FISCAL ISSUE BRIEF

2003 Legislative Action: Higher Education Finance

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Questions

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Introduction

The 2003 Legislature faced the task of solving a $4.2 billion state general fund budget deficit for the 2004-2005 biennium without increasing state taxes. As a result, state general fund revenues to the University of Minnesota and the Minnesota State Colleges and Universities (MnSCU) systems were reduced by a combined total of just under $385 million for the biennium. The only higher education sector that had increased funds made available for fiscal years 2004 and 2005 was the State Grant Program administered by the Higher Education Services Office (HESO).

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. 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

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making base appropriation cuts of $189 million at MnSCU and $196 million at the U of M.

Session Summary

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.

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 6 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.

History

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 tax rate increases 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 unalloted 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.

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.

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.

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.

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.

Undergraduate Tuition and Fees

CAMPUS	2003-2004	2004-2005 (PLANNING ESTIMATES)
Twin Cities	14.7 %	13%
Crookston	14%	12%
Duluth	12.9%	12%
Morris	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.

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;
- 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;
- 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;
- Offsetting state grant awards by increases in federal Pell awards.
- Reducing the living and miscellaneous expense allowance by $200 from $5,405 to $5,205;
- Eliminating a $25,000 family income offset in calculating state grant eligibility and subsequent awards;
- Basing grant awards on average tuition and fees charged to all full time students rather than actual tuition and fees; and
- 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.

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, 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.

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.

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. Second, the position of HESO director (currently filled by the Higher Education Services Council) will become a gubernatorial appointment by December 30, 2003.

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.

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

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."