



ISSUE BRIEF

Fiscal Year 2004-05 Higher Education Budget Requests

November 2002

In most appropriation areas of the state budget, specific information about new budget requests is not available to Legislators until the release of the Governor's budget. Statute gives a new Governor until the third Tuesday in February to release budget recommendations although they may choose to release them sooner. However, because each of the major higher education accounts is governed by a public board that approves new budget requests prior to their submittal to the Executive Branch, information on these requests is available to Legislators and the public several months in advance of the formal budget release. As with other areas of the budget, the administration's funding plans for higher education will appear in the official budget document as Governor's recommendations. Because the higher education budget requests are public before they are submitted to the Executive Branch they are typically listed in their entirety in the budget documents along with the Governor's recommendations. This issue brief summarizes the budget requests for the Fiscal 2004-05 biennium for the Higher Education Services Office (HESO), the Minnesota State Colleges and Universities (MnSCU), and the University of Minnesota (U of M). These numbers reflect General Fund requests only and are subject to revision as the requests go forward and the Governor's budget is developed.

Overview

The higher education system boards have approved submitting budget requests to the Executive Branch of \$265 million above the total adjusted base for the FY 2004-05 biennium. The following table shows new requests at the summary level by account. Collectively, these requests represent an increase of 9.1% over adjusted base.

Higher Education Request Summary: General Fund Only

(dollars in thousands)

	FY2004-05 Adjusted Base	FY 2004-05 New Requests	FY 2004-05 Total Budget Request
MnSCU	\$1,297,600	\$107,300	\$1,404,900
U of M	\$1,293,611	\$96,147	\$1,389,758
HESO	\$315,004	\$61,085	\$376,089
Total	\$2,906,215	\$264,532	\$3,170,742

It is important to note that the adjusted base for each system already includes funds for projected enrollment increases. While this Issue Brief does not generally examine base adjustments in detail, the HESO new request does contain a base adjustment that is explained more fully below.

Minnesota State Colleges and Universities (MnSCU)

MnSCU is requesting \$107.3 million above the adjusted base budget for the FY 2004-05 biennium. This represents an increase of 8.3% for the biennium after enrollment increases. The table below summarizes the MnSCU board request.

	MnSCU (dollars in thousands)		
<u>State Appropriation</u>	<u>FY2004</u>	<u>FY2005</u>	<u>Biennial Total</u>
Adjusted Base	\$655,400	\$642,200	\$1,297,600
<i>Request</i>			
Core Investments			
Priority Programs	\$10,000	\$15,000	\$25,000
Core Mission			
Inflation	\$22,000	\$45,300	\$67,300
Repair & Replacement	<u>\$5,000</u>	<u>\$10,000</u>	<u>\$15,000</u>
Total New Request	\$37,000	\$70,300	\$107,300
Total Biennial Request	\$692,400	\$712,500	\$1,404,900

The MnSCU budget request assumes a tuition increase of 3% each year during the biennium and includes the following general items:

The Priority Programs portion of the new request includes funding for recruiting and retention of underserved communities, expansion of nursing education programs, expansion of teacher education programs and funding for the purchase of new instructional equipment.

The Repair and Replacement portion of the request seeks funding for reduction of the backlog of deferred maintenance during the biennium.

Inflation makes up the largest portion of the request and is based on a state appropriation of two-thirds of the cost of 3% annual inflation; increased tuition would cover the remaining one-third. The narrative in the MnSCU budget documents argues that a minimum of 3% in new funds is necessary to support compensation related inflation without cuts to services or additional tuition increases.

University of Minnesota (U of M)

The U of M is requesting \$96.1 million above the adjusted base for the FY 2004-05 biennium. This represents an increase of 7.4% over the biennium after enrollment increases. The University request is actually based on \$192.2 million in new spending with 50% of the cost of the new items, or \$96.1 million, coming from state appropriations and 50% from tuition increases and internal reallocations. The table below summarizes the University's request. Numbers listed represent only the portion of the cost to be covered by state appropriations.

University of Minnesota
(dollars in thousands)

<u>State Appropriation</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>Biennial Total</u>
Adjusted Base	\$645,224	\$648,387	\$1,293,611
<i>Request</i>			
Implement Academic Directions			
Commitment to Academic Direction	\$2,500	\$8,500	\$13,000
Medical School/Tobacco Shortfall	\$1,000	\$1,000	\$2,000
Support Faculty and Staff			
2.5% annual compensation/Salary	\$7,700	\$15,600	\$23,300
2.5% annual compensation/Fringe	\$5,100	\$8,150	\$13,250
Competitive Compensation	\$2,500	\$5,000	\$7,500
Help Students Realize Educational Goals	\$2,500	\$7,500	\$10,000
Build/Maintain Academic Infrastructure			
Research Infrastructure	\$1,500	\$4,000	\$5,500
Facility Operations	\$7,000	\$11,150	\$18,150
Technology/Systems	<u>\$2,700</u>	<u>\$2,700</u>	<u>\$5,400</u>
Total New Request	\$32,500	\$63,600	\$96,100
Total Biennial Request	\$677,724	\$711,987	\$1,393,427

The University of Minnesota budget request assumes a tuition increase of 4.5% each year during the biennium and includes the following general items:

The Commitment to Academic Direction portion of the request is described by the University as new investments in departments or programs which are poised to become significantly more prominent or productive, maintaining departments and programs which are currently nationally recognized, and building on recent investments to areas such as molecular and cellular biology.

The Medical School portion of the request seeks a state General Fund appropriation to supplement funding from the State's Tobacco Endowment. The University is seeking additional funds because the endowment accounts, due to poor market performance, are not providing as much revenue to the Medical School as had been estimated when they were established.

The Compensation initiative is based on an assumed 2.5% annual salary and fringe benefit cost increase on the University's operations & maintenance and state specials budget. The second portion of the compensation request is for a pool of dollars to be used to recruit and retain specific faculty and staff positions. The University has pursued compensation increases in a dual approach, an overall assumed increase plus a pool to help compete in a national market for certain positions, in the last several budget cycles.

Helping Students Realize Educational Goals is a group of initiatives designed to improve student retention and graduation and includes better student advising and greater support of graduate and professional student fellowships and recruitment.

The Research Infrastructure portion of the request is directed at improved library resources, acquisition of research equipment, seed capital for research projects and start up costs for new researchers. Related to this item are the requests for increased facility operation costs and improvement/replacement of some of the University's large data systems, most immediately the total replacement of the University's financial system.

Higher Education Services Office (HESO)

The Higher Education Services Office administers the state's various college financial aid programs including the State Grant Program, State Work Study, Higher Education Child Care Grants, the SELF-Loan program, and the Minnesota College Savings Plan. The Office also administers the state's various tuition reciprocity agreements with other states and provinces, the Learning Network of Minnesota which provides funding for regional educational telecommunications services, and MINITEX and MNLINK, the state's on-line library and document delivery services. HESO is requesting \$61.1 million above base, an increase of 19.4% over FY 2002-03 appropriations.

Nearly all, \$60.3 million, of the requested new funds are related to the State Grant program. Of this amount \$18.3 million is a base correction. While the higher education systems get adjustments due to increased enrollment volume incorporated into their adjusted base the HESO base must be adjusted by legislative action. In this case, the agency projection of demand for program funds, which was funded by the legislature in the 2000 session, and supplemented based on revised agency projections in the 2001 session, has proven to be far below actual demand. The base adjustment amount is the increase in the State Grant program that necessary to fully fund the program for the FY2004-05 biennium before considering changes in tuition rates or eligibility for the program. The next \$33.9 million is the cost to the program for the agency's projection of annual tuition increases of 13% at the University and 10% at MnSCU. This projection assumes the same tuition increases that occurred in the public sector for the current academic year will happen in each of the next two years. The system budget requests assume

much lower tuition increases as part of the proposed budget increases. The actual rate will be a result of the final state funding levels at each system, which may or may not include any new funding and could include budget reductions. The next two portions of the State Grant request, for \$5.4 million and \$2.7 million respectively, are based on a 1.1% increase (the trailing rate of inflation over the most recent period looked at by the agency) in the Private Tuition Maximums (commonly known as the Private College Caps) and the Living and Miscellaneous portion of the financial aid formula. The table below summarizes HESO's budget request.

HESO
(dollars in thousands)

<u>State Appropriation</u>	<u>FY2004</u>	<u>FY2005</u>	<u>Biennial Total</u>
Adjusted Base	\$157,502	\$157,502	\$315,004
Requests			
State Grants			
Base Correction	\$9,170	\$9,170	\$18,340
Tuition & Fee Increases	\$10,700	\$23,200	\$33,900
Living & Miscellaneous Expense (LME)	\$1,800	\$3,600	\$5,400
Tuition & Fee Maximums (PC Caps)	<u>\$900</u>	<u>\$1,800</u>	<u>\$2,700</u>
Sub Total State Grants	\$22,570	\$37,770	\$60,340
Child Care Grants	\$52	\$53	\$105
State Grant Rewrite	\$150	\$150	\$300
Inflation (wage/fringe/rent)	<u>\$111</u>	<u>\$229</u>	<u>\$340</u>
Total New Request	\$22,883	\$38,202	\$61,085
Total Biennial Request	\$180,385	\$195,704	\$376,089

In addition to the State Grant increases, the agency is requesting an additional \$104,000 for the Post-secondary Child Care program, also a 1.1% increase.

The last new item in the HESO request is \$300,000 to have the software for the State Grant program, currently in COBAL, translated to a modern computer language. Funding for this item was given to the agency as part of the FY2002-03 budget. However, the project was cancelled by the agency after budget reductions made directly to HESO by the 2002 Legislature as well as statewide budget savings passed by the Legislature and apportioned to agency by the Governor.

Mayo Foundation and the Higher Education Facilities Authority

The Mayo Foundation receives state funds for capitation grants at the Mayo School of Medicine, the Mayo Family Practice Residency Program, and the St. Cloud Hospital Residency Program. The base budget for these programs is \$3.3 million for the biennium.

Information on any funding request above base will not be available until the Governor's budget is released. The Higher Education Facilities Authority (HEFA) provides revenue bonding authority for construction of (mostly) private college facilities. The Authority has an aggregate debt ceiling of \$400 million set in statute. This amount is adjusted periodically by the legislature but HEFA does not receive any state appropriation.

For more information, contact Doug Berg, Fiscal Analyst, at 651-296-5346 or doug.berg@house.mn