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## FISCAL ISSUE BRIEF



### 2005 Legislative Action: Higher Education Finance

*Senate Office of Counsel, Research and Fiscal Policy Analysis*

*June 2005*

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#### **QUESTIONS**

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#### **HIGHER EDUCATION BUDGET SUMMARY FOR 2005**

During the 2005 legislative session, appropriations for all higher education institutions in 2006-07 were \$2.761 billion, which constitutes an increase of 7.9 percent over spending for 2004-05. Relative to 2004-05 spending, the total amount of additional funding for all higher education institutions was \$202 million. The forecast base for all higher education institutions in 2006-07 was \$2.753 billion. The forecast base reflects statutory adjustments for changes in enrollment at the University of Minnesota and Minnesota State Colleges and Universities (MnSCU). Relative to the forecast base, funding for all of higher education increased \$8.2 million (0.30 percent).

#### Higher Education Appropriations, 2005

	2004-05 Funding	2006-07 Base	2006-07 Enacted
Minnesota State Colleges and Universities	1,106,075,000	1,226,188,000	1,202,888,000
University of Minnesota	1,097,351,000	1,173,884,000	1,205,770,000
Higher Education Services Office	352,953,000	349,904,000	349,310,000
Mayo Foundation	2,723,000	2,782,000	2,782,000
Minnesota Department of Health	0	0	250,000
Total, All Higher Education	2,559,102,000	2,752,758,000	2,761,000,000

- Funding for MnSCU increased 8.8 percent over 2004/05, with \$97 million in additional funding.

- The University of Minnesota received a 9.9 percent increase over 2004-05, amounting to additional funding of \$108 million.
- Total funding for the Higher Education Services Office (HESO) decreased by one percent, a reduction of \$3.643 million compared to 2004-05.
- There was no change in funding for the state grant program, which remained constant at \$281 million for the 2006-07 biennium.
- Funding for the Mayo Medical Foundation increased 2.2 percent over the 2004-05 level, with approximately \$2.8 million.
- A \$250,000 appropriation went to the Minnesota Department of Health to implement a nursing education loan repayment assistance program.

### **BACKGROUND/CONTEXT**

In 2002 and 2003, the legislature and governor (through unallotment) enacted approximately \$385 million in reductions for higher education. The majority of these reductions were made to the budgets of the University of Minnesota—\$196 million—and Minnesota State Colleges and Universities—\$133 million. There was no significant budget activity related to higher education in 2004. Although overall higher education spending in the 2004-05 biennium was reduced, additional funding—\$40 million—was allocated to the state grant program.

The governor's 2006-07 budget included a \$6.2 million increase over the forecast base for all higher education institutions. The forecast base included \$204.6 million for statutory enrollment adjustments to funding for the University of Minnesota and MnSCU. The governor's budget acknowledged these amounts and proposed to eliminate them and reallocate the funds to other initiatives. For the University of Minnesota, the governor's proposed funding was \$31.8 million over the forecast base funding and for MnSCU the governor's proposed funding was \$23.3 million below the forecast base funding.

Relative to 2004-05 funding, the governor's 2006-07 budget proposal included new funding of \$199.8 million. The governor's proposed funding for the University of Minnesota constituted an increase of \$108.3 million over 2004-05; for MnSCU, the governor proposed increased funding of \$96.8 million over 2004-05.

A substantial portion of the additional funding allocated to the state grant program in 2004-05 was not spent on grants and was canceled to the general fund. One goal of the legislature in 2006-07 was to implement new mechanisms to ensure that funding allocated to the state grant program is used to help students pay for the cost of their education.

### **MINNESOTA STATE COLLEGES AND UNIVERSITIES (MNSCU)**

The 2005 legislature allocated approximately \$1.203 billion to the MnSCU system for the 2006-07 biennium. While this amount constitutes an increase of 8.8 percent over 2004-05 funding, it represents a reduction of \$23.3 million from the forecast base for MnSCU. The forecast base included a statutory base funding adjustment to reflect changes in enrollment throughout the MnSCU system. This enrollment adjustment was \$130.8 million, which includes amounts for

adjustments for previous years (\$58.8 million) and ongoing amounts added to the MnSCU base budget (\$72 million).

Minnesota State Colleges and Universities, 2005

	2004-05 Funding	2006-07 Base	2006-07 Enacted
General Fund Appropriation	1,106,075,000	1,226,188,000	1,202,888,000

The legislature funded the full amount of the ongoing enrollment adjustment for MnSCU. In addition, the legislature allocated \$12 million to competitive salaries, \$10 million to Centers of Excellence and \$13.5 million to various initiatives proposed by MnSCU in 2006-07.

**UNIVERSITY OF MINNESOTA**

The legislature enacted funding of \$1.206 billion for the University of Minnesota in the 2006-07 biennium. This is an increase of \$108.4 million (9.9 percent) over 2004-05 funding and \$31.9 million over the forecast funding base for the University. The forecast base included \$73.8 million for the statutory enrollment adjustment, which reflects changes in enrollment at University of Minnesota campuses. The enrollment adjustment for 2006-07 includes \$43 million for prior years and \$30.8 million in ongoing funding added to the University's base funding.

University of Minnesota Appropriations, 2005

	2004-05 Funding	2006-07 Base	2006-07 Enacted
General Fund Appropriation	1,097,351,000	1,173,884,000	1,205,770,000

The appropriations for the University of Minnesota for 2006-07 included the full amount of the ongoing enrollment adjustment. In addition, the legislature provided \$13 million for competitive compensation and \$61.9 million for initiatives proposed by the University in 2006-07.

**HIGHER EDUCATION SERVICES OFFICE**

Overall funding for the Higher Education Services Office (HESO) was reduced by one percent (\$3.6 million) compared to 2004-05. Funding for HESO was \$594,000 below the forecast base for 2006-07. The governor proposed and the legislature adopted two reductions in the HESO budget, which were in the state tuition reciprocity program (\$5.2 million), which has made no payments to other states recently, and the Learning Network of Minnesota (\$1 Million).

Higher Education Services Office Funding, 2005

	2004-05 Funding	2006-07 Base	2006-07 Enacted
General Fund Appropriation	352,953,000	349,904,000	349,310,000

Funding for the state grant program administered by HESO remained constant at \$281 million. Changes to the federal Pell Grant program, which the state grant program uses as a basis for determining grant awards, resulted in savings that were reallocated within the state grant

program, including the following changes:

- Extension of deadline for submitting a state grant application to 30 days after the start of the school term. Previously the deadline was 14 days after the beginning of the term.
- Increase in the tuition maximum for 4-year programs, which is part of the formula used to determine grant amounts, five percent each year of the biennium to \$9,477 in 2006 and \$9,998 in 2007.
- Decrease in the tuition maximum for 2-year programs, which is part of the formula used to determine grant amounts, five percent in 2006 and two percent in 2007, to \$6,567 and \$6,436.
- Increase in the Living and Miscellaneous Expense allowance, also part of the formula used to determine grant amounts, to \$5,350 for each year of the biennium.

A new provision was added to state law that allows HESO to increase the Living and Miscellaneous Expense allowance in the second year of the biennium if the agency projections indicate that there will be a surplus in funding for the state grant program.

Other changes to programs administered by HESO were:

- Increase of \$30,000 for Post Secondary Service Learning programs.
- Additional \$482,000 for the Intervention for College Attendance Program, in addition to new statutory provisions to direct HESO in administering the program.
- Increase of \$382,000 for the child care grant program and a \$100 increase in the maximum child care grant to \$2,300.
- New funding of \$400,000 to develop and implement an accountability measurement system for higher education. The ongoing increase in the HESO base budget is \$300,000 per year.
- One-time funding for HESO to update the software used to administer the state grant program.
- New funding of \$360,000 per year to fund the United Family Practice Residency Program.
- One-time funding of \$3.2 million for planning related to a higher education facilities in Rochester and to develop new academic instructional programs.
- An increase in the HESO budget to fund an increase in dues for the Midwest Higher Education Compact, which provides higher education institutions access to a variety of services including property insurance and discounts on computer hardware and software.

Finally, the Governor and the Higher Education Services Office requested, and the legislature enacted, a name change to reflect the current role of the Office in the administration. It will become the Minnesota Office of Higher Education.

**MAYO MEDICAL FOUNDATION**

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, received funding of \$2.8 million, equal to the forecast base for 2006-07. This funding constitutes a 2.2 percent increase over 2004-05.

Mayo Medical Foundation Funding, 2005

	2004-05 Funding	2006-07 Base	2006-07 Enacted
General Fund Appropriation	2,723,000	2,782,000	2,782,000

**MINNESOTA DEPARTMENT OF HEALTH**

A new program was established to provide loan repayment assistance to nursing students who agree to work in nursing homes or to become nurse educators. The program will be administered by the Minnesota Department of Health. Initial funding for the initiative was \$250,000 for the biennium.

For additional detailed information on the 2005 Higher Education Finance bill, check the Office of Fiscal Analysis website at [www.senate.leg.state.mn.us/departments/FiscalAnalysis](http://www.senate.leg.state.mn.us/departments/FiscalAnalysis) and click on “tracking documents.”