

March 15, 2023

Representative Gene Pelowski, Chair
Higher Education Finance and Policy Committee
10 State Office Building
100 Martin Luther King Jr. Boulevard
St Paul, MN 55155

Chair Pelowski,

We are respectfully submitting this letter in response to questions from the Higher Education Committee. The first several questions are presented together as the questions are interrelated:

- 1. What has been the history of tuition revenue variances when comparing budgeted revenues to updated January projections in total and by campus?**
- 2. What would tuition rate increases be if the State funded the Core Mission change item from the University's original request but none of the new change items in the revised request?**
- 3. How much additional O&M funding would the University need from the state to implement a tuition freeze for resident undergraduate students, which includes students from other states qualifying under the tuition reciprocity agreements in effect?**

Tuition Revenue - Projection Process

First, below is a description of the tuition forecasting processes that take place every year at the University.

Annual Tuition Projection Process

Annual Step 1

Each year in June, the Board of Regents approves a budget for the next fiscal year beginning on July 1. The tuition revenue budget presented to the Board (reported by all academic units on the Twin Cities campus and by system campus) is based on two components:

- First, final estimates of actual tuition to be collected for the current fiscal year (as known in May of the current fiscal year), and
- Second, the projected tuition for the upcoming fiscal year (as projected in May).

Annual Step 2

For the State's biennial budget process, the Board of Regents approves budget requests to the Governor and Legislature in October before the Governor's recommended budget is presented to the Legislature in January. The Board uses the approved budget from the previous June as

the basis for making its projections and budget requests for the next biennium - which starts the following July 1.

Annual Step 3

Every January/February, the tuition projection for the current year is reviewed and updated. This updated forecast is based on actual tuition receipts from the fall semester and projected tuition for the spring/summer terms based on registrations and historical revenue collection trends for spring and summer. These revenue estimates are further refined throughout the spring with updated enrollment data and additional refinements by the Twin Cities colleges and the four system campuses.

The FY2023 annual tuition projection process is described below, which includes the annual steps in the first two columns with actual dates and numbers for the FY2023 process in the second two columns:

FY 2023 tuition projection process followed the annual tuition projection process

Annual Timing	Annual Tuition Projection Process for Budget - Steps	FY2023 Example Timing	FY 2023 Actual Tuition Projection
June	Board of Regents approves U of M budget for next fiscal year, beginning July 1. Tuition revenue in the budget is based on: <ol style="list-style-type: none"> 1. Tuition collection estimates from May for the current fiscal year 2. Projected tuition for the upcoming fiscal year, as of May 	June 2022	Board of Regents approved the budget for FY2023. Tuition revenue projection in the budget was \$990M
Oct	Board of Regents approves a U of M biennial budget request to the Governor and Legislature	Oct 2022	Board of Regents approves a biennial budget request to Governor and Legislature, which was based on revenue and expense projections for the next biennium incorporating a tuition revenue projection for the current year of \$990M
Jan/Feb	U of M reviews and updates tuition projections for the current year, based on actual tuition from fall, and projected tuition for spring/summer based on registrations and historical trends	Jan/Feb 2023	U of M reviewed actual tuition information since May. Staff revised the tuition projection for FY2023 to \$966M as the base for future projections, which is \$24M less than projected

Results/Action

In four of the last five years (FY2019 – FY2023) the results of the process described above has produced very accurate results, given the magnitude and complexity of the estimated revenue.

Table 1: Tuition projection over the last five years has been 97% accurate or better.

<u>Fiscal Year</u>	All Units January Revenue Forecast <u>Over/(Under) Budget</u>	Variance % of <u>Budget</u>
FY2019	\$3.8m	0.40%
FY2020	(\$964k)	(0.10%)
FY2021*	(\$13.1m)	(1.36%)
FY2022*	(\$7.6m)	(0.78%)
FY2023	(\$24.2m)	(2.44%)

** In these fiscal years, the Carlson School of Management results were removed due to a timing error in which program revenues were collected later than expected and in the subsequent fiscal year.*

Table 2 - January Forecast Over/(Under) Budget by Campus for the current year.

	Crookston	Duluth	Morris	Rochester	Twin Cities
FY2023	(3.72%)	(2.99%)	(19.08%)	(11.70%)	(2.04%)
	(\$583k)	(\$3.2m)	(\$2.0m)	(\$1.1m)	(\$17.3m)

Related to the tables above, several things are notable:

- Within the annual variances each year, a handful of units experience significant shortfalls or positive tuition balances compared to budget. The University manages those variances by implementing decisions unique to the situation: units experiencing significant shortfalls have implemented deeper budget cuts, received additional state support allocations when available through increased appropriations, and/or shifted expenditures to growth in other funding sources if available.

- The FY2021 variance was slightly larger than in other years due to the immediate impacts of COVID-19. Within the FY2021 budget, units had planned reserves specifically for pandemic-driven financial uncertainties (tuition, sales income, clinical income, required purchases, and so forth), so the larger variance was managed within each unit's overall total revenue and expense plan.
- FY2023 clearly stands out as an anomaly. Up until this year, our processes have produced good results, even in FY2021, and we have been able to manage shortfalls in the handful of units that experience them each year.
- 11 of the 20 primary tuition-generating units at the University did build in some level of estimated revenue reduction due to enrollment changes in their FY2023 budget estimates, but due to the varied factors discussed at the committee meeting of March 7, the impacts are more widespread and significant than projected.
- The smaller the tuition generating unit, the more variance there has been in percentage changes from the budget. The Crockston, Morris, and Rochester campuses are all in the lowest seven of twenty units in terms of tuition generation amounts, so the greater percentage variance on those campuses is partly due to size: a change in the behavior of a small number of students will have a more significant impact in these cases.

Tuition Rates - Potential Increases

Within the University's \$302.5 million total request for the biennium, there are two priority items to support cost increases that must be addressed by the University and a final proposal for a tuition freeze for the resident undergraduate rates on each campus. The level of state funding for these three items will have a direct impact on decisions made about the depth of budget cutting within the University and increases in tuition rates. Those three items are:

● Core Mission	\$135.0 Biennial Increase
● Tuition Shortfall	\$48.0 Biennial Increase
● Tuition Freeze	<u>\$40.5 Biennial Increase</u>
Total	\$223.5 Biennial Increase

The result of funding these three items or not will impact tuition rate decisions. At this point in the process, the impact on tuition rate modeling, moving from the highest potential rate change to the lowest, would be as follows (estimated tuition rates by campus for scenario A - assuming the midpoint of the ranges - are included in the attachment):

Scenario	Fully fund core mission	Fully fund tuition shortfall	Fully fund tuition freeze	Cost	Tuition rate change for resident, undergrad on TC campus	Tuition rate change for resident, undergrad on system campuses
A	X			\$135M	6.5 to 7.5%*	3 to 4%*
B	X	X		\$183M	3.5%	1%
C	X	X	X	\$223.5M	0%	0%

** These rate projections are for FY2024 only as the Tuition Shortfall item would be addressed immediately in the biennium; FY2025 rate changes could remain as originally modeled at 3.5% and 1%.*

As previously indicated, funding under scenarios A and B above will likely result in resident undergraduate tuition rate increases because neither option fully addresses projected costs. The University planned for and will still need to reduce spending internally and raise tuition to balance the budget. Under all scenarios, there will be spending reductions and increases in the nonresident, graduate, and professional tuition rates. As we are only halfway through our budget development process for FY2024, all plans are subject to change based on updated information related to costs and other revenues and the priorities and actions of the Board of Regents. The Board of Regents will not act on spending reductions or a tuition rate increase for FY2024 until June 2023, and will not act on changes for FY2025 until June 2024.

Please understand that the other three priority items included in the University’s biennial budget proposal will not be implemented if the State does not fund them. Therefore, unlike the three items just described, they will have no impact on decisions made to reduce spending inside the University or to increase tuition rates. Those three items are:

- MN Resident Scholarship \$60.0 Biennial Increase
- Systemwide Safety & Security \$10.0 Biennial Increase
- American Indian Scholars Program \$9.0 Biennial Increase
- Total \$79.0 Biennial Increase

We hope this summary is helpful to the committee. Additional details related to potential tuition rates and a response to the more technical question raised during the March 7 meeting can be found in the attachment.

Attachment

Follow-up questions from House Higher Education Committee hearing (3/7/23)

Question: What is the impact on tuition rates and the breakdown of projected tuition increases for resident undergraduate students at each campus of the University of Minnesota if the state funds the original Core Mission budget request, but DOES NOT fund the additional Tuition Shortfall request (Scenario A in the letter)?

As addressed in the letter, the FY2024 resident undergraduate tuition rate increases modeled under this scenario are in the range of 6.5 to 7.5% for the Twin Cities campus and 3 to 4% for the system campuses. FY2025 rate changes could remain as originally modeled (a 3.5% increase for the Twin Cities campus and a 1% increase for the system campuses).

Please note – The system campus chancellors make individual recommendations on the tuition rate changes for their campuses as part of the annual budget process so they may propose, for the President’s consideration, higher or lower rates than those being modeled by the institution.

Incorporating the midpoint of the ranges modeled (7.0% for the Twin Cities campus and 3.5% for the system campuses), the following would apply to resident/reciprocity tuition rates:

	Approved FY2023 Rates	\$ Increase under revised modeling assumptions for FY2024	FY2024 Tuition Rate with revised modeled increase	\$ Increase under Modeling Assumptions for FY2025	FY2025 Tuition Rate with modeled increase
Crookston	\$11,072	\$388	\$11,460	\$115	\$11,575
Duluth	\$12,638	\$442	\$13,080	\$131	\$13,211
Morris	\$12,804	\$448	\$13,252	\$133	\$13,385
Rochester	\$12,808	\$448	\$13,256	\$133	\$13,389
Twin Cities	\$14,006	\$980	\$14,986	\$525	\$15,511

Even if the full biennial budget request is approved, these tuition rate assumptions are subject to change based on the Board of Regents’ review and action on the University’s annual budget.

Question: What is the percent increase in the University’s base general fund appropriation with full funding of the \$135 million Core Mission request?

University of Minnesota

General Fund

	Annual		
	FY2024	FY2025	Biennium
Base Appropriation	\$ 689,256,000	\$689,256,000	\$ 1,378,512,000
Core Mission			\$ 135,000,000
Increase as % of base			9.8%