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AT A GLANCE

- Five Campuses (Crookston, Duluth, Morris, Rochester, Twin Cities)
- Seven Research and Outreach Centers throughout the state
- Budget: \$3.8 billion (FY18)
- 20,389 faculty & staff; 6,511 graduate student & professionals in training employees (as of 10/17)
- Enrollment: 67,949 (Fall 2017 Total)
 - 44,544 Undergraduate
 - 13,283 Graduate
 - 3,860 First Professional
 - 6,262 Non-Degree
- Degrees awarded: 15,985 (2017)
- Sponsored research awards: \$793 million (FY18)

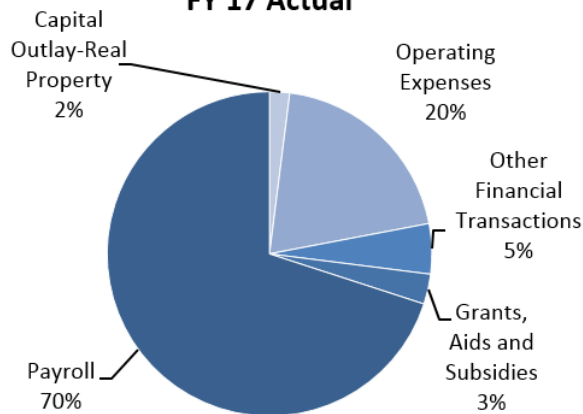
PURPOSE

The University of Minnesota’s statutory mission is to offer undergraduate, graduate, and professional instruction through the doctoral degree and be the primary state supported academic agency for research and extension service (MN Statute 135A.052). The University’s mission is threefold: research and discovery, teaching and learning, and outreach and public service. The University of Minnesota is the state’s only land grant and research institution, and has a unique responsibility to better the lives of Minnesotans. As one of the nation’s top research institutions, the University is a venue where human talent, ideas and innovations, and discoveries and services converge to fuel Minnesota’s economy and improve our quality of life. In carrying out its mission on five campuses and research and outreach centers throughout the state, the University contributes to all eight of the state’s outcome areas through knowledge generation and by providing services, but advances most directly the following statewide outcomes:

- A thriving economy that encourages business growth and employment opportunities
- Minnesotans have the education and skills needed to achieve their goals;
- All Minnesotans have optimal health; and
- Sustainable options to safely move people, goods, services, and information.

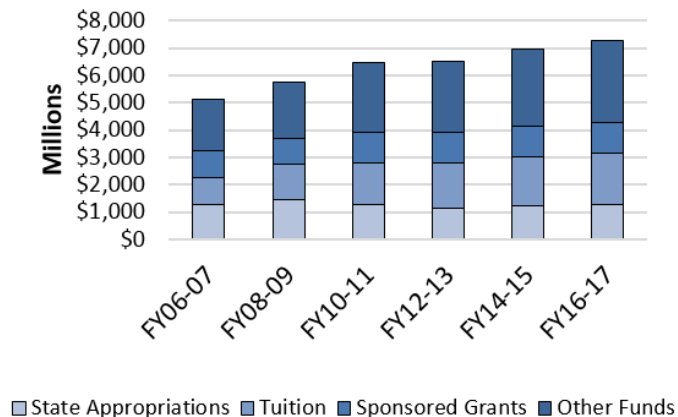
BUDGET

**Spending by Category
FY 17 Actual**



Source: University of Minnesota, General Ledger

Historical Spending



Source: University of Minnesota, General Ledger

The University's FY18 \$3.8 billion budget is based on revenue support from a variety of sources: tuition (26%), state appropriation (18%), sponsored research grants from federal government and other sources (15%), philanthropy and contracts (17%), miscellaneous income from sales, fees, etc. (14%) and auxiliary business operations (10%). The University's budget includes funding for the Crookston, Duluth, Morris, Rochester, and Twin Cities campuses as well as seven research and outreach centers, fifteen regional Extension offices, a multitude of research institutes, and MN Extension staff in every county in the state. The University uses its State appropriation for all aspects of the University system.

Although the University is dependent on its partnership with the State of Minnesota to continue to succeed, this partnership has changed significantly over the last two decades. In 1996, the State's portion of the University's total tuition plus state appropriation was 70%. In 2018, the State's portion of that same total was 43%. As a percent of total revenues (including gifts, sales, grants etc.), the State's portion has dropped from 32% to 18%. Although the University has continued to serve more students and improve student success, ongoing State operating support for the University has declined since its 2008 peak and as a result, the University has become more dependent on tuition and other revenue sources and has greatly enhanced its efficiency to achieve success.

STRATEGIES

In recent annual operating budgets, the President and the University of Minnesota Board of Regents have focused revenue and spending plans on achieving the goals of Access, Affordability, Academic and Operational Excellence, and Accountability. In fall 2016, the University began system wide strategic planning to better align its resources and leverage system strengths - a system including five unique campuses and an array of Extension and Outreach centers and services effecting people statewide. As examples, the University will capitalize on the following:

- **Crookston Campus:** Known for its focus on experiential learning for its campus-based students, the University of Minnesota Crookston is also one of the nation's pioneers in online and distance education.
- **Duluth Campus:** The University of Minnesota Duluth is a highly-ranked, regional research and liberal arts university with a global reputation for freshwater research. With over 160 majors and minors and eight pre-professional programs, UMD offers an expansive array of high-quality academic choices for students. In addition, UMD's Large Lakes Observatory is the only institute in the country dedicated to the study of large lakes throughout the world.
- **Morris Campus:** The University of Minnesota Morris is a nationally ranked, undergraduate-focused liberal arts campus with a deep commitment to environmental sustainability and diversity. The "Morris experience" emphasizes faculty-student collaborative research, study abroad opportunities, and service learning.
- **Rochester Campus:** The University of Minnesota Rochester prepares health science professionals and maintains unique collaborations with world-renowned medical organizations in the community. This includes high quality, more individualized instruction. To date, 100 percent of Rochester's Bachelor of Science in Health Professions graduates have passed the exams for their professions and are employed in their chosen fields.
- **Twin Cities Campus:** The University of Minnesota Twin Cities campus is the University's flagship campus and is one of only five campuses in the country with schools of engineering, medicine and veterinary medicine, law, and agriculture on a single campus. Because of the Twin Cities campus size and scope of programs, unique opportunities exist for interdisciplinary education, research, and outreach. The Twin Cities campus will continue its excellence in:

- Education: The Twin Cities campus attracts high caliber students from across the globe due to its world-renowned faculty and staff. As an example, 84.3 percent of freshman are admitted from the top 25 percent of their class and the average freshman ACT score is greater than 28.
 - Research: Twin Cities campus faculty led Forbes magazine to name Minneapolis one of the top 10 innovative cities. Examples of innovations include: the invention and patent of the “black box” flight recorder in the United States; the development of Ziagen, one of the world’s most effective AIDS drugs; medical firsts such as the first open-heart surgery and first pancreas and human bone marrow transplants, and nearly 30 new apple varieties including the beloved Honeycrisp.
 - Outreach: The Twin Cities campus continues its vast array of outreach efforts through initiatives and partnerships such as its mobile dental clinic and the Community-University Health Care Center partnership.
- **Minnesota Extension:** Extension researchers and educators engage individuals and organizations in asking the challenging questions to discover science-based answers that make a difference. As an example, Extension’s Regional Sustainable Development Partnerships serve Greater Minnesota with 145 active sustainable development projects across the state.

To capitalize on these strengths, President Kaler charged a System wide Strategic Planning Committee to develop a plan to benefit students and citizens across the state and to articulate the common values, processes, and expectations across campuses. Through this process, the Committee developed a System wide Strategic Framework. The Board of Regents adopted the Framework in June 2017. The Framework highlights ways to better connect, leverage, and align the system’s distinctive statewide resources. The Framework is available at https://president.umn.edu/sites/president.umn.edu/files/swsp_framework.pdf.

Later that fall, President Kaler subsequently charged the System wide Strategic Planning and Oversight Committee to lead the development of system priorities in focus areas that align with the University’s mission and System wide Strategic Framework. This work will yield an academic program investment strategy and a long-term financial framework with the following focus areas: Teaching and Learning; Research and Discovery; Outreach and Public Service; Medicine and Health; and Supporting the Mission.

Through these strategic planning efforts, the University will make decisions on investments that strengthen student success, enhance knowledge transfer between the University and Minnesota and communities and businesses, build upon research opportunities affecting Minnesotans, and align the University’s health sciences work with Minnesota’s health policy and workforce needs. The University is committed to providing high-value education and research to improve outcomes for all Minnesotans and to optimize communications with Minnesota communities to deliver useful, actionable information to stakeholders.

RESULTS

The University pursues excellence in education, research, and outreach to produce discovery and innovation that improves the lives of individuals and communities throughout our state and world. The University’s inspired and motivated community of faculty, staff, and students and its strong sense of purpose drives the focus on continual improvement. To help chart its progress on providing high-value education, research, and public engagement services, the University measures and tracks its progress on a variety of results-based performance measures. The Board of Regents adopted the measures in the spring of 2016, which are showcased on the University’s Progress Card. The Progress Card helps the Board of Regents focus oversight on a limited number of strategically measurable outcomes (Gold measures), which have quantifiable goals for 2021. These measures track the University’s progress on improving graduation rates (four-year by campus, six-year by campus, Pell-eligible students systemwide), average freshman ACT on the Twin Cities campus, institutional gift aid, R&D expenditures, Medical School ranking, faculty awards, participation in the employee engagement survey, and progress on the University’s operational excellence goal.

The University has made progress on many of these measures over the last several years, which helps to exemplify the University's commitment to providing high-value services:

- Graduation rates for a variety of different student groupings have increased over time, resulting in a financial gain for students through lower total spending on tuition/fees/housing/debt and earlier entry into the workforce;
- Twin Cities campus ACT scores have increased indicating the campus is attracting high quality students who have the best chance to succeed academically at the University of Minnesota;
- Institutional gift aid has increased showing an increase in support for students;
- R&D expenditures have increased indicating the University's continued role in producing high-value research for Minnesota and the world; and
- The University continues to meet its administrative cost reallocation goals, which highlights the University's commitment to administrative efficiency.

Each of these measures is an indication that the University is providing a greater and greater value to Minnesotans each year.

The Progress Card also provides insight into important trends (Maroon measures), that are a signal of institutional strength. These items are important to monitor, but the University alone cannot significantly influence them. They include measures such as the Twin Cities transfer student 3-year graduation rate, number of graduate and professional degrees awarded, median undergraduate debt at graduation, students of color with a favorable sense of belonging on campus, national research ranking, among others. The full set of measures can be found at: <https://oir.umn.edu/planning-metrics/progress-card>.

The University also publishes annually the "University Plan, Performance, and Accountability Report" (<https://conservancy.umn.edu/handle/11299/174174>), which reflects the institution's progress against its key strategic goals and identifies areas for improvement. This report is required under the University's charter, 1851 Territorial Laws, Chapter 3, Section 16, where it states that "[the regents shall] make a report annually, to the Legislature...exhibiting the state and progress of the University...and such other information as they may deem proper, or may from time to time be required of them."

Minnesota Statutes 137 (<https://www.revisor.mn.gov/statutes/cite/137>) provides the legal authority for the University of Minnesota.

(Dollars in Thousands)

	Actual FY16	Actual FY17	Actual FY18	Estimate FY19	Forecast Base		Governor's Recommendation	
					FY20	FY21	FY20	FY21
<u>Expenditures by Fund</u>								
1000 - General	625,549	629,049	661,186	648,636	648,636	648,636	661,609	674,841
2000 - Restrict Misc Special Revenue	22,366	22,360	22,367	22,384	22,370	22,370	22,370	22,370
2018 - Agriculture			250	250				
2050 - Environment & Natural Resources	13,506	19,636	23,376	17,739				
2302 - Clean Water			1,008	1,007				
2360 - Health Care Access	2,157	2,157	2,157	2,157	2,157	2,157	2,157	2,157
6000 - Miscellaneous Agency	6,150	963	430	6,692	3,155	3,130	3,155	3,130
Total	669,728	674,165	710,774	698,865	676,318	676,293	689,291	702,498
Biennial Change				65,745		(57,028)		(17,850)
Biennial % Change				5		(4)		(1)
Governor's Change from Base								39,178
Governor's % Change from Base								3

Expenditures by Program

Permanent University Fund	6,150	963	430	6,692	3,155	3,130	3,155	3,130
Maintenance and Operations	559,111	560,011	590,248	580,198	580,198	580,198	593,171	606,403
Agriculture Special	42,922	42,922	42,922	42,922	42,922	42,922	42,922	42,922
Health Science Special	33,611	33,611	33,611	33,611	33,611	33,611	33,611	33,611
Technology Special	1,140	1,140	1,140	1,140	1,140	1,140	1,140	1,140
System Specials	5,181	5,181	7,181	7,181	7,181	7,181	7,181	7,181
LCMR/MN Resources	13,506	19,636	24,634	18,996				
Special Projects	116	2,710	2,617	134	120	120	120	120
U/Mayo Partnership	7,991	7,991	7,991	7,991	7,991	7,991	7,991	7,991
Total	669,728	674,165	710,774	698,865	676,318	676,293	689,291	702,498

Expenditures by Category

Operating Expenses	19,557	19,557	19,557	19,557	19,557	19,557	19,557	19,557
Grants, Aids and Subsidies	650,171	654,608	691,217	679,308	656,761	656,736	669,734	682,941
Total	669,728	674,165	710,774	698,865	676,318	676,293	689,291	702,498

(Dollars in Thousands)

	Actual FY16	Actual FY17	Actual FY18	Estimate FY19	Forecast Base FY20 FY21		Governor's Recommendation FY20 FY21	
1000 - General								
Direct Appropriation	625,549	626,449	658,686	648,636	648,636	648,636	661,609	674,841
Transfers In	17,400	20,000	19,900	17,400	17,400	17,400	17,400	17,400
Transfers Out	17,400	17,400	17,400	17,400	17,400	17,400	17,400	17,400
Expenditures	625,549	629,049	661,186	648,636	648,636	648,636	661,609	674,841
Biennial Change in Expenditures				55,224		(12,550)		26,628
Biennial % Change in Expenditures				4		(1)		2
Governor's Change from Base								39,178
Governor's % Change from Base								3

2000 - Restrict Misc Special Revenue

Balance Forward In			1	14				
Direct Appropriation	22,250	22,250	22,250	22,250	22,250	22,250	22,250	22,250
Transfers In	116	110	130	120	120	120	120	120
Balance Forward Out		1	14					
Expenditures	22,366	22,360	22,367	22,384	22,370	22,370	22,370	22,370
Biennial Change in Expenditures				25		(11)		(11)
Biennial % Change in Expenditures				0		(0)		(0)
Governor's Change from Base								0
Governor's % Change from Base								0

2018 - Agriculture

Transfers In			250	250				
Expenditures			250	250				
Biennial Change in Expenditures				500		(500)		(500)
Biennial % Change in Expenditures						(100)		(100)
Governor's Change from Base								0
Governor's % Change from Base								

2050 - Environment & Natural Resources

Balance Forward In			17,069	2,765				
Direct Appropriation	13,506	19,478	9,071	14,974	0	0	0	0
Transfers In		213						
Balance Forward Out		55	2,764					

(Dollars in Thousands)

	Actual	Actual	Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY16	FY17	FY18	FY19	FY20	FY21	FY20	FY21
Expenditures	13,506	19,636	23,376	17,739				
Biennial Change in Expenditures				7,972		(41,115)		(41,115)
Biennial % Change in Expenditures				24		(100)		(100)
Governor's Change from Base								0
Governor's % Change from Base								

2302 - Clean Water

Direct Appropriation			1,008	1,007	0	0	0	0
Expenditures			1,008	1,007				
Biennial Change in Expenditures				2,015		(2,015)		(2,015)
Biennial % Change in Expenditures						(100)		(100)
Governor's Change from Base								0
Governor's % Change from Base								

2360 - Health Care Access

Direct Appropriation	2,157	2,157	2,157	2,157	2,157	2,157	2,157	2,157
Expenditures	2,157	2,157	2,157	2,157	2,157	2,157	2,157	2,157
Biennial Change in Expenditures				0		0		0
Biennial % Change in Expenditures				0		0		0
Governor's Change from Base								0
Governor's % Change from Base								0

6000 - Miscellaneous Agency

Transfers In	6,150	963	430	6,692	3,155	3,130	3,155	3,130
Expenditures	6,150	963	430	6,692	3,155	3,130	3,155	3,130
Biennial Change in Expenditures				9		(837)		(837)
Biennial % Change in Expenditures				0		(12)		(12)
Governor's Change from Base								0
Governor's % Change from Base								0

(Dollars in Thousands)

	FY19	FY20	FY21	Biennium 2020-21
Direct				
Fund: 1000 - General				
FY2019 Appropriations	648,636	648,636	648,636	1,297,272
Forecast Base	648,636	648,636	648,636	1,297,272
Change Items				
Support the U of MN: Improving Lives Through Discovery and Innovation		12,973	26,205	39,178
Total Governor's Recommendations	648,636	661,609	674,841	1,336,450
Fund: 2000 - Restrict Misc Special Revenue				
FY2019 Appropriations	22,250	22,250	22,250	44,500
Forecast Base	22,250	22,250	22,250	44,500
Total Governor's Recommendations	22,250	22,250	22,250	44,500
Fund: 2050 - Environment & Natural Resources				
FY2019 Appropriations	14,974	14,974	14,974	29,948
Base Adjustments				
All Other One-Time Appropriations		(14,974)	(14,974)	(29,948)
Forecast Base	14,974	0	0	0
Total Governor's Recommendations	14,974	0	0	0
Fund: 2302 - Clean Water				
FY2019 Appropriations	1,007	1,007	1,007	2,014
Base Adjustments				
One-Time Legacy Fund Appropriations		(1,007)	(1,007)	(2,014)
Forecast Base	1,007	0	0	0
Total Governor's Recommendations	1,007	0	0	0
Fund: 2360 - Health Care Access				
FY2019 Appropriations	2,157	2,157	2,157	4,314
Forecast Base	2,157	2,157	2,157	4,314
Total Governor's Recommendations	2,157	2,157	2,157	4,314
Dedicated				
Fund: 2000 - Restrict Misc Special Revenue				
Planned Spending	134	120	120	240
Forecast Base	134	120	120	240
Total Governor's Recommendations	134	120	120	240

Change Item Title: Support the U of MN: Improving Lives Through Discovery and Innovation

Fiscal Impact (\$000s)	FY 2020	FY 2021	FY 2022	FY 2023
General Fund				
Expenditures	12,973	26,205	26,205	26,205
Revenues	0	0	0	0
Other Funds				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact = (Expenditures – Revenues)	12,973	26,205	26,205	26,205
FTEs	0	0	0	0

Recommendation:

The Governor recommends an increase of \$39.178 million in FY 2020-2021 and \$52.410 million in FY2022-2023 to the University of Minnesota. This funding supports all five campuses and across its core missions of research and discovery, teaching and learning, and outreach and public service.

Rationale/Background:

In the FY2019 approved operating budget for the University of Minnesota, revenues are estimated to be \$3.8 billion. Within that total, individual sources of revenue differ as to how restricted they are (purpose and use dictated by external source), and in terms of opportunity for growth necessary to cover cost increases. Thirty-five percent of the University’s revenues are restricted by the source and cannot be used at the discretion of leadership to pay for general operations. Twenty-four percent is directly related to sales and miscellaneous revenue-generating activity, such as the bookstores, parking, sales of educational goods and services, course fees, etc. where the revenues pay for the direct costs of the associated goods and services. These sources are largely not available to cover general operations. The final forty-one percent of the University’s revenues are from the Operations and Maintenance (O&M) state appropriation and tuition: unrestricted and relied upon to support a wide range of the University’s general cost of operations across the teaching, research and public service missions. The only way these general operating revenues grow to cover cost increases is by a decision of the Board of Regents to increase tuition or a decision by the state of Minnesota to increase the University’s O&M appropriation.

Within this context, the University remains committed to minimizing tuition rate increases for resident undergraduate, graduate, and professional students. However, general operating costs (salaries, healthcare, facility and technology costs, library materials, equipment, etc.) continue to grow with inflation running at 2.7% (CPI-August) and 3.7% (Higher Education Price Index-2017). There is a level of internal reallocation that can be sustained every year with little impact to University priorities, but if tuition revenue is significantly constrained and the state O&M appropriation remains flat, the total reallocation necessary to address cost increases and needs can reach a level of magnitude that requires some very difficult choices on the part of the University:

1. Raise tuition on students at rates at or above inflation in order to maintain the current scope of quality programs;
2. Reduce the breadth and depth of the University’s impact but maintain quality; or
3. Maintain the current scope of the University’s work but sacrifice quality in some areas of the institution.

Key variables in evaluating those choices include the following:

- Excellence: Excellence in education, research, and outreach is the University's top priority. This drive to excellence is apparent in the University's progress on its metrics, which can be found at: <https://oir.umn.edu/planning-metrics/progress-card>. The key components to generating such high-level results are recruiting and retaining world class faculty and staff, and supporting equipment and facility needs for the instruction and research activities that take place on all five campuses. To simply maintain the current scope of activities, inflationary costs related to personnel (including health care benefits) and infrastructure must be addressed.
- Commitment to Controlling Costs: Over the last six years, the University reduced administrative costs by \$90 million in order to pay for inflationary cost increases University-wide. These reallocations were critical from an efficiency and effectiveness standpoint. Over 70% of implemented cost reductions involved the elimination or restructuring of employee positions. Of the remaining reductions, many involved deliberate decisions to get by with less: supplies, travel, development opportunities, equipment replacement and so forth. Across the University, units are "working smarter," such as in the example of transitioning from departmental-level desktop support functions to a model of centralized University-wide support for improved consistency and efficiency across the entire University system. Although reallocations will remain one of the University's key budget balancing tools, the University cannot rely on reallocations alone to balance its budget without impacts on quality or scope of operations.
- Infrastructure and Compliance Cost Pressures: The University has experienced annual cost increases in significant areas of general operations. For example, annual cost increases in the millions of dollars must be addressed for utility services, debt service, technology license and maintenance agreements, laboratory health and safety improvements, student and employee accommodations, and library collections and subscription prices.
- Increased Need for Student Support: Total undergraduate enrollment has increased at the University by roughly 4,000 or 10% over the last 10 years. To adequately serve the student body, specialized costs have increased dramatically: Disability Resource Center services (captioning, testing accommodations and so on), mental health services through Student Affairs and Boynton Health Services, tutoring and academic support.

Proposal:

This proposal would provide funding to cover inflationary cost increases to the University of Minnesota's appropriation at 2% each year of the biennium.

In conjunction with continued internal reallocations, potential increases in some resident tuition rates, and planned increases in nonresident tuition rates, this O&M support will allow the University to maintain excellence within the current scope of programs, consistent with the priorities of the Board of Regents as elected by the Minnesota legislature. Specific allocation of dollars across the institution will be determined through the internal annual budget development process as directed by the President and academic leadership and approved by the Board of Regents. The most pressing priorities are in the areas of competitive compensation, classroom and equipment maintenance, compliance with federal and state regulations, research and technology infrastructure, maintenance of core facilities, and support for key activities throughout the state currently facing financial challenges.

Additional funding from the state will not eliminate difficult choices in balancing the University's budget, but it will relieve pressure for higher tuition increases for resident students, and it will help maintain quality University programs across the state.

Early estimates of cost increases for the next biennium (in activities funded by state appropriation and tuition only) are as follows:

	<i>FY 2020</i>	<i>FY 2021</i>	<i>Biennial Math (Yr 1x2) + Yr 2</i>
Budget Challenge (\$ in 000s)			
Compensation (including benefit costs)	\$40,000	\$40,000	\$120,000
Facilities (utilities, debt, operations)	3,000	3,000	9,000
Technology Maintenance	3,000	3,000	9,000
Unit Specific Needs/Investments	15,000	15,000	45,000
Statewide Initiatives	<u>6,000</u>	<u>6,000</u>	<u>18,000</u>
Estimated Total	67,000	67,000	201,000

Equity and Inclusion:

This request will maintain existing programs and support for under-represented faculty, staff and students; this remains a priority for the University. Although this proposal does not target a specific population group, students from low- and middle-income families will benefit the most from restraint on tuition increases. By continuing the University’s tradition of providing a high quality education at a reasonable cost, the University will continue to increase equity by helping to close opportunity gaps and prepare students to succeed in the workforce.

Results:

Funding this request will result in direct benefits to students, researchers, and communities statewide:

- Minimizing tuition increases
- Maximizing researchers’ talents and abilities to advance knowledge and commercialize technologies
- Retaining excellent instructional faculty and staff across all colleges and campuses
- Providing strong student services related to physical and mental health, career development, degree completion
- Ensuring safe indoor and outdoor environments for faculty, staff, students and visitors
- Maintaining facilities for the hundreds of thousands of people who work, study and visit the University annually

It will have a positive impact on helping the University to make progress on performance metrics previously approved by the Board of Regents, which can be found at: <https://oir.umn.edu/planning-metrics/progress-card>.