

Report of the Workgroup on Long-Term
Financial Sustainability
June 2016



Minnesota
STATE COLLEGES
& UNIVERSITIES

30 7TH ST. E., SUITE 350

ST. PAUL, MN 55101-7804

Twin Cities: 651-201-1800

Toll free: 1-888-667-2848

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MISSION

The Minnesota State Colleges and Universities system of distinct and collaborative institutions offers higher education that meets the personal and career goals of a wide range of individual learners, enhances the quality of life for all Minnesotans and sustains vibrant economies throughout the state.

STRATEGIC FRAMEWORK

1. Ensure access to an extraordinary education for all Minnesotans

- Our faculty and staff will provide the best education available in Minnesota, preparing graduates to lead in every sector of Minnesota's economy.
- We will continue to be the place of opportunity, making education accessible to all Minnesotans who seek a college, technical or university education; those who want to update their skills; and those who need to prepare for new careers.

2. Be the partner of choice to meet Minnesota's workforce and community needs

- Our colleges and universities will be the partner of choice for businesses and communities across Minnesota to help them solve real-world problems and keep Minnesotans at the leading edge of their professions.
- Our faculty and staff will enable Minnesota to meet its need for a substantially better educated workforce by increasing the number of Minnesotans who complete certificates, diplomas and degrees.

3. Deliver to students, employers, communities and taxpayers the highest value, most affordable option

- Our colleges and universities will deliver the highest value to students, employers, communities and taxpayers.
- We will be the highest value, most affordable higher education option.

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PROBLEM STATEMENT

The Minnesota State Colleges and Universities system (the system) faces a future that is financially unsustainable. The situation is urgent and demands development of strategies that will enable improved service to students, the state, its citizens and its communities.

GUIDING PRINCIPLES OF THE WORKGROUP

The work of the Long-Term Financial Sustainability Workgroup is guided by the system's Strategic Framework with its commitments to providing Minnesotans with an extraordinary education; being the partner of choice to meet Minnesota's workforce and community needs; and providing the highest value, most affordable education option.

- Improving student success is key to the long-term financial sustainability of the colleges and universities
- The workgroup's recommendations must recognize and respect faculty roles in curriculum development, teaching and curriculum management
- Strong campus and community partnerships are central to college and university sustainability
- Other efforts related to advancing the system and its campuses, including, but not limited to, Charting the Future work, are respected and considered
- Sharing and leveraging resources creates opportunities for advantages to be enjoyed by all of the system's stakeholders

EXECUTIVE SUMMARY

The Minnesota State Colleges and Universities system is a creation of state government formally established in 1995 through the merger of Minnesota's technical colleges, community colleges and state universities into one publicly supported system. Over the last several decades, funding appropriations from the state – historically the system's most important source of revenue – have been in decline. The Minnesota legislature has passed legislation in the last several years directing the Board of Trustees to freeze tuition, a second major source of operating revenue for the system. These facts, together with flat or declining enrollments, have produced a clearly unsustainable financial operating model.

The colleges and universities have coped with these revenue challenges by reducing costs. But looking ahead, continued cost cutting by the system, as it exists today, is not the solution. Unless there is real, systemic change to the system, it will become unsustainable by 2025, when revenue and expense projections define a shortfall in the range of \$66 million to \$475 million – truly crisis proportions. We cannot and must not wait until 2025 to begin to make changes or we will only compound the challenges of achieving financial sustainability. We must act now. Business as usual means the system's effort to serve the people of Minnesota will only increase in intensity.

In an effort to reverse this situation, Chancellor Steven Rosenstone formed the Long-Term Financial Sustainability Workgroup in October 2015 comprised of a cross-section of the system's stakeholders, including faculty and student representatives. Within the context of the system's strategic framework, his charge to the work group addressed three questions:

- 1) What changes should be made to the system's expenditure and revenue strategies to ensure the long-term financial sustainability of our colleges and universities in light of the priorities articulated in the strategic framework?
- 2) Are there alternative models for how we should organize ourselves, educate students and serve communities across Minnesota that will advance excellence, access and affordability, *and* that will be more financially sustainable over the years ahead?
- 3) What tools as well as academic and financial planning strategies are needed to effectively implement recommended changes?

Co-chaired by Phil Davis, Associate Vice Chancellor/Managing Director, Campus Service Cooperative and Laura King, Vice Chancellor for Finance and Chief Financial Officer, the workgroup met monthly through June 2016, hearing expert presentations, surveying members and holding open discussion sessions.

This report delineates a series of challenging lessons learned throughout the course of this effort, with transformative implications. It then lays out five overarching recommendations with attendant rationale, as well as weighted considerations related to ease of implementation and contribution to financial sustainability. The following is a summary of the recommendations.

Recommendations

- 1. Act as an enterprise – harness the collective power of the colleges and universities and marshal more effective and efficient campus-based leadership dedicated to improving student success*
- 2. Consolidate the delivery of core functions for more cost effective operations where knowledge and services are shared and redundancies are minimized*
- 3. Build partnerships that prepare students for a successful college experience and help eliminate opportunity and achievement gaps*
- 4. Adopt more creative and flexible labor practices in response to the changing needs and expectations of students and the system’s communities, as well as the organizational structures and faculty and staff roles and assignments*
- 5. Re-calibrate physical plant and space capacity to address regionally disproportionate surpluses, as well as to accommodate new academic and administrative organizational structures*

THE SITUATION: HOUSTON, THE SYSTEM HAS A PROBLEM

This is a 'Houston, we have a problem' report. People who know what they're talking about think we have a problem down the road if some things don't get fixed. – Jane Wellman, higher education finance expert, as quoted in Inside Higher Ed

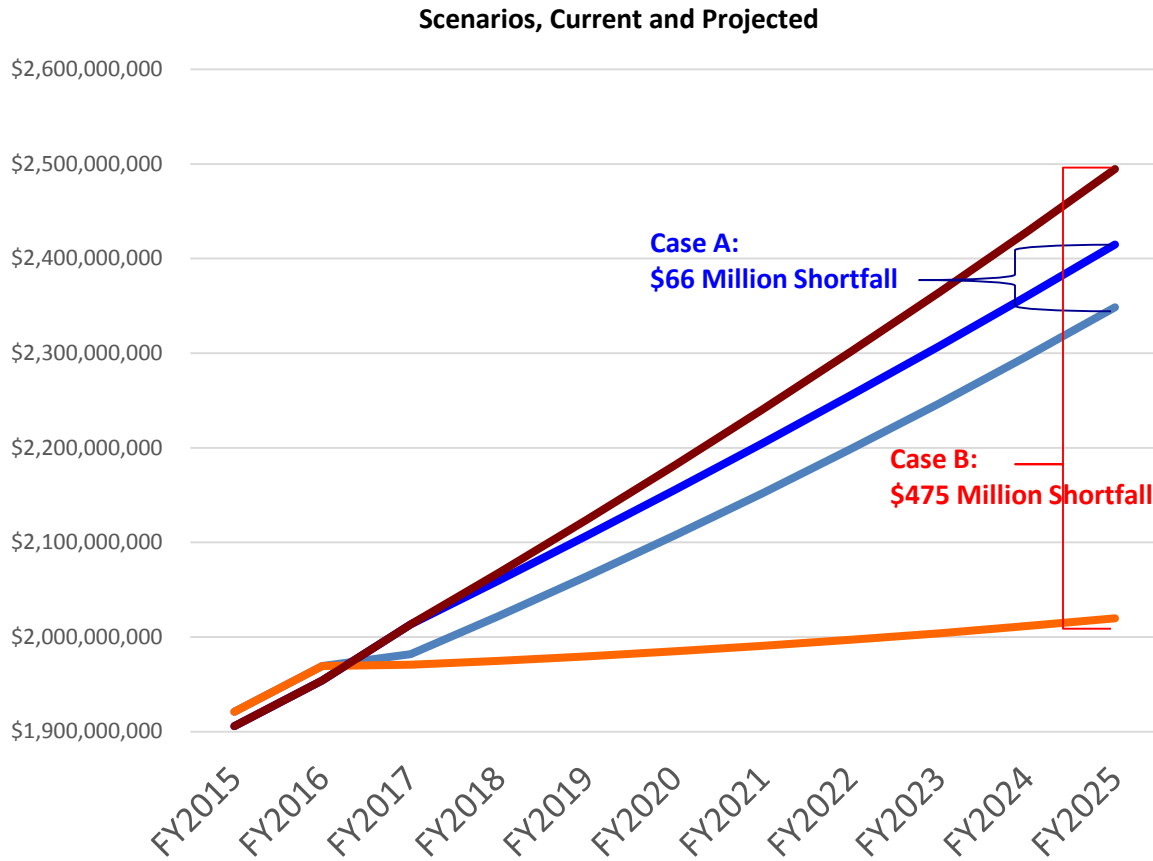
Wellman was referencing a report on a 2013 survey of college and university business officers by *Inside Higher Ed* and Gallup in which barely a quarter of campus chief financial officers (27 percent) expressed strong confidence in the viability of their college or university's financial model over five years, and that number drops in half (13 percent) when they are asked to look out over a 10-year horizon. Further, more than 60 percent of CFOs agree that a significant number of higher education institutions are facing a financial crisis that threatens their existence.

Consistent with these findings, without changes to the system's operating model, its future is financially unsustainable. The system's annual structural funding gap is estimated to be growing at a rate such that by 2025 it will be between \$66 million to as high as \$475 million – truly crisis proportions. For the last several biennia, the colleges and universities have coped with this situation by cutting into core programs and services. At this juncture, however, the annual ritual of cutting expenditures to close the gap between state revenue and tuition and operating costs is simply not a viable long-term solution. We cannot and must not wait until 2025 to begin to make changes or we will only compound the challenges of achieving financial sustainability. We must act now. Business as usual means the system's effort to serve the people of Minnesota will only increase in intensity.

There is a need for pronounced changes to life as usual that will touch all system stakeholders. At worst, these changes will be a means of mere survival. At best, the system will grasp and accept opportunities to thrive as a model of transformative change. Financial sustainability and academic excellence do not need to be mutually exclusive. In fact, economies of scale, cost efficiencies, structural labor modifications and innovative revenue streams can add up to administrative and academic outcomes that benefit all involved, leading to more effective delivery on the system's mission in the 21st century.

A Financial Crossroads

Revenue and Expenses



This graph models two scenarios of revenues and expenses projected over 10 years:

- Case A assumes expenses at historical CPI rates, moderate tuition rate increases and slight enrollment increases. Case A projects a \$66M deficit at year 10.
- Case B assumes expense increases at system historical averages, no tuition rate increase and slight enrollment growth. Case B projects a \$475M deficit at year 10.

Figure 1: Revenue and Expense Scenarios, Current and Projected

The Minnesota State Colleges and Universities system is a creation of state government adopted into law by the legislature in 1991 and effective in 1995 when Minnesota’s technical colleges, community colleges and state universities merged into one publicly governed and supported system. Over the last several decades, funding from the State of Minnesota – historically the system’s most important source of revenue – has been in decline. As the costs of healthcare and other state obligations and priorities have increased and shifted, revenue allocated to the system, and higher education generally, has diminished accordingly. Despite recent investments by the State of Minnesota, state support per student (in constant dollars) in FY2015 was 23 percent below FY2002 funding levels. The state’s share of campus general

fund budgets has dropped from 66 percent in FY2002 to 44 percent in FY2015. At the same time, pressure on affordability and the board’s abiding commitment to access and affordability has pushed down tuition revenues, a second major source of operating revenue for the system. These facts, together with flat or declining enrollments, have produced a clearly unsustainable financial operating model.

Long-Term Reductions in State Revenue Have Caused More Dependence on Tuition Revenue

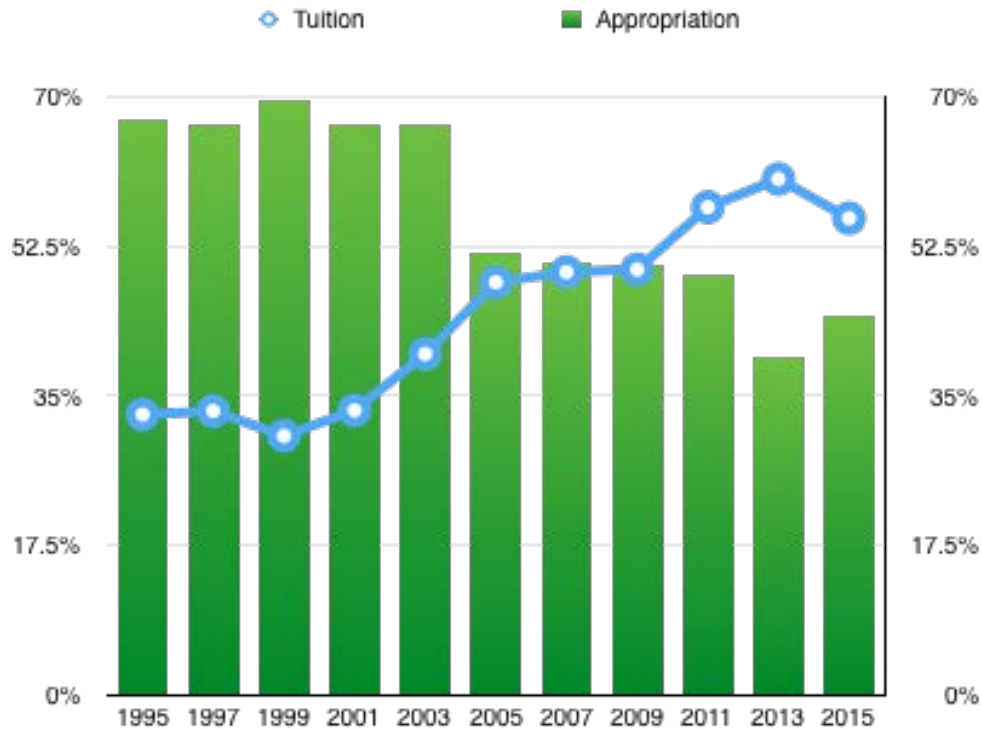


Figure 2: Long-term reductions in state revenue have caused more dependence on tuition revenue

The system’s colleges and universities have coped with these revenue challenges by reducing costs – closing programs, laying off faculty and staff and re-prioritizing and reallocating existing funds. And yet even an infusion of new base funding during the FY2014-FY2016 biennium was not sufficient to offset the structural imbalance created by the shift in state support. In fact, the new state funding appropriated to the system has not helped to solve the sustainability problem. The new state funds have mostly offset the lost tuition resulting from the tuition freeze and have not been a source of new operating revenue. In other words, the overall size of the funding pie has not increased; rather, the sizes of the tuition and appropriation slices of the pie have merely shifted.

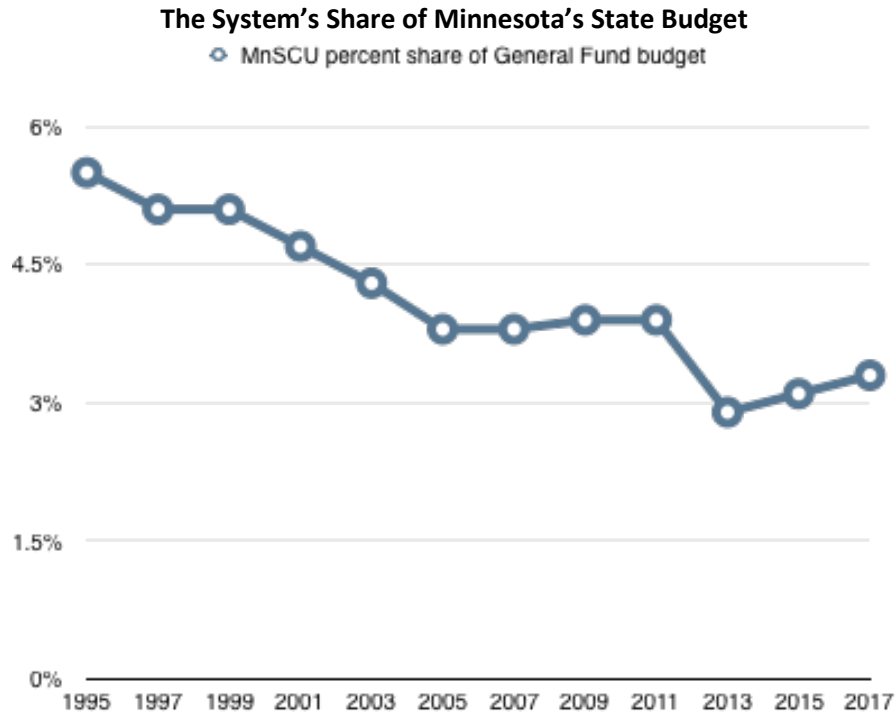


Figure 3: The System's Share of Minnesota's State Budget

As the fifth largest higher education system in the nation, educating nearly 400,000 students annually, the system, with its 37 colleges and universities, over 16,000 employees and annual budget of \$1.9 billion, is no stranger to the scope of challenges and issues related to survival in the 21st century world of higher education. Its challenges are complex and multi-dimensional with myriad intersections that can make them appear intractable. And yet the system owes it to the future of Minnesota's citizenry to find and adopt solutions.

At a time when terms like "collaborative," "collective," and "cross-sector" are more than buzz words, but rather operational philosophies and approaches that are gaining traction within government, business and social services, it behooves the system's stakeholders to be like-minded. Through the system's comprehensive strategic planning effort, strides are being taken in that direction – solutions are being considered across the board. But not quickly enough. The system's challenges become especially vivid and demanding when viewed through a financial lens.

To this end, in the fall of 2015, Chancellor Steven Rosenstone convened a 24-member panel to examine the situation and make recommendations for improving the long-term financial sustainability of the system and its colleges and universities. The following is an overview of the workgroup's efforts and ensuing recommendations.

CHANCELLOR ROSENSTONE'S CHARGE

On October 9, 2015, Chancellor Steven Rosenstone delivered his charge (Appendix B) to the Workgroup on Long-Term Financial Sustainability, which was meeting for the first time. The chancellor asked the members to be bold in their search for new approaches to ensuring the financial sustainability of the Minnesota State Colleges and Universities system. He described the history of shrinking revenue and growing expenses and urged the group to keep in mind the importance of maintaining affordability for students and their families.

Pointing to the system's strategic framework, Chancellor Rosenstone reminded members of the overarching context for their work: to ensure access to an extraordinary education for all Minnesotans; to be the partner of choice to meet Minnesota's workforce and community needs; and to deliver to students, employers, communities and taxpayers the highest value, most affordable option.

Stressing the importance of its work to the future of the system, the chancellor encouraged the workgroup to ask the difficult questions and challenge tradition. He warned that current budget-balancing practices were not sustainable and that a new approach needed to be considered. He asked the workgroup to address three questions:

- 1) What changes should be made to the system's expenditure and revenue strategies to ensure the long-term financial sustainability of our colleges and universities in light of the priorities articulated in the strategic framework?
- 2) Are there alternative models for how we should organize ourselves, educate students and serve communities across Minnesota that will advance excellence, access and affordability, *and* that will be more financially sustainable over the years ahead?
- 3) What tools as well as academic and financial planning strategies are needed to effectively implement recommended changes?

Chancellor Rosenstone concluded his remarks by asking the workgroup to provide him with a report of its findings and recommendations by June 2016.

Development of a plan must entail a process that candidly examines and confronts facts; assesses (and where appropriate challenges) deeply held assumptions, traditions and beliefs; considers new ideas, models, and strategies; and draws upon the most effective strategies employed by our campuses and/or recommended by the Charting the Future implementation teams. – Chancellor Rosenstone

CHALLENGING LESSONS: TRANSFORMATIVE IMPLICATIONS

The system can and must be more nimble and responsive to student needs.

Improving the student experience is essential to the long-term financial sustainability of the system. Simply put, student success equals long-term financial sustainability. And yet, some of the system's current curriculum models, pedagogical practices and support services do not produce necessary rates of persistence and eventual degree or certificate completion – especially among non-traditional students, students of color and American Indian students, populations that will continue to grow in importance to the successful delivery of the system's mission and the health of the state of Minnesota.

Hispanic and Black/African American communities accounted for nearly 60 percent of the state's population increase between 2000 and 2010. There are increasing numbers of minority students in Minnesota high schools and these students are graduating at lower rates than white, non-Hispanic students; graduation rates range from 54 percent for American Indian students to 66 percent for Hispanic students, compared to 88 percent for white non-Hispanic students. This gap is unacceptable; the system's efforts thus far to close the gap have produced marginal improvements.

In the system, students of color and American Indian students accounted for 24 percent of all credit students in 2015, up from 15 percent in 2006. And yet, the six-year completion rate for the system's white university students entering in the fall of 2008, for example, was 54 percent, compared to 42.7 percent for students of color and American Indian students. The three-year completion rate for white college students entering in the fall of 2011 was 53.6 percent, while the rate for students of color and American Indian students was 38.1 percent. There is acknowledgement among workgroup members that future success will require heightened college-going behavior across all Minnesota student populations. The system needs to improve enrollment and retention overall, with particular attention to the state's growing and strikingly underserved minority student populations. (Source: Report on Student Demographics to the Workgroup, March 2016)

Students of Color and American Indian Students Comprising an Increasing Percentage of Students

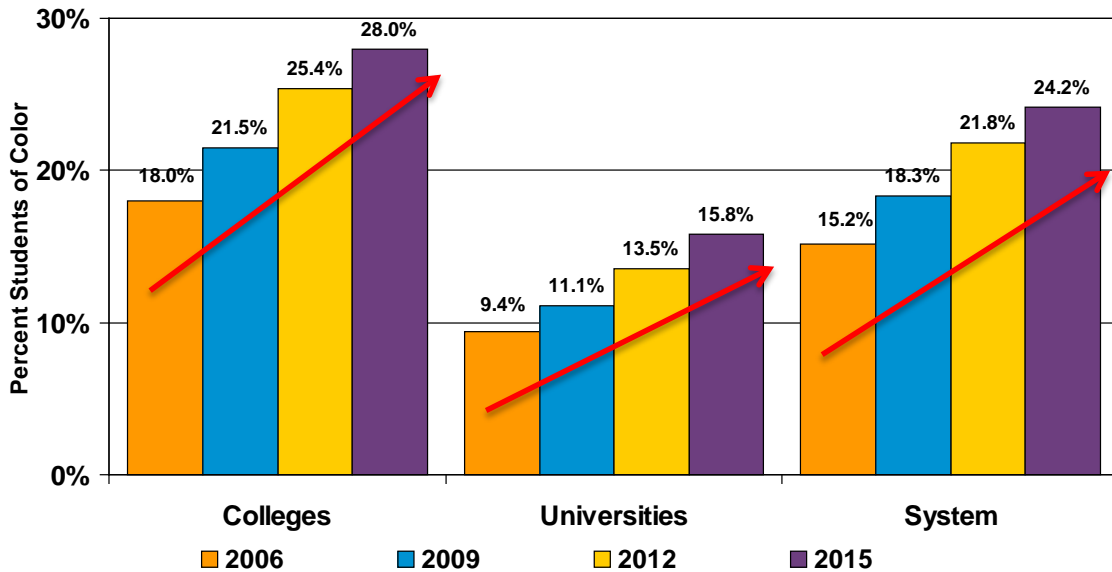


Figure 4: Students of color and American Indian students comprising an increasing percentage of our students

Forecasted population growth in the Twin Cities alone will occur entirely among people of color and American Indians; populations that have historically been underrepresented and underserved in higher education. Consistent with national performance, the largest gap in degree attainment between the white majority and people of color/American Indians exists at the baccalaureate level. Historically, nearly 75 percent of the 100,000 students that attend one of the systems two-year metropolitan colleges indicate that they intend to complete a bachelor’s degree at some time in the future. While 30 percent of these transfer-minded college students subsequently enroll in a system university, 70 percent do not. Instead, 48 percent of transfer-minded college students remain in Minnesota but enroll in a non-system college or university – 14 percent transfer to the University of Minnesota; 14 percent transfer to a private, for-profit college or university; 20 percent transfer to a private, non-profit college or university; 22 percent enroll in a college or university located outside the state. (Source: Report to the Academic and Student Affairs Committee of the Board of Trustees, January 2016)

Where System Students Transfer

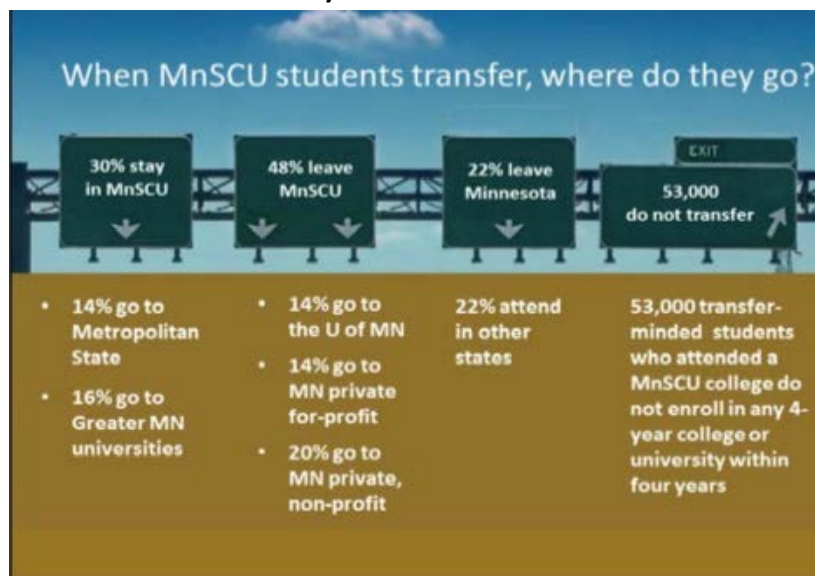


Figure 5: Where System Students Transfer

Most concerning of all is that approximately two-thirds of the system's transfer-minded students who start on the road to a baccalaureate degree at a metropolitan-area college do not enroll in any college or university within four years of leaving. If the system is to meet the future need for baccalaureate-educated workers in Minnesota, it must provide additional opportunity for these students to enroll in one of its universities.

Efforts to serve these populations will require both colleges and universities to be more creative about removing barriers, collaborative and adaptable to their changing needs and expectations. Colleges and universities need creative approaches to recruiting and retaining faculty and staff of color, flexible scheduling and efforts to promote a sense of belonging. Only then will the system maintain a responsible and competitive edge in a daunting marketplace. Such efforts will include, but not be limited to, labor practices that support new organizational structures, inter-campus assignments and engage faculty in new ways to imagine and redefine their roles.

Despite the best intentions of so many on the system's campuses, the status quo often inhibits student success and, in turn, the system's financial viability. There are actual costs to the system and its colleges and universities at whatever point a student drops out of the pipeline – losses in tuition and costs associated with recruitment and staff and faculty salaries, to name a few. This is not to mention the lost opportunity for the individual student and an educated and skilled citizenry.

Growing existing or finding new operating revenue streams, including tuition, will not fill the system's deepening fiscal hole.

There are limited options for revenue growth that can and should be explored. Efforts already underway to expand online and customized training activities are important to the communities the system serves. They are, however, incidental and do not provide the potential for budget relief of any significant magnitude. Further, the system's colleges and universities do not have cultures that support or incorporate substantial private or individual philanthropy for operations and programming; thus, turning to fundraising as a "silver bullet" revenue source is unrealistic. Modest increases over time are possible, but significant upswings in philanthropic dollars over the next 10 years are not realistic.

Ninety percent of the system's revenue is generated from the state appropriation and student tuition. The capacity and propensity of either of these sources to increase significantly are modest at best. Tuition increases were not entertained by the workgroup as a substantial contributor to long-term financial sustainability in light of the system's affordability commitment and strategies. What's more, students proposed an examination of the costs students face in paying for their education.

That said, minimal revenue increases can make a difference, as shown by "1%" projections in non-tuition or non-appropriation revenues. Capturing other potential revenue streams also is a consideration. If the system was able to increase market share of Minnesota resident undergraduates by one percent, \$8.3 million in tuition revenue would be generated. Capturing one percent of high school students attending college outside of the state and those that don't enroll in college would increase revenue by \$920,000 in the first year. And, a one percent increase in retention would produce nearly \$8 million in revenue. Combined, these changes could generate \$18.8 million in additional income in total. These are important efforts in their own right, but they will take time and investment.

1% increase in select revenue sources generates about \$19 million

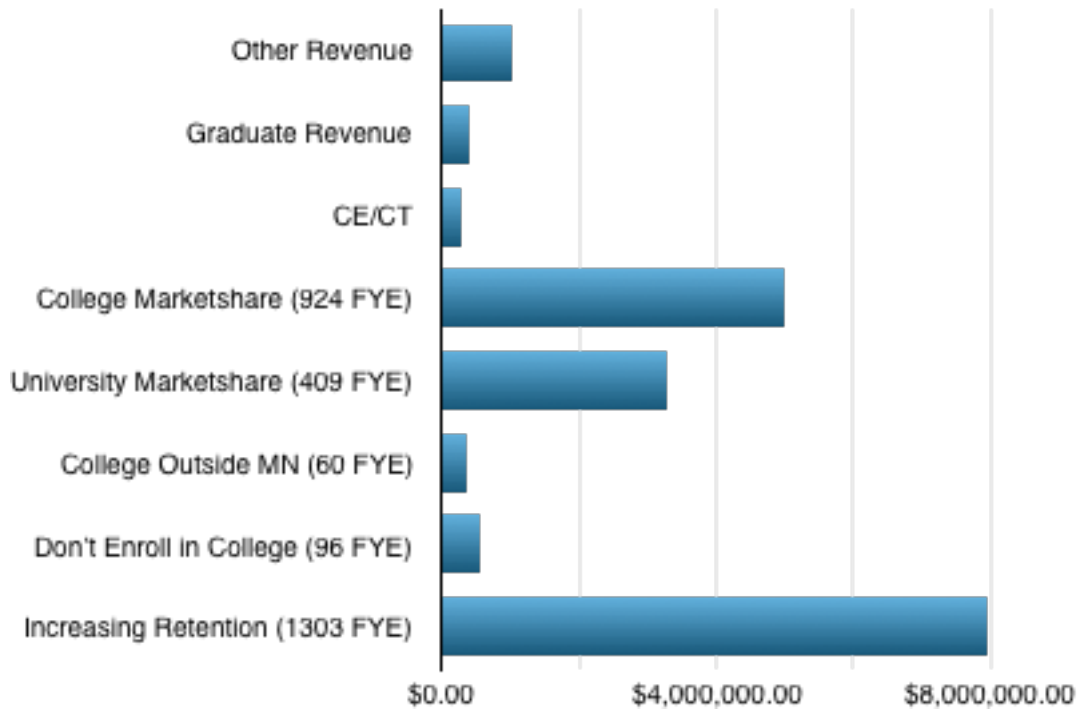


Figure 6: Increasing efficacy and efficiencies by 1% would generate \$18.8 million for the system.

In spite of these projections, the overriding reality is that the system is in its fifth year of enrollment declines. The system's ongoing commitment to affordability is holding down tuition increases. And state support is not keeping up with tuition limitations. Enrollment and retention increases alone will not solve the sustainability problem.

The system can and must improve core administrative and academic support functions that exist from campus to campus and at the system level.

The system is, first and foremost, an academic enterprise that revolves around students. It is clear that for the success of students, as well as the employees who serve them, the system needs to work as an efficient public enterprise as well. Independence and autonomy are understandably hallowed values associated with higher education. Within the system, college and university autonomy is most definitely respected. However, given today's global and technical realities, it can present barriers to success and sustainability. Lack of coordination across departments, offices and campuses, patchwork processes and other inefficiencies that arise from uncoordinated growth are costing the system real and significant time – and money – and impairing the success of students. The system also is unnecessarily at-risk of

creating situations where core administrative functions can and have failed to perform. The system needs to establish a sense of continuity and efficiency as a cohesive collection of inter-related efforts responsible to all stakeholders. The system cannot balance its budget within the same cost structure. To reduce costs and improve results, the system must re-organize.

RECOMMENDATIONS

1. Act as an enterprise

To harness the collective power of the colleges and universities and marshal more effective and efficient campus-based leadership dedicated to improving student success

Rationale: The system's colleges and universities have a history of fierce independence when it comes to curriculum, which has created unnecessary barriers to successful student mobility. It is essential to increasing financial sustainability that gains in student retention, transfer and graduation rates – especially among students of color and American Indian students – be made, while being realistic about overall enrollment increases. Improvements in academic planning, curriculum design and program delivery will limit unnecessary program duplication and increase student success, thereby increasing net tuition revenue and reducing investment losses. These improvements can take place when widespread commitment to joint curriculum development across the system's colleges and universities is present. The colleges, universities and system can then determine academic program needs and priorities through comprehensive statewide and regional planning. Integral to these improvements is a faculty effort to make what is taught and how it is taught more culturally, pedagogically and technologically relevant to the growing diversity of the system's student population.

- 1.1 The faculty should align and streamline the curriculum to reduce the time to graduation and the cost of the degree. This should be done by continuing the work initiated, in part, under Charting the Future to establish guided transfer pathways that:
 - provide clear navigation within colleges and universities and across the system so that it is easier for students to persist and complete their programs;
 - resolve inconsistencies within the Minnesota Transfer Curriculum; and
 - decrease complexity and inefficiencies, while maintaining an appropriate range of student choice and program specialization.

- 1.2 The colleges and universities should create competency-based credential and degree pathways, allowing students to integrate and individualize their learning and demonstrate competency developed both inside and outside of the classroom.

- 1.3 The colleges and universities should align online course and program offerings with the emerging system-wide online strategy.

- 1.4 The chancellor should coordinate the design and delivery of customized training throughout the state and commit to grow the enterprise revenue by five percent per year.
- 1.5 The chancellor should coordinate marketing efforts for cross-system offerings such as streamlined curriculum, guided transfer pathways, competency-based credential and degree pathways, online offerings and customized training.

2. Consolidate the delivery of core functions

To create more cost-effective operations where knowledge and services are shared and redundancies are minimized

Rationale: The colleges and universities replicate too many of the same core operating functions. The cost of duplicating these functions on every campus, regardless of size, leads to higher than necessary per unit costs and less than optimal service to students. It also creates unnecessary risks to the campuses and the system. Consolidating leadership and administrative functions will improve services to students, reduce operating costs and allow for better ongoing control of their growth. Failing to deal with these issues will likely lead to significant cross subsidies between colleges and universities, which will not be acceptable.

- 2.1 The board should establish criteria for campuses to have full, dedicated administrative structures.
- 2.2 The board should create regional planning, communication and leadership structures to ensure effective coordination of core functions among and between colleges and universities.
- 2.3 The chancellor should continue to align the leadership structures of colleges in the metropolitan area, such as the efforts underway between Anoka-Ramsey Community College and Anoka Technical College, as well as Dakota County Technical College and Inver Hills Community College.
- 2.4 The chancellor should create regional and statewide call centers and processing centers that consistently communicate information related to admissions, financial aid, registration, human resources, accounts receivable and other common functions.

3. Build partnerships that prepare students for a successful college experience

And help eliminate the opportunity and achievement gaps

Rationale: The goal of increasing student success will require improvements in academic readiness and expansion of support services to students, especially as the student body becomes more diverse. These services are a key part of a student's successful progress, but may not be core to the mission of the colleges and universities or a core competency. Colleges, universities and the system must find capable community partners who can help provide necessary support services and work with the colleges and universities in partnership to eliminate achievement and opportunity gaps.

- 3.1 The colleges and universities must work across the system and with K-12 and community partners to eliminate achievement and opportunity gaps to better prepare students and increase their success in college.
- 3.2 The colleges and universities must work across the system and within their communities to form service provider partnerships in such areas as social services, housing, transportation, day care and food support.
- 3.3 The colleges and universities should increase post-secondary enrollment options and concurrent enrollment.
- 3.4 The colleges and universities should strengthen financial literacy training, career advising and other support services that promote persistence and success at the start of a student's academic career, and monitor progress at regular intervals as they proceed through the system.

4. Adopt more creative and flexible labor practices

In response to the changing needs and expectations of students and communities, as well as changing organizational structures and faculty and staff roles and assignments

Rationale: Nearly half of the system's students who earn a baccalaureate degree have attended at least one other system college or university. No longer are the system's colleges and universities isolated schools with discrete curricula, faculty and staff. With approximately 70 percent of the system's costs invested in personnel, it must find ways to meet the needs of

the increasingly mobile student body by being more flexible where administration, curriculum, teaching and learning are concerned.

- 4.1 The chancellor, working with the Metro Alliance, should organize faculty along two new full-time and part-time units, enabling individual members to move seamlessly from campus to campus. Administrative and student service processes and procedures should be developed accordingly. Pilot this initiative in the metropolitan area, where it makes the most immediate sense geographically.

5. Re-calibrate physical plant and space capacity

In order to address regionally disproportionate surpluses, as well as to accommodate new academic and administrative organizational structures

Rationale: The system is overbuilt in some parts of the state. There is a high cost to the system due to this imbalance. Better capital planning, space allocation and utilization can significantly reduce operating costs and increase revenue.

- 5.1 The chancellor should undertake comprehensive facilities planning by region to increase utilization.
- 5.2 The colleges and universities also should work to increase use of underutilized physical spaces through tuition and fee incentives or staffing arrangements.
- 5.3 The colleges and universities should pursue non-academic revenue-generating uses of surplus physical capacity that complements the mission of the system's campuses, while meeting a community need and conforming to policy/statutory guidance.

RECOMMENDATIONS BY FINANCIAL SUSTAINABILITY, IMPLEMENTATION EASE

Recommendations evaluated by financial sustainability and ease of implementation

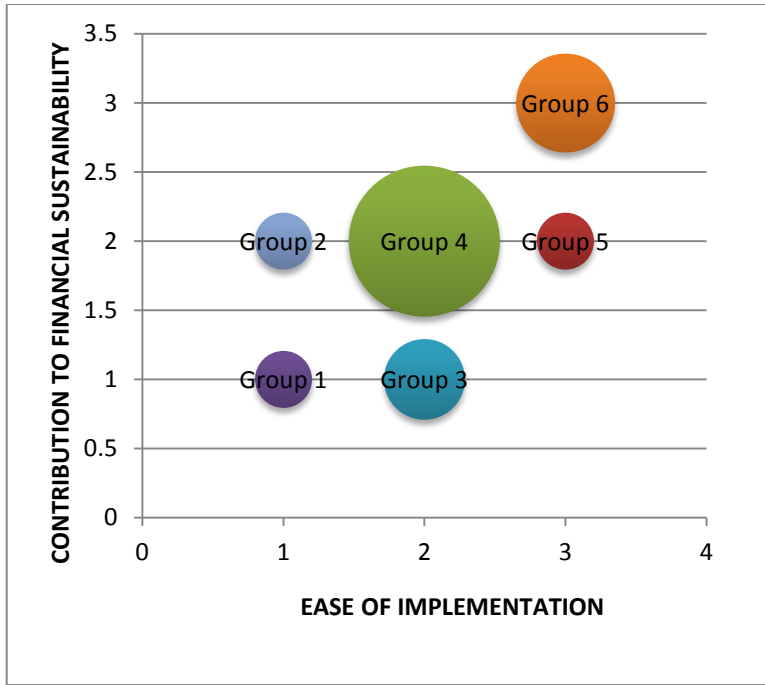


Figure 7: Recommendations evaluated by financial sustainability and ease of implementation

EASE OF IMPLEMENTATION – how long it takes for the recommendation to start delivering results (not how quickly will all the work be done)

- 1 = within six months;
- 2 = six to 18 months;
- 3 = more than 18 months

CONTRIBUTION TO FINANCIAL SUSTAINABILITY

- 1 = \$1 million to \$5 million
- 2 = \$5 million to \$25 million
- 3 = more than \$25 million

Group One

- 3.3 increase post-secondary enrollment options (1,1)

Group two

- 1.5 coordinate marketing efforts for cross-system offerings (1,2)

Group Three

- 2.3 align the leadership structures of colleges in the metropolitan area (2,1)
- 2.4 create regional and statewide call centers and processing centers (2,1)

Group Four

- 1.2 create competency-based credential and degree pathways (2,2)
- 1.3 align online course and program offerings (2,2)
- 1.4 coordinates the design and delivery of customized training (2,2)
- 2.1 establish criteria for campus administrative structures (2,2)
- 2.2 create regional planning, communication and leadership structures, (2,2)
- 3.2 work with community service providers (2,2)
- 3.4 create services that promote student persistence and success (2,2)

Group Five

- 4.1 organize faculty along two new full-time and part-time units (3,2)

Group Six

- 1.1 align and streamline the curriculum (3,3)
- 3.1 eliminate achievement and opportunity gaps (3,3)
- 5.1 undertake comprehensive facilities planning by region (3,3) – includes 5.2 and 5.3

Conclusion

Strengthening the enterprise as a whole is necessary and essential to increasing the value of the educational experience for students, all parties who have a stake in serving them, and the future of the state of Minnesota. The recommendations above provide a substantial and material roadmap for improving financial sustainability over the next 10 years. As the workgroup members constructed them, they were mindful that they will require meaningful, collective effort. Transformative change is never easy, but with respect to Minnesota State Colleges and Universities, it has never been more important.

The work of the Long-Term Financial Sustainability Workgroup was undertaken last fall at the initiation of Chancellor Rosenstone. The workgroup was asked to approach its work with laser-focused perspective on the system's long-term financial outlook and the actions needed to improve its financial sustainability. There are elements of the workgroup's recommendations that dovetail with the projects and actions of the *Charting the Future* work. Projects or actions launched under the *Charting the Future* effort are expected to continue. Their incorporation into the thinking and recommendations of the Long-Term Financial Sustainability Workgroup serve as endorsement of both the improved effectiveness and financial benefit of the projects and actions.

The recommendations contained in this report will benefit from continued work to leverage and improve reporting and data analytics available to system and campus leaders. It is clear that progress on the recommendations in the report will require additional data and reporting tools in support of the effort. The chancellor asked the workgroup to identify the tools and academic and financial strategies needed to implement its recommendations. While the workgroup made some progress on this front, identification of the necessary tools and strategies is expected to emerge as more detailed implementation recommendations are formulated during the forthcoming consultations with stakeholder groups. The workgroup also discussed the probability of both one-time costs and ongoing increases in capacity related to the recommendations as individual strategies are moved into implementation.

It is the understanding of the workgroup that the chancellor will review this report and present it to the Board of Trustees at its June 2016 meeting. He will then seek additional consultation with stakeholder groups, select priority initiatives and pursue further analysis of the financial outcomes of the priority initiatives, according to a timetable that accommodates review of the final recommendations at the October 2016 meeting of the trustees.

Appendix A

Alternative Perspectives on the Recommendations

As the Long-Term Financial Sustainability Workgroup was preparing its final recommendations, members were encouraged to submit feedback, as they had been throughout the entire process. Three members expressed objections to some of the recommendations when the consensus view was not consistent with their own. They also raised questions designed to clarify what was meant by some of the recommendations. What follows is a summary of their comments.

The first recommendation centers on making changes to the curriculum, how students earn degrees and the role of online education and customized training. The feedback affirmed that the effort to establish transfer pathways was already well under way and should continue. There was a mixed reaction to the proposal to increase online offerings, with one member opposing the idea while another was willing to consider it with some qualifications. The proposal to create competency-based degrees drew a suggestion to try a pilot to measure the results.

The recommendations related to consolidating the delivery of core functions were met with skepticism and concern about reducing student access to services. Differences in local circumstances were cited as a reason to move cautiously.

Building partnerships with K-12 and non-profit organizations received support from most members, although the proposal to expand concurrent enrollment was opposed by one member.

There was unanimity of opinion among the two teaching faculty members about the recommendation to organize new faculty units in the metro area. Both members strongly opposed this recommendation, suggesting it would adversely affect student-faculty relationships without producing academic or financial benefits.

Appendix B

Chancellor Rosenstone's Charge to the Workgroup



Minnesota
STATE COLLEGES
& UNIVERSITIES

STEVEN J. ROSENSTONE
Chancellor

30 7th ST. E., SUITE 350
ST. PAUL, MN 55101-7804

ph 651.201.1696
www.mnscu.edu

October 7, 2015

TO: Workgroup on the Long-Term Financial Sustainability of Minnesota State Colleges and Universities

Phil Davis, Associate Vice Chancellor and Director of the Campus Service Cooperative
Laura King, Vice Chancellor for Finance and Chief Financial Officer

Ron Anderson, Vice Chancellor for Academic and Student Affairs
Deborah Bednarz, System Director for Financial Planning and Analysis
Mark Carlson, Vice Chancellor for Human Resources
Kari Christiansen, Vice President, Administrative Services, Central Lakes College
Jay Cowles, Chair, Board of Trustees Finance and Facilities Committee
Oscar Flores-Ibarra, Professor of Economics, Minnesota State University Moorhead
John Gunyou, Former Commissioner, Minnesota State Finance
Eduardo Gutierrez, Admissions Counselor, Metropolitan State University
Ken Janz, CIO, Winona State University
Gary Kloos, Executive Director, Minnesota Managers Association
Bryan Kotta, IT System Manager, Minnesota State University Moorhead
Devinder Malhotra, President, Metropolitan State University
Ramon Padilla, Vice Chancellor for Information Technology and CIO
Annette Parker, President, South Central College
Kevin Parker, Student, Anoka-Ramsey Community College
Jim Schowalter, Former Commissioner, Minnesota Management and Budget
Jenny Stratton, Finance, Minnesota State University, Mankato
Kent Quamme, Instructor, Minnesota State Community and Technical College
Skeeter Rogers, Student, Minnesota State University, Mankato
Christina Royale, Provost/VP, Academic Affairs Inver Hills Community College
Lori Voss, VP of Administration, Minnesota West Community and Technical College
Brian Yolitz, Associate Vice Chancellor for Facilities

FROM: Steven Rosenstone

A handwritten signature in black ink, appearing to read "Steven".

RE: Charge to the Workgroup

Thank you for agreeing to serve on the Workgroup on the Long-Term Financial Sustainability of Minnesota State Colleges and Universities.

The success of Minnesota State Colleges and Universities depends, in large part, on our ability to develop and implement a long-term, sustainable financial plan that provides the resources the system's colleges and universities need to ensure that they can provide access to an extraordinary education for all Minnesotans; be the partner of choice to meet community and business needs; and be the lowest cost / highest value higher education option in the state.

Like other public higher education systems across the country, our colleges and universities have experienced a significant change in their sources of revenue. Despite recent investments by the State of Minnesota, state support per student (in constant dollars) in FY2015 was 32% below FY2002 funding levels and the state's share of campus general fund budgets has dropped from 66% in FY2002 to 44% in FY2015. Looking forward, state budgets will likely remain under increasing pressure from other pressing state needs (e.g., health care, preK-12, economic and social service programs).

The reduction in state support has resulted in greater reliance on tuition as a source of revenue. In recent years, public concern about, as well as our commitment to, affordability have substantially lowered the appetite for anything beyond very modest tuition rate increases.

Public entities, such as our college and universities, with their strong reliance on people, have always struggled to match the growth in expenses with the growth in revenue. Although the dynamic is not new, the constraint on both state support and tuition rate increases, coupled with the decline in the number of high school graduates, has made the external environment more challenging over the past decade. As a result, new revenue is not keeping up with expenses and this has placed our colleges and universities under enormous financial pressure. This fiscal constraint has limited their ability to invest in new academic programs, student services, equipment, and new technology. It challenges our ability to invest in the new initiatives suggested by the Charting the Future implementation teams. Unchecked, it will put innovation and excellence at risk.

How will our colleges and universities thrive in this new reality? How will they secure the resources they need to ensure their excellence, protect access and affordability, and meet the needs of the communities they serve? How will our colleges and universities thrive in an increasingly complex and competitive higher education market where the number of high school graduates has declined, where the need to serve an increasingly diverse population has risen, and where some competitors promote themselves as providing faster, friendlier, more flexible and reliable pathways to courses and degree completion?

The Workgroup on the Long-Term Financial Sustainability of Minnesota State Colleges and Universities is charged with developing a long-term financial strategy that will ensure that the system's colleges and universities can better fulfill their mission over the next decade and beyond. This work will require a thoughtful, dispassionate review of political, demographic, and economic facts and trends and candid reflection on current cost structures, revenue streams, and models. The long-term financial plan must take into account demographic and economic trends; changes in the marketplace; and the opportunities, pressures and constraints on revenues and expenses.

Development of a plan must entail a process that candidly examines and confronts facts; assesses (and where appropriate challenges) deeply-held assumptions, traditions and beliefs; considers new ideas, models, and strategies; and draws upon the most effective strategies employed by our campuses and/or recommended by the Charting the Future implementation teams.

The Workgroup is charged with formulating recommendations to the chancellor, the Leadership Council, and the Board of Trustees that will strengthen the long-term financial sustainability of our colleges and universities. The overall questions to be addressed are:

- 1. What changes should be made to the system's revenue and expenditure strategies to ensure the long-term financial sustainability of our colleges and universities in light of the priorities articulated in the strategic framework?*
- 2. Are there alternative models for how we should organize ourselves, educate students, and serve communities across Minnesota that will advance excellence, access and affordability, and that will be more financially sustainable over the years ahead?*
- 3. What tools as well as academic and financial planning strategies are needed to effectively implement these recommended changes?*

Revenue Strategies

- What strategies should our colleges, universities, and system office use to grow a larger and more diversified portfolio of revenues (e.g., customized training and continuing education revenue; private giving; program growth; enrollment growth; increased retention; development of physical assets and intellectual property; etc.)? What is the likely fiscal impact of each strategy? How should we implement each strategy to realize its full potential?

Expense Strategies

- What are our major cost drivers and which costs are increasing faster than revenue?
- What are the opportunities (beyond those strategies currently being pursued) to further reduce expenses and reduce the rate of increase in expenses (e.g., greater efficiency and effectiveness in academic programs and administrative operations; improved asset and real estate management including improved space utilization; more effective information technology infrastructure; expanded innovative staffing practices; etc.)? What new models should be considered? What is the likely efficacy of each strategy? How should we implement each strategy to realize its full potential?

October 7, 2015

Page 4

Planning Strategies, Tools, and Models

- Are there alternative models for how we should organize ourselves, educate students, and serve communities across Minnesota that will advance excellence, access and affordability, and that will be more financially sustainable over the years ahead?
- Do we have effective long-term campus-level and system-level financial and human resource strategies, models, and planning tools that take into account projected changes in revenue and expenses as well as demographic, enrollment, and economic trends that affect the financial health of our colleges and universities? What improvements should be made to these strategies, models and tools? How can our system and campus budget decisions be better linked to our academic priorities and to financial sustainability? What changes to the system and campus budgeting processes should be considered? How might new financial strategies support innovation and excellence?
- How should the projected impact of new revenue and expense strategies be assessed and their impacts included in our models and planning tools? How might we best track and evaluate the relationship between the system and campus financial plans and long-term sustainability?
- What system-level and campus-level planning processes are needed to monitor and evaluate the long-term financial sustainability of our colleges and universities and the system as a whole?

Schedule

The Board of Trustees and I would appreciate periodic updates on your work over the months ahead. The workgroup should complete its deliberations and issue its report with findings and recommendations by June 3, 2016.

Thank you for your service on behalf of this important endeavor.

Appendix C

The Workgroup and its Process

The Long-Term Financial Sustainability Workgroup was comprised of 22 members and two co-chairs representing a broad array of stakeholder interests drawn from campuses as well as the system at-large. Students, union representatives from every representative group, campus leaders and outside experts were regular, active participants.

From October 2015 to June 2016, the workgroup met monthly. The meeting agendas included presentations and group discussion in an atmosphere of intentional inclusivity – frank feedback was expressly welcomed and actively sought. The presentations were rich in content concerning state demographics and trends, the system’s academic and student affairs, and financial overview and analyses. Agendas were designed to provide for extensive group discussion. Online questionnaires also provided timely opportunities for more confidential input as facts and observations were revealed, giving members time to think and reflect. Survey responses were anonymously shared with all members.

The preparation of the report was facilitated by Co-Chairs Phil Davis, Associate Vice Chancellor/Managing Director, Campus Service Cooperative and Laura King, Vice Chancellor for Finance and Chief Financial Officer. The goal was to have a report that reflected the lessons learned by the workgroup and the strategies and recommendations that emerged from the workgroup discussions and survey results.

Workgroup members were provided with a draft report for consideration in advance of the meeting on May 5, 2016, which served as an opportunity for input. The three-hour meeting was organized to generate feedback through large group and small group discussions. Feedback was gathered and incorporated into a second draft that was distributed to the workgroup on May 16, 2016. Written feedback was solicited and incorporated into the final version of the report, which was presented to Chancellor Rosenstone. Finally, the effort of the work group and its report was vetted against *Charting the Future* work to-date and is intended to complement this overarching strategic planning initiative.

Co-Chairs:

- Phil Davis, Associate Vice Chancellor and Director of the Campus Service Cooperative
- Laura King, Vice Chancellor for Finance and Chief Financial Officer

Members:

- Ron Anderson, Vice Chancellor for Academic and Student Affairs
- Deborah Bednarz, System Director for Financial Planning and Analysis

- Mark Carlson, Vice Chancellor for Human Resources
- Kari Christiansen, Vice President, Administrative Services, Central Lakes College
- Jay Cowles, Chair, Board of Trustees Finance and Facilities Committee
- Oscar Flores-Ibarra, Professor of Economics, Minnesota State University Moorhead (IFO)
- John Gunyou, Former Commissioner, Minnesota State Finance
- Eduardo Gutierrez, Admissions Counselor, Metropolitan State University Minnesota State University Association of Administrative and Service Faculty (MSUAASF)
- Ken Janz, CIO, Winona State University
- Gary Kloos, Executive Director, Middle Management Association (MMA)
- Bryan Kotta, IT System Manager, Minnesota State University Moorhead, Minnesota Association of Professional Employees (MAPE)
- Devinder Malhotra, President, Metropolitan State University
- Ramon Padilla, Vice Chancellor for Information Technology and Chief Information Officer
- Annette Parker, President, South Central College
- Michael Wenzel, Student, Rochester Community & Technical College, Minnesota State College Student Association (MSCSA)
- Jim Schowalter, Former Commissioner, State Management and Budget
- Jenny Stratton, Finance, Minnesota State University, Mankato American Federation of State, County and Municipal Employees (AFSCME)
- Kent Quamme, Instructor, Minnesota State Community and Technical College Education Minnesota - Minnesota State College Faculty (MSCF)
- Cara Luebke, Student, Mankato, Minnesota State University Student Association (MSUSA)
- Christina Royal, Provost/Vice President of Academic Affairs, Inver Hills Community College
- Lori Voss, Vice President of Administration, Minnesota West Community and Technical College
- Brian Yolitz, Associate Vice Chancellor for Facilities

Support Staff:

- Maureen Braswell, Executive Assistant to the Vice Chancellor of Finance-Chief Financial Officer
- Celena Monn, Executive Assistant to the Associate Vice Chancellor, Campus Service Cooperative
- Kathy Hanon, System Office Budget Director

Appendix D

Overview of Workgroup Meetings

November 12, 2015

Presenters:

Tom Gillaspy, retired demographer, State of Minnesota, on general observations and conclusions related to the current and projected make-up of the student population and the state's workforce

Deborah Bednarz, System Director for Financial Planning and Analysis and Workgroup Member, on the definition of the challenge, the revenue and expense gap and outlook

December 18, 2015

Presenter: Ron Anderson, Vice Chancellor for Academic and Student Affairs and Workgroup Member, on sustainable, alternative models for organizing faculty and administration and curriculum development

Two rounds of group discussion: 1) review of the November meeting notes in small groups, 2) large-group opportunity for general observations

January 13, 2016

Presenter: Brian Yolitz, Associate Vice Chancellor for Facilities and Workgroup Member, on the Long-Term Financial Sustainability of College and University Facilities

Two rounds of group discussion: 1) continued large-group discussion of material presented at December meeting, 2) small group discussions of survey questions

February 17, 2016

Presenter: Mark Carlson, Vice Chancellor for Human Resources and Workgroup Member, on a human capital perspective examining workforce cost realities and system architecture

Large-group discussion of two questions: 1) What activities have been most helpful in formulating your thoughts about possible recommendations?; and 2) What additional areas of inquiry would help you to feel ready to make recommendations? As a result, the co-chairs committed to bringing additional input from the student perspective to the March meeting.

Large-group discussion directed by Ron Anderson, Vice Chancellor for Academic and Student Affairs and Workgroup Member, who invited the workgroup to review eight possible strategies based on best practices and emerging trends in higher education that emerged from discussion at the December meeting. Members were encouraged to

consider the benefits of each strategy to students, and also to the colleges, universities and the system.

March 24, 2016

Presenters:

Craig Scholenecker, Senior System Director of Research, on the changing demographic profile of the system's student population

Joe Wolf, student representing the state universities' student association and Richard Barnier, student, representing the state colleges' student association on perspective related to the student experience

Small group discussions on student demographics and the student experience.

April 6, 2016

Presenter: Deborah Bednarz, System Director for Financial Planning and Analysis and Workgroup Member, on revenue options for building long-term sustainability

The workgroup reviewed draft themes and recommendations.

May 5, 2016

Large group and small group review of the first draft of the full report. The members provided suggested revisions. A second draft was distributed to members on May 16 with a request for written feedback by May 20, 2016.

June 8, 2016

The final report was distributed to workgroup members on June 1, 2016.

Celebration of the workgroup's efforts.