined to .79 percent while the Minnesota share had dropped to .78 percent. In 1987, spending on post secondary education in Minnesota was \$781 million or 15.5 percent of the general fund budget. In 2003, general fund spending on higher education was \$1.367 billion or 9.8 percent of general fund spending. The state's investment in higher education per \$1000 of personal income has declined from a high of \$12.53 in 1990 to \$8.11 in 2002 and to \$7.86 in 2003.

Table 1
State Higher Education Spending (Fiscal Year) General Fund Only

1996-1997	1998-1999	2000-2001	2002-2003	2004-2005
\$2,140,027,000	\$2,429,422,000	\$2,617,079,000	\$2,756,633,000	\$2,557,657,000

Fiscal Summary

In its initial budget solution during the 2002 legislative session to address the state's deficit for fiscal years 2002-2003, the legislature did not approve a package that combined spending cuts with increased tax rates and sales tax base expansions recommended by then-Governor Jesse Ventura. Instead, legislators assembled a budget balancing package that utilized a combination of broad one-time and permanent spending reductions and expenditure shifts to address the budget imbalance. The fiscal year 2003 reductions made by the 2002 legislature totaled approximately \$46 million for the U of M and the MnSCU systems. As permanent appropriation reductions, the ongoing effect was a \$25 million annual base reduction for each system in fiscal year 2004 and beyond. With the legislature at an impasse early in the 2003 session, the governor unallotted state general fund appropriations for fiscal year 2003. The unallotment meant an *additional* \$25 million in fiscal year 2003 cuts for the U and \$25 million in fiscal year 2003 reductions to MnSCU. The remainder of the 2003 session was spent addressing the deficit for the 2004-2005 biennium.

The result of the 2003 legislature's action was an actual net decrease of 12 percent in the base level general fund resources for 2004 and 2005 for all of higher education. A survey done by the National Conference of State Legislatures (NCSL) revealed that on a national scale total state spending on higher education declined 2.2 percent in 2003. State spending for higher education in Minnesota for fiscal years 2004-2005 is roughly equivalent to the level of expenditure for higher education in 1998-1999.

For the University of Minnesota, its 2004-2005 base funding was reduced by 15.3 percent from the forecasted level of state general fund resources. The FY 2004-2005 reduction for MnSCU contained in the omnibus higher education funding bill was 14.6 percent from the forecasted base. The MnSCU system was also included in an additional reduction of \$2.5 million for FY 2004-2005 as part of across the board cuts in state agency budgets that occurred in the Omnibus State Government Finance Bill which increased the system's base cut to 14.8 percent or \$191.5 million. HESO, which saw its administrative budget cut by 15 percent, is slated for overall growth in state revenues of 11 percent due to a \$40 million general fund reallocation to the state grant program for 2004 and 2005. The additional \$40 million allocated to the grant represents a 16 percent increase in base level funding for that program. General fund appropriations allocated to HESO for programs other than the state grant took a six percent net cut in base level funding. An additional \$39,000 in reductions will be assessed against HESO in 2004-2005 under a provision in the state government finance bill. The Mayo Medical Foundation appropriation which finances student stipends for Minnesota medical school students and medical residents in family practice programs was dealt a 15 percent decrease in its general fund support from the state.

Table 2
Higher Education Finance
Total General Fund Appropriations
Comparison of FY 02-03 and FY 04-05 As Enacted
(Dollars in 000's)

Item	FY 2002-2003* Includes Unallotment	FY 2004-2005 ** As Enacted	Difference
MnSCU	\$1,193,875	\$1,106,075	- 7.4%
U of M	1,245,140	1,097,351	-11.9%
HESO	314,411	351,449	11.8%
MAYO	3,207	2,782	-13.3%
TOTAL	2,756,633	2,557,657	- 7.2%

*Net of Unallotment

** Total as enacted: reflects reductions in higher education, E-12, and state government finance bills.

Table 3
Higher Education Finance
Total General Fund Appropriations
Comparison of FY 04-05 Base and FY 04-05 As Enacted
(Dollars in 000's)

Item Difference	FY 2004-2005 Base	FY 2004-2005 As Enacted	
MnSCU 14.8%	\$1,297,575	\$1,106,075	-
U of M 15.3%	1,295,871	1,097,351	-
HESO 11.1%	316,488	351,449	
MAYO 15.0%	3,274	2,782	-
TOTAL 12.2%	\$2,913,208	\$2,557,657	-

Policy Review

Minnesota State Colleges and Universities

State general fund resources set aside for spending throughout the MnSCU system for the 2004-2005 biennium total \$1,108,575,000. This amount represents a general fund appropriation reduction to the 53 campus Minnesota State Colleges and Universities system of \$189 million when compared to the forecasted base for the biennium. It represents an actual reduction of 9 percent in general fund spending when compared to its 2002-2003 base spending level before the affects of unallotment were calculated. Net of the 2003 unallotment, the FY 2004-2005 spending reduction compared to the 2002-2003 level of available resources was a negative 7.2 percent. As discussed above, the spending reductions against the MnSCU fiscal year 2004-2005 forecasted base totaled 14.6 percent. The system's base general fund expenditures had been forecasted to increase by nearly \$79 million over the biennium due to enrollment related adjustments throughout the system.

The reductions contained in the Omnibus State Government Finance Bill, further reduced the level of state general fund appropriations to the system by \$2.5 million for the current biennium.

The following chart highlights the 2003 session changes.

Table 4
Minnesota State Colleges and Universities
General Fund Appropriation Comparison

GENERAL FUND ONLY	2002-2003	2004-2005 BASE	2004-2005 ENACTED
Higher Ed. Bill	\$1,218,875,000	1,297,575,000	1,108,575,000
Unallotment	1,193,875,000		
State Govt. Bill			1,106,075,000

At its July 2003 meeting, the MnSCU Board of Trustees approved average system wide tuition and fee increases for full time undergraduate students of 12.5 percent for the 2003-2004 school year and 12.5 percent for the 2004-2005 school year. From 1993 to 2002, tuition and fees at MnSCU universities increased by 57 percent and by 63 percent at its two year institutions. Between 2002 and 2003 alone the average system wide increase was 10 percent. For the fiscal year 2000 tuition and fees at the highest priced MnSCU University was \$3,224 and \$2352 at the most costly two-year institution in the system. For fiscal year 2004, the annual tuition and fees at the most costly university increased to \$4,852 and to \$3,676 at the most expensive two-year school.

University of Minnesota

The state's general fund allocation to the University of Minnesota totals \$1.1 billion for the fiscal 2004-2005 biennium. This level of expenditure is a reduction of \$196,260,000 from the system's forecasted base allocation for fiscal 2004-2005. An additional \$760,000 of Health Care Access Fund revenues (out of a total of \$5.1 million for the biennium) allocated to the university were eliminated as was the dedicated portion of the state's tobacco endowment which had been allocated to the Academic Health Center (AHC). Tobacco endowment revenues of approximately \$44 million for fiscal years 2004-2005 were replaced with a dedication of 6.5 cents of the state tobacco products tax for ongoing operations of the AHC.

A provision contained in the E-12 education finance bill eliminated a \$2,260,000 biennial set aside of Permanent University Fund (PUF) revenues for mining related research at the University's Coleraine Laboratory. A similar provision eliminating the set aside had been included in the governor's recommendations but was not a part of the higher education funding bill. Under legislation passed in 2001, a portion of the PUF revenues was transferred to the general fund and then moved from the general fund to the University's Coleraine Laboratory for minerals research. This provision was set to expire in 2006. The governor's recommendation was to continue the transfer to the general fund, but eliminate the appropriation from the general fund to the University, thus

reducing the general fund deficit by \$2,260,000 for 2004-2005. The higher education bill maintained the entire 2001 transfer provision and addressed the deficit reduction issue by reducing the University's operations and maintenance appropriation by the same amount. The E-12 bill eliminated the transfer from the PUF to the general fund but did not eliminate the language making the allocation to the Coleraine Lab. The net effect is an appropriation that has no revenue source. Because this change was in the E-12 bill which passed and was signed into law after the higher education bill, its provisions are what now stand as law. The fiscal impact of the provision in the E-12 bill was to impose a cost of \$2.26 million on the general fund.

All told, the University's budget for 2004-2005 in relation to its level of general fund appropriations in fiscal years 2002-2003 declined by 13.6 percent before accounting for the 2003 unallotment. Net of unallotment, the decline was 11.9 percent relative to 2002-2003. The appropriation reductions enacted for 2004-2005 represent a 15.3 percent cut from the system's 2004-2005 forecasted state general fund expenditure base.

The following table highlights the 2003 session changes.

Table 5
University of Minnesota
General Fund Appropriation Comparison

GENERAL FUND ONLY	2002-2003	2004-2005 BASE	2004-2005 ENACTED
Higher Ed. Bill	\$1,270,140,000	1,295,871,000	1,097,351,000
Unallotment	1,245,140,000		
E-12 Bill General Fund Cost			2,260,000

At its June 2003 meeting, the University Of Minnesota Board Of Regents endorsed undergraduate tuition and fee increases of 14.7 percent for the 2003-2004 school year for full time undergraduates at the Twin Cities campus. Preliminary planning estimates for the 2004-2005 school year are for a 13 percent increase. The table below highlights the tuition and fee changes for all four campuses.

Table 6
University of Minnesota
Percentage Increase in Undergraduate Tuition and Fees

CAMPUS	2002-2003	2003-2004	2004-2005 (PLANNING ESTIMATES)
Twin Cities	14.4%	14.7 %	13%
Crookston	10.7%	14%	12%
Duluth	16.1%	12.9%	12%
Morris	17.2%	12.4%	12%

Graduate and professional program tuition and fees are also slated for increases ranging from 1.8 percent to 14 percent in the 2003-2004 school year and for 12 percent increases in 2004-2005. According to information compiled by the Higher Education Services Office, average annual resident undergraduate tuition and fees increased by 67 percent between 1993 and 2002. The average resident undergraduate student tuition and fee increase between 2002 and 2003 was 13.4 percent. At the university's Morris campus, tuition and fees have increased from \$5033 in the 2000-2001 school year to \$7508 for the 2003-2004 academic year. At the Twin Cities campus tuition and fees increased from \$4401 in the year beginning in fall of 2000 to \$6562 for the year beginning in fall of 2003. Tuition and fees at the University of Minnesota consistently rank approximately in the middle of all Big Ten schools. All of the examples cited above are for resident undergraduate students. The most recent national survey by the College Board indicated that the average increase in tuition by the nation's public universities was 14 percent.

Higher Education Services Offices

As mentioned above, in his 2004-2005 budget recommendation the governor suggested reducing both the University of Minnesota and MnSCU base budgets by \$30 million each and reallocating those resources to finance a shortfall in the state grant program. By the time lawmakers were deciding the final budget package, the estimated shortfall in the state grant had increased to an amount in excess of \$90 million. The final conference committee solution reallocated \$40 million to the state grant and addressed the remaining deficiency by tightening the parameters of the state grant program.

Specific components of the grant which were revised included:

- Reducing grant eligibility from 10 semesters to 8 semesters or their equivalent: In fiscal year 2003 an estimated 5,723 state grant recipients were fifth year students in at least one term.
- Eliminating a practice conducted by HESO of using state grant money to finance both the state and federal share of student aid in summer terms. HESO estimates that 134 students would be affected in fiscal year 2004.
- Specifying that the tuition maximums used in calculating grant awards are the two-year cap for two-year programs and the four-year cap for four-year programs. Previously, students in two-year programs offered at four-year institutions were

allowed to use the four-year grant cap amount. The tuition maximums are set at \$8,983 for four-year institutions and \$6,913 for two-year schools. An estimated 131 students would be affected in fiscal year 2004.

- Offsetting state grant awards by increases in federal Pell awards. An estimated 472 students would be affected in fiscal year 2004.
- Reducing the living and miscellaneous expense allowance by \$200 from \$5,405 to \$5,205. HESO estimates indicate that 1409 students would be affected in 2004.
- Eliminating a \$25,000 family income offset in calculating state grant eligibility and subsequent awards. Approximately 379 students would feel the effects of this provision in 2004.
- Basing grant awards on average tuition and fees charged to all full time students rather than actual tuition and fees.
- Eliminating the practice of retroactive state grant awards. Students now have until 14 days into the start of a term to apply for state grants. HESO estimates that nearly 2000 students would be affected in fiscal year 2004.

Any shortfall in grant funding which arises during the first year of the biennium must be addressed immediately. Legislative authority no longer exists for the agency to draw on its second year appropriation to address deficits in the first year. The law now directs HESO to increase both the assigned student share and assigned family responsibility portion of the grant calculation in equal dollar amounts to address a deficiency. While the appropriation for child care awards was not reduced, the maximum grant awards were cut by \$400 from \$2,600 for each eligible child to \$2,200 per child.

In addition HESO's state general fund appropriations for administrative costs were reduced by 15 percent from its base appropriation level.

The following table highlights the 2003 session changes.

**Table 7
Higher Education Services Office
General Fund Appropriation Comparison**

GENERAL FUND ONLY	2002-2003	2004-2005 BASE	2004-2005 ENACTED
Higher Education Bill*	\$314,718,000	316,488,000	351,488,000
Unallotment	314,411,000		
State Govt. Finance Bill			351,449,000

*includes carry forwards

Two other provisions affecting HESO operations merit discussion. First, the 2003 legislation gave the Commissioner of Finance authority to transfer \$30 million of uncommitted funds in the SELF loan reserve fund to the general fund budget reserve account with the stipulation that the funds be returned to the SELF fund by June 30, 2007. The SELF loan fund, while created with state seed money, is a self-supporting fund that does not receive general fund support for its operations. Because the fund is capitalized through bonded indebtedness, opponents of the move to spend the reserve

argued that it would reduce investor confidence in the fund and thus drive up interest rates. The payback requirement was enacted to address the concern over investor confidence. Second, the position of HESO director (currently filled by the Higher Education Services Council) will become a gubernatorial appointment by December 30, 2003. The HESO director is currently appointed by HESO's public governing board and is not directly accountable to either the governor or the legislature. The director of the agency will now be directly accountable to the governor.

Mayo

The Mayo Medical Foundation which provides financial aid for Minnesotans attending medical school in the state and stipends for medical residents in family practice residency programs in Minnesota had its level of state support reduced by 15 percent for 2004-2005 biennium.

The following table highlights the 2003 session changes.

**Table 8
Mayo Medical Foundation
General Fund Appropriation Comparison**

GENERAL FUND ONLY	2002-2003	2004-2005 BASE	2004-2005 ENACTED
Higher Education Bill	\$3,207,000	3,274,000	2,782,000

Medical Student Stipends

In the 2002-2003 academic year, Mayo medical students who were Minnesota residents received stipends from the state of \$14,405 each to underwrite the cost of their medical education. As a result of the 15 percent reduction in state support for this and other Mayo programs, the Mayo organizations chose to reduce the allocation to each student by 10.8 percent. This resulted in a 2003-2004 capitation amount of \$12,850 per student.

Rochester Family Medicine Residency Program

As a result of the 2003 legislative reductions, the commensurate cut to the family practice residency program in Rochester was accommodated by making reductions in administrative and program support costs rather than by reducing stipends to residents. Thus, family practice residency participants are continuing to receive the \$22,313 per resident stipends which is a level unchanged from the 2002-2003 biennium.

St. Cloud Hospital Family Medicine Residency Program

While there has been no reduction in the number of residents supported in the family practice program at St. Cloud Hospital for the 2003-2004 academic year, the amount of the stipend available to support the 12 residents was reduced from \$33,917 in the previous biennium to \$28,833 in the current biennium. The remaining reductions were dealt with through reductions in administrative program costs.

Focus Area

One of the primary issues of debate surrounding public higher education in Minnesota and elsewhere in the country is whether public dollars that support higher education activities should be tied directly to public institutions or systems or whether the dollars should flow directly to students who could then use their “market power” in choosing what institution to attend. In Minnesota this debate currently pits public higher education institutions directly against private institutions due to the current distribution of state financial aid dollars.

As the following two tables illustrate, in fiscal year 2002, while 34 percent of state grant recipients attended private higher education institutions and received 52 percent of the funds available through that program, 66 percent of the grant recipients attended a public higher education institution and were allocated 48 percent of the resources of that program.

Table 9
Minnesota State Grant
Total Grant Award Dollars by Sector
Dollars in 000's

Sector	FY 2001	FY 2002
MnSCU	\$38,572 = 33.3%	\$40,200 = 32%
U of M	\$16,845 = 14.6%	\$20,200 = 16%
Privates	\$60,349 = 52.1%	\$65,300 = 52%
Total	\$115,766 = 100%	\$125,700 = 100%

Table 10
Minnesota State Grant
Number of Recipients by Sector

Sector	FY 2001	FY 2002
MnSCU	35,603 = 54.5%	37,947 = 53%
U of M	8,159 = 12.5%	9,442 = 13%
Privates	21,484 = 33%	23,885 = 34%
Total	65,246 = 100%	71,274 = 100%

The debate in Minnesota and nationally also centers upon the level of public subsidy per student at public owned and operated higher education institutions and whether that level of subsidy is, depending on your perspective, either too low or too high. Based on the fiscal year 2004 appropriations in the higher education finance bill compiled during the 2003 session, the average subsidy per full year equivalent (FYE) within the MNSCU system is \$5,556 and the system wide average at the University of Minnesota is \$6,879

per FYE. These estimates are based on instructional expenditure amounts specified in the appropriation sections of the law. Actual costs per student at the institutions vary substantially depending on the school, the level of academic achievement (lower division undergraduate, upper division undergraduate, graduate and professional) and by the course of study. Based on a fiscal year 2002 instructional cost study done by MNSCU, their fully allocated costs per lower division FYE averaged \$6,625 with a range from approximately \$4,000 per FYE to nearly \$30,000 per FYE in some medical technology programs. MNSCU's upper division fully allocated cost per FYE average \$8,198 with a range from \$5,026 to \$31,486 per FYE. The average cost per FYE for MNSCU graduate programs was \$7,887 ranging from \$4,924 to \$17,243. At the U of M based on a 2001 study, the system wide average cost per FYE was \$12,786 with ranges from just over \$6,000 per FYE to just under \$39,000 per FYE for medical school students at the Duluth campus.

According to data compiled by the MnSCU system, for fiscal year 2000, operating expenditures per student and state colleges and universities was \$9,026. At higher education institutions represented by the Private College Council, operating expenditures per student were \$14,598 for fiscal year 2000. For fiscal year 2001, MnSCU expenditures per FYE averaged \$9,543. Average expenditures based on unduplicated headcount at MnSCU schools were \$4,702. Corollary information for Minnesota private institutions for FY 2001 (based on IPEDS data) indicates that private colleges spent \$15,002 per FYE and \$10,559 per student based on an unduplicated headcount.

This tension between the entities vying to win public support promises to greatly intensify and become more of a high stakes competition given the tight budget constraints Minnesota and other states are currently working under and which they will likely continue to face in the years to come. This is of particular importance in higher education assuming that the historical trends of declining relative shares of public dollars for higher education continue.

For additional detailed information on the 2003 Higher Education Finance bill, check the Office of Fiscal Analysis website at www.senate.leg.state.mn.us/departments/FiscalAnalysis and click on "tracking documents."

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