FISCAL ISSUE BRIEF

Governor Pawlenty's FY 2004-2005 General Fund Budget Recommendations for Higher Education

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Questions

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Introduction

On Tuesday, February 18, 2003 Governor Tim Pawlenty presented his plan for balancing Minnesota's Fiscal Year 2004-2005 general fund biennial budget. According to the February 2003 state budget forecast, the FY 2004-2005 general fund budget is projected to have a $4.2 billion deficit on June 30, 2006 under current law revenue and expenditures levels. As part of his FY 2004-2005 deficit management plan, the Governor has recommended reductions in general fund revenues available to public higher education programs and services in the amount of $420,752,000.

The $420,752,000 is a reduction from the "adjusted base"—that is, from the level of expenditures that had been expected to occur in the higher education area in FY 2004-2005 based on current law, revenue changes driven by increases in enrollment and on previous, legislatively mandated changes in funding. Under the governor's budget plan, these reductions are partially offset by a recommendation to increase spending in the state grant program by $30 million per year. If the governor's budget were adopted, the net general fund spending reduction from the FY 2004-2005 adjusted base would be $360,752,000.

The governor's specific higher education budget recommendations for FY 2004-2005 are discussed in detail below.

Higher Education Services Office (HESO)

Governor Pawlenty's fiscal year 2004-2005 general fund budget recommendation for financing the operation of the Higher Education Services Office (HESO) and the programs and services it administers includes $55 million in net new general fund resources available to the agency. This represents an increase of 17.4 percent over the agency's base budget for FY 2004-2005. When compared to spending in the FY 2002-2003 biennium and with the effects of the recent unallotments figured in, HESO's budget increase is an estimated 18.2 percent from FY 2002-2003 to FY 2004-2005. The governor's budget recommendations also include a provision effective for FY 2003 which would make a one-time transfer of $30 million from the SELF (Student Educational Loan Fund) Loan Capital Fund to the general fund.

The most significant of the Governor's FY 2004-2005 recommendations for HESO is that under which the University of Minnesota and the MnSCU system would share equally in a base reduction of $30 million each year. General fund money saved through these reductions would be appropriated to HESO to finance the operation of the State Grant Program through FY 2004-2005. Of the $60 million, however, $54 million would go toward funding the deficiency in that program's current level of service through FY 2004-2005. Combined with anticipated savings to the state as a result of an increase of $50 in the federal Pell Grant maximums, the remaining $6 million of new money available to the state grant program is anticipated to cover possible increases in tuition up to 3 to 4 percent. It should be noted, however, that HESO's FY 2004-2005 base estimates for the state grant are based on zero enrollment growth at Minnesota higher education institutions between FY 2002-2003 and FY 2004-2005 at a time when both MnSCU and the University of Minnesota are reporting record numbers of applications for enrollment.

Beyond the recommendations pertaining to the state grant program, the governor's budget also contains $5 million in reductions to other programs administered by HESO. The proposed reductions include:

- Eliminating the Summer Scholarship Program at a savings of $200,000 per year;
- Eliminating funding within the higher education system for the Advanced Placement/International Baccalaureate Program at savings of $75,000 each year:
- Recognizing forecasted savings in the tuition reciprocity program in the amount of $650,000 per year;
- Reducing the base appropriation to the Minitex system by $300,000 per year;
- Reducing the appropriation for the Learning Network by $350,000 per year;
- Reducing the appropriation for the College Savings Program by $400,000 per year.
- Reducing state general fund resources for the HESO administrative budget by $525,000 per year.

In addition, the governor's plan contains a number of policy related recommendations that are expected to suppress cost increases in the state grant program. Those proposals include:

- Clarifying that the tuition cap used in determining the amount of a student's tuition that is included in the calculation of a state grant award be limited to the cap which applies to the length of the program in which the student is enrolled. Currently, a student enrolled in a two-year program at an institution offering at least one four-year program could use tuition up to the maximum amount allowed for a four-year institution in determining his or her award amount. Under the governor's plan only the amount of tuition up to the two-year level could be used.

- Eliminating retroactive eligibility for the state grant by specifying that HESO shall accept applications for state grants up until February 15 of each academic year. Any student who applies for state grant funds after the first semester (or the equivalent of the academic year) may not receive retroactive funds for the entire academic year.

- Creating a new statutory procedure for dealing with potential shortfalls in state grant funding. The governor's plan specifies that before any awards are reduced, HESO must first transfer any amount necessary to make full grant awards from the work study appropriation. If additional funds are still necessary, HESO must transfer from the child care grant appropriation to the state grant appropriation any amount necessary to make full grant awards. Reductions in grant awards themselves would occur only after the above remedies were exhausted.

- Increasing the fees charged by HESO to cover the cost of administering the registration of private higher education institutions with the state to $1100 for initial registration and to $950 for renewals. Currently the fee for first time registrants is $550 and renewals are $400.

The governor has also proposed changing the HESO administrative structure by replacing HESO with an office of higher education administered by a gubernatorial appointed director. The appointment of the director would be subject to the advice and consent of the Senate. The current HESO board would be replaced with an expanded Higher Education Advisory Council (HEAC) with the director of the office of higher education as council chair. In addition to the director the council would be comprised of: the president of the University of Minnesota; the MnSCU chancellor; the commissioner of the Dept. of Children, Families and Learning; the private college council president; a representative from the state association of private post-secondary schools; five citizen members appointed by the governor to five-year terms; and four student members appointed to two-year terms.

Minnesota State Colleges and Universities (MnSCU)

The governor's plan proposes a base reduction in general fund spending for the MnSCU system of $204,000,000 for the 2004-2005 biennium. This is a decrease or 15.7 percent from its FY 2004-

2005 adjusted base level spending. It is a decrease of $100,300,000 (or 8.4 percent) from the level of general fund resources available to MnSCU in FY 2003-2004.

Of the $204 million base reduction, $30 million would be reappropriated to the state grant program for FY 2004-2005.

Finally, the governor's plan would impose a wage and salary freeze on MnSCU employees (like other state employees) and would cap yearly tuition increases at 15 percent per year.

University of Minnesota

Governor Pawlenty's proposed budget cuts for the University of Minnesota are slightly higher than those to the MnSCU system. His plan is for an operating budget reduction of $209,000,000 for FY 2004-2005. Of this reduction, $30 million is slated for reallocation to HESO for the State Grant Program under the governor's plan. This is a decrease of 16.1 percent in the level of support the university had expected to receive from the general fund in FY 2004-2005. It represents a cut of 160,069,000 (12.9 percent) from what it received in the FY 2002-2003 biennium.

The governor's plan also eliminates a general fund appropriation of $2,260,000 for the university's Coleraine Laboratory by eliminating the Taconite Mining Grant Program. Under current law as a result of legislation enacted in 2001, 20 percent of the taconite lease payments which had been deposited to the University Fund Mineral Lease Suspense Account and the School Fund Mineral Lease Suspense Account are now being transferred to the state general fund. These funds are then appropriated from the general fund to the university and the Department of Natural Resources (DNR) for taconite mining programs. Current law estimates are for this program to generate $940,000 in FY 2004 and $1,320,000 in FY 2005 for the mining grants administered by the Coleraine Laboratory. The governor's plan would continue the transfer of mineral lease payments to the general fund but would eliminate the appropriations to the university and DNR for the mining grants. Enactment of the governor's recommendation on this item would bring the total amount of reduction in what the university had expected to receive in FY 2004-2005 to $211,260,000.

Additional resources received by the university's Academic Health Center from the Health Care Access Fund would also be reduced under the Pawlenty plan. Health Care Access Fund revenues would be cut by 15 percent or $760,000 for the biennium. Health Care Access Fund revenues are used to finance primary care medical school programs.

Additionally, revenues accruing to the University of Minnesota in FY 2004-2005 from the tobacco endowments in the amount of $44,103,000 are eradicated due to the governor's plan to eliminate the tobacco endowments and transfer their balances to the state general fund. The governor has, however, recommended replacing the lost tobacco endowment revenues with dedication of 6.5 cents of the tobacco products tax revenues to the Academic Health Center (AHC) at the University of Minnesota. The dedicated tobacco tax proceeds are estimated to generate approximately $42,900,000 for the FY 2004-2005 biennium.

The university may also be affected by reductions in the funds available for allocation by the

Legislative Commission on Minnesota Resources (LCMR) brought about by an elimination of dedicated funding for the Future Resources Fund. Although the governor did not make recommendations about eliminating specific programs, his plan to repeal the current source of revenue for the programs places them in obvious jeopardy.

Under the Minnesota Constitution, the University has autonomy from the state. As a result, the governor has **requested** that the University impose a freeze on employee salaries and wages and hold any tuition increases to no more than 15 percent per year.

Mayo Medical Foundation

The governor's budget plan would make an annual reduction of $246,000 in the state appropriation to the Mayo Medical Foundation. The foundation administers programs which provide medical school tuition subsidies to Minnesota residents attending medical school in the state and provides stipends to medical residents in primary care/family practice specialties. This governor's recommendation represents a 13.3 percent reduction in state funds from what the foundation received in FY 2002-2003 and a reduction of 15 percent from its anticipated level of spending for FY 2004-2005 under current law.

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