The Governor's 2006-07 Biennial Budget can be viewed at the Department of Finance's web site at:
http://www.budget.state.mn.us//budget/index.shtml

STATE OF MINNESOTA

Office of Governor Tim Pawlenty
130 State Capitol 75 Rev. Dr. Martin Luther King Jr. Boulevard Saint Paul, MN 55155

January 21, 2005

To the 2005 Legislature:

I am pleased to submit to you my recommendations for the higher education budget for the FY 2006-07 biennium. This budget will set the course for higher education in Minnesota to focus on excellence, access and accountability. I am recommending a total appropriation for higher education from the general fund of $2.774 billion, an 8.4% increase over the FY 2004-05 biennium.

My budget recommendation provides total general fund resources of $1.221 billion for the University of Minnesota. This is an increase of $120.5 million, or 11.2% over FY 2004-05 spending. The budget includes strategic investments at the University of Minnesota in biosciences to build a healthier society, competitive compensation to improve the University's ability to attract and retain top-flight faculty, research support for start-up packages that address the equipment, laboratory and staffing needs of new faculty, and new resources to attract talented undergraduate and graduate students.

Also included in the $120.5 million for the University is $15 million for operating funds for the Minnesota Partnership for Biotechnology and Medical Genomics between the University and the Mayo Clinic in Rochester. Half of this funding is for the University's partnering organization, the Mayo Foundation. This important initiative will lead to research advances in genomics and related bioscience fields.

My budget recommendation contains a $1.203 billion general fund appropriation for the Minnesota State Colleges and Universities (MnSCU). This is an increase of $107.5 million, or 8.5% over FY 2004-05 appropriations. Specific recommendations propose funding for the Minnesota State Colleges and Universities to re-invest in its member colleges and universities. Additional funding will help MnSCU create centers of excellence, provide resources to design and develop emerging programs and curricula, and grow the capacity of its nursing programs to meet the acute shortage facing our state.

Measurable results and accountability for public resources has been a hallmark goal of this administration. I am recommending that the Higher Education Services Office develop a new accountability measurement system to drive improvements in all of higher education.

Finally, I am recommending a new, independent higher education institution in Rochester. This is an exciting opportunity to create a unique institution with high quality programs focused on the academic disciplines that support and complement the economic vitality of this community and the state.

These budget recommendations are designed to maintain the key role of the higher education sector in supporting the health of the state and fueling its economy.

We look forward to working with the Legislature in the coming months.

Sincerely,

Governor Tim Pawlenty

	PAGE

Minnesota Higher Education Services Office

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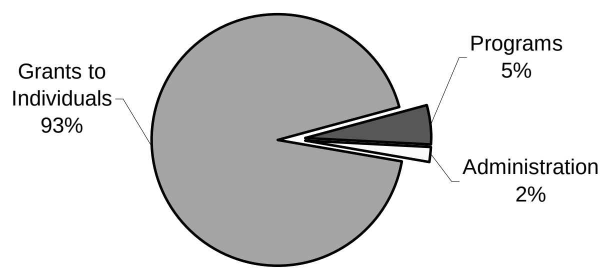
January 25, 2005

To the 2005 Legislature:

On behalf of Governor Pawlenty, I am pleased to submit the Higher Education Services Office's budget recommendation for the FY 2006-07 biennium. This budget consists of $347.6 million from the state's General Fund and $300.7 million from other funds. About 93% of the General Fund appropriation for the agency is for grants to individuals.

The office is a cabinet-level state agency helping Minnesota students gain access to higher education. The agency assesses Minnesota's higher education needs and provides policy advice to the executive branch concerning the state's higher education sector. A core function of the agency is to provide financial aid to students and information to families to help them gain access to post-secondary education. The financial assistance is provided in aid through the state grant program, work study, and the child care program, and through state loans to students. Ongoing tuition increases at post secondary institutions in the state and the changing demographics of the student population continue to put pressure on these aid and loan programs. Recent changes at the federal level in the Pell financial aid program will reduce obligations in the state grant program by approximately $7.0 million annually. The Governor proposes reinvesting this in the program by changing the living and miscellaneous allowance and the treatment of actual tuition and fees.

Higher Education Services Office
$347.6 Million FY 2006-07 General Fund



Another important piece of the Governor's recommendation is a new performance accountability system for higher education. This system will help policymakers focus on public rather than institutional purposes, and assess the contribution of colleges and universities to the state.

The agency also serves as the state's clearinghouse for data, research and analysis on postsecondary enrollment, financial aid, finance and trends. In addition it oversees tuition reciprocity programs, Minnesota's 529 college savings program, licensing, an early awareness outreach initiative for youth education technology infrastructure and shared library resources.

We look forward to working with the legislature in the coming months.

Sincerely,

Susan Heegaard
Director

Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
Direct Appropriations by Fund					
General					
Current Appropriation	175,002	175,002	175,002	175,002	350,004
Recommended	**175,002**	**175,002**	**175,462**	**172,152**	**347,614**
Change		0	460	(2,850)	(2,390)
% Biennial Change from 2004-05					-0.7%
Expenditures by Fund					
Direct Appropriations					
General	144,756	207,490	175,462	172,152	347,614
Statutory Appropriations					
Special Revenue	280	312	343	347	690
Federal	4,385	4,806	4,898	4,519	9,417
Miscellaneous Agency	3,945	4,693	390	390	780
Higher Education Svcs Office	128,939	139,869	143,650	146,150	289,800
Total	**282,305**	**357,170**	**324,743**	**323,558**	**648,301**
Expenditures by Category					
Total Compensation	4,137	4,500	4,639	4,638	9,277
Other Operating Expenses	14,015	17,630	17,191	18,066	35,257
Payments To Individuals	132,922	194,569	161,322	161,322	322,644
Local Assistance	15,401	16,361	13,693	10,134	23,827
Other Financial Transactions	115,830	124,110	127,898	129,398	257,296
Total	**282,305**	**357,170**	**324,743**	**323,558**	**648,301**
Expenditures by Program					
Student Financial Aid Services	135,489	197,365	163,954	163,954	327,908
State Student Loans	127,884	137,957	142,445	144,945	287,390
Research & Program Services	1,458	1,640	4,963	1,388	6,351
Libraries And Technology	14,406	15,972	9,110	9,110	18,220
Agency/Loan Administration	3,068	4,236	4,271	4,161	8,432
Total	**282,305**	**357,170**	**324,743**	**323,558**	**648,301**
Full-Time Equivalents (FTE)	**68.6**	**71.7**	**74.5**	**74.5**	

Dollars in Thousands

	FY2005	Governor's Recomm. FY2006	Governor's Recomm. FY2007	Biennium 2006-07
Fund: GENERAL				
FY 2005 Appropriations	**175,002**	**175,002**	**175,002**	**350,004**
Technical Adjustments				
Current Law Base Change		(50)	(50)	(100)
Subtotal - Forecast Base	**175,002**	**174,952**	**174,952**	**349,904**
Change Items				
Accountability Measurement System	0	100	300	400
Interstate Tuition Reciprocity	0	(2,600)	(2,600)	(5,200)
Learning Network of Minnesota	0	(500)	(500)	(1,000)
State Grant Software Re-write	0	310	0	310
University in Rochester	0	3,200	0	3,200
Total Governor's Recommendations	**175,002**	**175,462**	**172,152**	**347,614**
Fund: SPECIAL REVENUE				
Planned Statutory Spending	**312**	**332**	**332**	**664**
Change Items				
Private Career Schools (Fee Increase)	0	11	15	26
Total Governor's Recommendations	**312**	**343**	**347**	**690**
Fund: FEDERAL				
Planned Statutory Spending	**4,806**	**4,898**	**4,519**	**9,417**
Total Governor's Recommendations	**4,806**	**4,898**	**4,519**	**9,417**
Fund: MISCELLANEOUS AGENCY				
Planned Statutory Spending	**4,693**	**0**	**0**	**0**
Change Items				
Consolidation- Facility Bonding Services	0	390	390	780
Total Governor's Recommendations	**4,693**	**390**	**390**	**780**
Fund: HIGHER EDUCATION SVCS OFFICE				
Planned Statutory Spending	**139,869**	**143,650**	**146,150**	**289,800**
Total Governor's Recommendations	**139,869**	**143,650**	**146,150**	**289,800**
Revenue Change Items				
Fund: SPECIAL REVENUE				
Change Items				
Private Career Schools (Fee Increase)	0	11	15	26
Fund: MISCELLANEOUS AGENCY				
Change Items				
Consolidation- Facility Bonding Services	0	390	390	780

Change Item: Accountability Measurement System

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$100	$300	$300	$300
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$100	$300	$300	$300

Recommendation

The Governor recommends an appropriation of $400,000 for the FY 2006–07 biennium from the General Fund to the Higher Education Services Office (HESO) to develop and implement a higher education accountability measurement system. This system would provide a statewide perspective on all public and private institutions that offer postsecondary education in Minnesota.

Background

Measurable accountability for public resources has been a hallmark goal for programs across federal, state and local governments for the last 15 years. Performance reporting and funding was introduced in many funding areas throughout the 1990's. In 1994 the Legislature enacted language requiring the University of Minnesota and the MnSCU system to reward campuses that achieve performance levels and assist campuses that do not through the allocation of resources. In 1995 the Legislature set aside $5 million for each public system as a performance incentive that was released in $1 million increments each time one of five performance measures was met. This was non-recurring funding and the incentive process was not repeated in subsequent budget sessions. In 1996 performance language was enacted stating, "the legislature expects each system and campus to measure and report on its performance using meaningful indicators that are critical to achieving the objectives…" In 2001 rider language in the higher education funding bill directed both systems to report biennially on a number of measures, although not all of these were performance based standards. This same direction was included in the 2003 funding bill.

According to its web site, the University of Minnesota has provided performance documents since at least 1995. These reports are extensive covering a broad range of institutional goals. MnSCU has also been working on an accountability system but has not yet produced a public report. A brief review of several web sites indicates that private postsecondary institutions have adopted strategic plans that speak to accountability measures, but none have published accountability reports as suggested in this recommendation.

The published documents and informal information received from the two public systems indicate a serious effort is being made to provide accountability measures. However, these efforts have been developed from the perspective of the institution, not from the state. While institutional measures are important, they do not pose the same questions that a statewide system would ask. These questions would address the current and future allocation of state resources. In addition, the efforts are particular to each institution or system and do not provide results than can be aggregated to a higher level. Further, to best serve all citizens in Minnesota, the state has an interest in all postsecondary institutions providing services, not just those that receive a direct state appropriation. This requires the inclusion of private institutions, which receive many public benefits including access to the state grant and loan programs, tax exempt status for certain property and facility financing, and other tax advantages. Minnesota is one of the few states that do not have an overall performance system for postsecondary institutions.

The Governor recommends that HESO develop and implement a statewide accountability measurement system. HESO would establish a planning group comprised of stakeholders from the various postsecondary institutions. FY 2006 would be a planning year during which this group would be convened for input and advice. In order to avoid problems encountered elsewhere, HESO would also draw on the assessment experience and expertise of a number of nationally recognized individuals and groups who have developed these systems in other states. The funding in FY 2007 and thereafter would pay for ongoing operation of the system. Costs would include: purchasing information from licensing and graduate admissions testing organizations; contracting with testing and survey organizations; purchasing other national data; administrative costs at the institution level; and other student–related costs. Once these data are collected and analyzed, HESO will report the results and outcomes to the Legislature, the Governor and the public.

Relationship to Base Budget

Base funding for higher education for the FY 2006-07 biennium is nearly $2.8 billion.

Key Measures

The measures would be developed in FY 2006.

Change Item: Interstate Tuition Reciprocity

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	($2,600)	($2,600)	($2,600)	($2,600)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($2,600)	($2,600)	($2,600)	($2,600)

Recommendation

The Governor recommends a general fund appropriation of $1 million each year of the FY 2006-07 biennium to the Higher Education Services Office (HESO) for the interstate tuition reciprocity program. This recommendation reduces the base appropriation for this program by $2.6 million each year. HESO does not project any interstate payment obligation to Wisconsin in either the FY 2006-07 biennium or in the FY 2007-08 biennium. HESO also does not project interstate payment obligations to North Dakota to exceed $1 million annually over the same period. This recommendation does not impact the ability of Minnesota students to participate in tuition reciprocity.

Background

Over 22,500 Minnesota residents participated in tuition reciprocity in fall 2003 over 19,000 residents of North Dakota, South Dakota, and Wisconsin participated in tuition reciprocity in fall 2003.

Minnesota has interstate tuition reciprocity payment calculations with Wisconsin and North Dakota. With no changes to the Minnesota/Wisconsin tuition reciprocity agreement, HESO does not project that the state will make a payment to Wisconsin for either the FY 2006-07 or FY 2008-09 biennia. HESO does not project interstate payment obligations to North Dakota to exceed $1 million annually in either the FY 2006-07 or FY 2008-09 biennia. As such, the program's base appropriation can be reduced by $2.6 million without impacting the ability of students to participate in tuition reciprocity.

Interstate tuition reciprocity is a cost based program. Reciprocity students and the participating states share responsibility for interstate tuition reciprocity payments. Specifically, Minnesota is responsible for the marginal instructional costs minus student paid tuition for Minnesota students enrolled in Wisconsin. Minnesota undergraduate students attending in Wisconsin pay tuition at a rate charged by a comparable Minnesota institution. This practice avoids providing financial incentives for students to remain at home or to leave their home state for education. Similarly, Wisconsin is responsible for the marginal instructional costs minus student paid tuition for Wisconsin students enrolled in Minnesota. Wisconsin undergraduate students attending in Minnesota pay tuition at a rate similar to that charged by a comparable Wisconsin institution.

In academic year 2003-2004:

⇒ Minnesota students enrolled in Wisconsin generated $68.5 million in marginal instructional costs and paid $57.7 million in tuition. Minnesota students enrolled in Wisconsin paid 84% of marginal instructional costs through tuition, leaving 16% for Minnesota's General Fund. Minnesota's tuition reciprocity obligation to Wisconsin was $10.8 million.

⇒ For the same year, Wisconsin students enrolled in Minnesota generated $65.2 million in marginal instructional costs and paid $48.3 million in tuition. Wisconsin students enrolled in Minnesota paid 74% of marginal instructional costs through tuition, leaving 26% for Wisconsin's General Fund. Wisconsin's tuition reciprocity obligation to Minnesota was $16.9 million.

⇒ Wisconsin's obligation to Minnesota was $6.1 million higher than Minnesota's obligation to Wisconsin. As a result, Wisconsin made a $6.1 million payment to the Minnesota General Fund.

Relationship to Base Budget

In relation to the $133 million tuition reciprocity marginal instructional costs in the Minnesota/Wisconsin tuition reciprocity agreement, the $2.6 million annual base reduction is small. The remaining annual base budget of $1 million is projected to meet Minnesota's tuition reciprocity financial obligation.

Key Measures

Over 41,500 students participated in Minnesota's tuition reciprocity agreements in fall 2003. The $2.6 million reduction in the tuition reciprocity base appropriation is not expected to reduce student participation in tuition reciprocity. M.S., 136A.08, subd. 2, defines the purpose of tuition reciprocity as the mutual improvement of educational advantage for the residents of Minnesota and other states or provinces with whom agreements are made. The tuition reciprocity base reduction does not alter the mutual improvement of education advantage for the residents of Minnesota and other states or provinces as provided through tuition reciprocity agreements.

Statutory Change: Not Applicable

HIGHER EDUCATION SVCS OFFICES

Change Item: Learning Network of Minnesota

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	($500)	($500)	($500)	($500)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($500)	($500)	($500)	($500)

Recommendation
The Governor recommends a general fund appropriation of $4.654 million each year of the FY 2006-07 biennium to the Higher Education Services Office (HESO) for the Learning Network. This appropriation reflects an annual reduction of $500,000 in funding for this program.

Background
This reduction would decrease the grants made to the six higher education telecommunications regions while allowing core functions to be maintained. Because public higher education institutions' academic programs and administrative services utilize the Learning Network to varying degrees, HESO anticipates that the systems and/or campuses may chose to mitigate any budget reduction. A possible alternative for the systems would be to provide services over a reduced bandwidth and/or to reduce some of the services that support various campus functions.

Relationship to Base Budget
This change reduces the base budget for the Learning Network program by approximately 10%.

Alternatives Considered
The Governor has a separate recommendation to increase funding for MnSCU's Minnesota Online program.

Statutory Change: Not Applicable

Change Item: Reinvest Pell Savings in State Grant Program

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$0	$0	$0	$0
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$0	$0	$0	$0

Recommendation

The Governor recommends recognizing the savings in the State Grant Program that are expected to result from the U.S. Department of Education's recent adjustment in the determination of the federal needs analysis, and retaining these General Fund savings in the program. To retain the savings, the Governor recommends making two changes to the State Grant Program's cost parameters. First, the State Grant Program's allowance for Living and Miscellaneous Expenses (LME) would be increased from $5,205 to $5,280. Second, the basis for the recognized cost of attendance would be changed from average tuition and fees to actual tuition and fees. Under the assumption of a constant base budget for each year of the biennium, the net effect of these two changes is $0 in FY 2006 and $0 in FY 2007.

Background

In December 2004 the U.S. Department of Education announced it was adjusting the tax tables used in the federal needs analysis for financial aid programs, effective for the 2005-06 school year. In the federal needs analysis state and other taxes are deducted from gross income to determine the amount available to families to pay postsecondary education costs. Since state and other taxes differ from state to state, Minnesota has a separate amount that is recognized. During the late 1990's through 2001 taxes in Minnesota were substantially reduced. This results in a lower deduction and a larger amount of net income recognized under the federal needs analysis formula.

This federal change will result in lower Pell grants from the federal government to students attending school in Minnesota. The Higher Education Services Office (HESO) estimates this loss to exceed $6 million annually, but considers this estimate to be a floor since there are a number of students in the state that do not appear in the agency's database (they do not qualify for a state grant). Since the state grant formula is based on the same federal needs analysis, many students will receive lower state grants, although in some cases the amounts will actually increase. The federal change will result in about 36,000 students receiving smaller state grants and about 19,000 receiving larger grants.

The Governor recommends recognizing this cost savings and retaining it in the State Grant Program through the changes outlined below:

⇒ The living and miscellaneous allowance (LME) generally recognizes the cost of living for a student that includes room, board, transportation and other non-academic costs. This parameter affects every student receiving a grant under the program. The current LME level is $5,205. The Governor recommends increasing the LME amount from the current level to $5,280. This change affects every student who receives a grant.

⇒ The State Grant Program contains a number of other eligibility requirements and cost parameters that determine a student's final grant award. One of the cost parameters is the "recognized cost of attendance," which is defined as a combination of an allowance for living and miscellaneous expenses with an allowance for average tuition and fees. (The allowance is currently $8,983 for students in four-year programs and $6,913 for students in two-year programs.) Prior to 2001 the grant formula used the average tuition and fees for the institution attended by the student. In 2001, the allowance was changed from average to actual tuition and fees paid by the student. Budget constraints in 2003 led to a reversion back to average tuition and fees. (A December 2004 HESO analysis confirmed intuitive analysis that moving from actual to average tuition and fees reduces a grant for students with above–average costs and provides a bonus for students with below–

average costs.) The Governor's recommended change will more accurately align the State Grant program with the actual costs incurred by students. This change to actual tuition and fees will increase grants for about 31,000 students and decrease grants for about 3,300 students in FY 2006 compared to current law.

Relationship to Base Budget

The General Fund portion of the base budget for the state grant program is $140.5 million each year. These recommendations will not change the base budget for the program.

Alternatives Considered

There are many parameters in the state grant program that can be changed.

Statutory Change: Minnesota Statutes, sections 136A.101 and 136A.121

Change Item: State Grant Software Re-write

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$0	$0	$0	$0
Revenues	310	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$310	$0	$0	$0

Recommendation

The Governor recommends a one-time General Fund appropriation of $310,000 in FY 2006 to allow the Higher Education Services Office (HESO) to migrate the State Grant software application from its current legacy COBOL implementation to a relational database platform. This would reduce maintenance, allow modifications to the State Grant Program parameters to be implemented more quickly, improve reporting and ad hoc query capabilities, and improve disaster recovery response time.

Background

The State Grant Program currently uses software leased from Sigma System, Incorporated. The software was intended for use by post-secondary institutions to manage student financial aid at a single institution. The COBOL code had to be extensively modified by HESO staff in order to be used by the State Grant Program. These HESO-specific changes need to be reinserted each year when Sigma releases its annual upgrades. It currently takes HESO staff approximately two months each year to modify and test the upgraded code. The amount of time spent on maintenance will increase since new modifications are made by Sigma Systems each year.

The current COBOL implementation of the State Grant application is inflexible. Ad hoc querying and reporting capabilities are very limited. Modifications to the application due to changes in statute or to improve customer service are time consuming and expensive. Electronic government services are difficult to implement.

The proposed solution is to migrate the application to a relational database such as Oracle or DB2 on an Intel-based server running Windows. The application itself would be written in a modern development tool such as Visual Basic or Visual C#.

Rewriting the State Grant Program software will reduce the amount of staff time needed to maintain the application, and will reduce the amount of time and effort required to make modifications due to changes in statute or at the request of our customers. The redesigned interface will also be significantly more user-friendly, as the current character-based application requires navigating multiple unused screens and data fields.

Ad hoc reporting and querying capabilities will be improved for administrative and research needs as well as to respond to the information requests of our customers. Electronic government services to financial aid administrators, such as providing information about their institution's students, will be much easier to implement.

The new relational database will shorten the time needed by the agency to respond to any potential disaster that occurs to the system. This will ensure near–continuous operation for students and institutions.

Relationship to Base Budget

HESO's annual general fund base budget is approximately $175 million. Of this total HESO distributes over $115 million in state financial aid to almost 70,000 Minnesota post-secondary students annually.

Key Measures

HESO-specific changes to the base software must be reinserted each year when HESO's software vendor releases its annual upgrades. It currently takes HESO staff two months each year to modify and test the upgraded code. It should take less than half that time to prepare the rewritten State Grant application for a new academic year.

Change Item: State Grant Software Re-write

Alternatives Considered

Rewriting the State Grant program using only in-house database and programming staff was considered and rejected due to lack of available time and resources to successfully complete the task. However, in-house database and programming staff will contribute to this project throughout its duration.

Technology Funding Detail (Dollars in Thousands)

Funding Distribution	2006-2007 Biennium		2008-2009 Biennium		2010-2011 Biennium	
	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personnel	$0	$0	$0	$0	$0	$0
Supplies	0	0	0	0	0	0
Hardware	10	0	0	0	0	0
Software	0	0	0	0	0	0
Facilities	0	0	0	0	0	0
Services	300	0	0	0	0	0
Training	0	0	0	0	0	0
Grants	0	0	0	0	0	0
TOTAL	**$310**	**$0**	**$0**	**$0**	**$0**	**$0**

Office of Technology Analysis

The Office of Technology recommends this work proceed in collaboration with the Drive to Excellence's work related to Grants Management. Care and consideration must be given to accommodate the functional and technical elements that may be common within the design of the overall grant management strategic transformation--this work and investment needs to be explicitly coordinated to collaborate with the enterprise approach to Grants management.

Change Item: University in Rochester

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures–Implementation	$200	0	0	0
Expenditures–Development	3,000	0	0	0
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$3,200	0	0	0

Recommendation

The Governor recommends a $3.2 million appropriation in FY 2006 to establish an independent, publicly incorporated postsecondary education institution in Rochester. The central mission of the institution is to provide high quality programs focused on the specific technical educational needs of the community. Of the amount recommended, $200,000 is for initial implementation and program development. The remaining $3 million would be used for further development of the institution.

Background

The existing University Center at Rochester is a partnership between the University of Minnesota and two MnSCU campuses, Rochester Community and Technical College (RCTC) and Winona State University. In 1994, the partner institutions created the University Center Rochester campus, which comprises 900,000 square feet of educational space on a 480–campus. In 1997, a Provost's position was created to facilitate collaboration among these partner institutions and promote seamless services for students. The three institutions offer more than 150 programs of study, enroll approximately 20,000 students in credit and noncredit education, and manage campus land and facilities.

As impressive as this collaborative effort is, there remain shortcomings with the arrangement. Students have an array of choices, but three separate operating entities still exist. Local community leaders have expressed concern that even under the collaborative arrangement, the needs of Rochester are not being met. A new independent institution would possess the governance structure required to more completely meet these needs. Moreover, an institution with a clear focus on disciplines such as engineering, physics, mathematics and health sciences would address workforce needs in Rochester as well as statewide needs for more students trained in these areas.

In the initial implementation stage for this new institution, HESO will establish a planning group comprised of Rochester business, community and academic leaders. This group would develop program and operating details for the new institution, to be opened in FY 2008. Proposed language would direct the group to consider a number of other issues including limits on student enrollment, limits on the disciplines in which degrees are granted, which programs will be offered directly, and which programs may be purchased from other providers, limits on non–instructional programming, accreditation issues, permanent facility and land needs, and implementation funding needs, as well as a transition plan for the current partners.

The governing board of the new institution will be an independent, publicly incorporated entity whose members are appointed by the Governor. The enabling statute will establish the governing board and define its structure, powers and duties to operate this new higher education institution. The board will have the option to join an existing postsecondary education institution or system, operate as an independent entity, or create a hybrid entity. Finally, there will be a requirement that the board annually report financial and student outcome data to HESO in order to provide accountability–related information.

Relationship to Base Budget

This is a new institution for which base funding does not exist.

Statutory Change: Yes, language in a new chapter of Minnesota Statutes, and cross-references as needed in chapters 135A and 136A.

Change Item: Private Career Schools (Fee Increase)

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$0	$0	$0	$0
Revenues	0	0	0	0
Other Fund				
Expenditures	11	15	15	15
Revenues	11	15	15	15
Net Fiscal Impact	$0	$0	$0	$0

Recommendation
The Governor recommends that the fees associated with the Minnesota Private Career School Act be increased to ensure that revenues from the licensing activities are sufficient to recover but not exceed the costs of administering the Private Career School program.

Background
Licensing fees for private career schools were last increased in 2000. The recommended changes address the increased costs of administering the licensing program. The changes also address some existing inequities in the current fee structure by making it more of a "pay–for–service" structure, where schools that use more services from HESO will pay higher fees than those that use fewer services. HESO staff reviewed fees in neighboring states to ensure that the proposed changes are consistent.

For example, schools that frequently change classes, programs or degrees will pay the basic licensing fee as well as fees for changes. Schools with more than one location will pay a fee for additional locations.

In some instances schools will be able to control their licensing expenses by making fewer changes in existing classes and programs, by limiting the number of solicitors they employ, and/or by limiting the number of multiple locations they wish to have. To the extent that schools make these kinds of adjustments, the amount of the projected revenue increase will be reduced.

Relationship to Base Budget
Some of the proposed changes will represent about a 15% increase over existing fees (new and renewal base licensing fees). The solicitor fee will increase about 40%. The multiple location fee is new. Overall HESO expects that the fee changes will have minimal fiscal impact.

Key Measures
The project revenue increases will enable HESO to continue to provide the services required to insure that the Private Career School Act is adequately administered and enforced, including: basic licensing activities; review of programs and curriculum of licensed schools; and consumer services and protection.

Alternatives Considered
The only alternative considered was to not change fees at this time. Not increasing and revising the fee structure would have resulted in the revenue supporting the administration of the Private Career School Act quickly becoming inadequate to support the program.

Statutory Change: Yes, new section in Minnesota Statutes, chapter 141

Change Item: Consolidation- Facility Bonding Services

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$0	$0	$0	$0
Revenues	0	0	0	0
Other Fund				
Expenditures	(390)	(390)	(390)	(390)
Revenues	390	390	390	390
Net Fiscal Impact	$0	$0	$0	$0

Recommendation

The Governor recommends that the Higher Education Facilities Authority (HEFA) be merged into the Higher Education Service Office (HESO). Bringing HEFA within HESO will streamline services to postsecondary institutions by allowing them to come to one agency for financing requirements. HESO already has established working relationships with these institutions through the State Grant program and the financial aid loan programs it administers. Sharing space and other administrative requirements will likely reduce administrative costs and result in a cost savings to participating institutions. HESO will also explore ways to reduce issuance costs through sharing bond counsel expenses, financial analysis evaluation, and credit enhancement devices that would lower costs to institutions.

Background

The HEFA was created in 1971 to enhance the capacity of nonprofit higher education institutions in the state to finance the construction of educational facilities. While most public institutions finance their facility needs through state general obligation bonds, this program assists private nonprofit institutions in the state. (In limited program areas community colleges and technical colleges are eligible to obtain capital project financing through HEFA, and on two occasions community colleges have received special legislation to finance resident living space.) The definition of capital projects that qualify for treatment is very broad and includes most buildings that would be needed on a postsecondary campus.

When a nonprofit institution has an approved capital project, HEFA issues revenue bonds to finance the project. The bonds are serviced through specified revenue related to the project and do not constitute general obligation debt of the state. Currently HEFA can issue bonds up to a maximum total of $800 million outstanding bond principal at any one time. (Since its inception it has had 140 bond issues totaling $1,025 million.) At the end of 2004 HEFA had $578 million total bond principal outstanding.

Since 1996 HEFA has also acted as the dissemination agent for annual SEC filing requirements for institutions that borrow through this mechanism.

Under current practice, the fees charged to participating higher education institutions and 40% of the associated expenditures are managed outside of the state's accounting and budget systems. The other 60% of the expenditures, for compensation, flows through the accounting system and have been reflected in the related fiscal pages.

Under the Governor's proposed transfer of HEFA duties to HESO, both the fees and expenditures will be managed within the state's accounting and budget systems. As a result the full amount of this activity will be reflected in HESO's budget and managed within the state's accounting system.

Relationship to Base Budget

Operating funds of approximately $390,000 annually would transfer to HESO from HEFA under this recommendation, because HESO will be the entity to charge and receive these fees. These are funds currently outside of the General Fund.

Key Measures

The reduced administrative issuance costs will result in lower costs to participating postsecondary institutions.

Statutory Change: Minnesota Statutes, sections 136A.25 to 136A.42

Other Non Cabinet Agencies

CONTENTS

	Current		Governor Recomm.		Biennium
Dollars in Thousands	FY2004	FY2005	FY2006	FY2007	2006-07
Direct Appropriations by Fund					
Environment & Natural Resource					
Current Appropriation	0	0	0	0	0
Recommended	**0**	**0**	**469**	**469**	**938**
Change		0	469	469	938
% Biennial Change from 2004-05					n.m.
Mnscu General Fund					
Current Appropriation	560,881	547,694	547,694	547,694	1,095,388
Recommended	**560,881**	**547,694**	**602,994**	**599,894**	**1,202,888**
Change		0	55,300	52,200	107,500
% Biennial Change from 2004-05					8.5%
Expenditures by Fund					
Direct Appropriations					
Environment & Natural Resource	0	0	469	469	938
Mnscu General Fund	559,631	546,444	602,994	599,894	1,202,888
Statutory Appropriations					
Mnscu General Fund	532,791	651,687	645,569	672,056	1,317,625
Mnscu Special Revenue	11,253	12,328	11,635	11,635	23,270
Mnscu Federal Fund	47,171	46,859	46,743	46,743	93,486
Mnscu Agency Fund	22,449	22,468	22,441	22,441	44,882
Mnscu Gift Fund	720	540	500	500	1,000
Sub Supplemental & Ira Retire	795	1,251	1,114	1,114	2,228
Mnscu Enterprise Activities	7,149	8,523	8,253	8,253	16,506
Mnscu Endowment Fund	6	5	5	5	10
Total	**1,181,965**	**1,290,105**	**1,339,723**	**1,363,110**	**2,702,833**
Expenditures by Category					
Local Assistance	1,181,965	1,290,105	1,339,723	1,363,110	2,702,833
Total	**1,181,965**	**1,290,105**	**1,339,723**	**1,363,110**	**2,702,833**
Expenditures by Program					
Mn State Colleges & Univer	1,181,965	1,290,105	1,339,723	1,363,110	2,702,833
Total	**1,181,965**	**1,290,105**	**1,339,723**	**1,363,110**	**2,702,833**

		Dollars in Thousands		
		Governor's Recomm.		Biennium
	FY2005	FY2006	FY2007	2006-07
Fund: ENVIRONMENT & NATURAL RESOURCE				
FY 2005 Appropriations	**0**	**0**	**0**	**0**
Subtotal - Forecast Base	**0**	**0**	**0**	**0**
Change Items				
LCMR Projects	0	469	469	938
Total Governor's Recommendations	**0**	**469**	**469**	**938**
Fund: MNSCU GENERAL FUND				
FY 2005 Appropriations	**547,694**	**547,694**	**547,694**	**1,095,388**
Technical Adjustments				
November Forecast Adjustment		94,800	36,000	130,800
Subtotal - Forecast Base	**547,694**	**642,494**	**583,694**	**1,226,188**
Change Items				
Enrollment Adjustment	0	(94,800)	(36,000)	(130,800)
Allocation Framework	0	25,000	25,000	50,000
Centers of Excellence	0	10,000	10,000	20,000
Competitive Salaries	0	2,500	2,500	5,000
MN Online	0	9,000	5,000	14,000
Nursing	0	4,800	5,200	10,000
Innovations Fund	0	2,500	3,000	5,500
Farm & Small Business Management	0	1,500	1,500	3,000
Total Governor's Recommendations	**547,694**	**602,994**	**599,894**	**1,202,888**
Fund: MNSCU GENERAL FUND				
Planned Statutory Spending	**651,687**	**645,569**	**672,056**	**1,317,625**
Total Governor's Recommendations	**651,687**	**645,569**	**672,056**	**1,317,625**
Fund: MNSCU SPECIAL REVENUE				
Planned Statutory Spending	**12,328**	**11,635**	**11,635**	**23,270**
Total Governor's Recommendations	**12,328**	**11,635**	**11,635**	**23,270**
Fund: MNSCU FEDERAL FUND				
Planned Statutory Spending	**46,859**	**46,743**	**46,743**	**93,486**
Total Governor's Recommendations	**46,859**	**46,743**	**46,743**	**93,486**
Fund: MNSCU AGENCY FUND				
Planned Statutory Spending	**22,468**	**22,441**	**22,441**	**44,882**
Total Governor's Recommendations	**22,468**	**22,441**	**22,441**	**44,882**
Fund: MNSCU GIFT FUND				
Planned Statutory Spending	**540**	**500**	**500**	**1,000**
Total Governor's Recommendations	**540**	**500**	**500**	**1,000**
Fund: SUB SUPPLEMENTAL & IRA RETIRE				
Planned Statutory Spending	**1,251**	**1,114**	**1,114**	**2,228**
Total Governor's Recommendations	**1,251**	**1,114**	**1,114**	**2,228**
Fund: MNSCU ENTERPRISE ACTIVITIES				
Planned Statutory Spending	**8,523**	**8,253**	**8,253**	**16,506**
Total Governor's Recommendations	**8,523**	**8,253**	**8,253**	**16,506**
Fund: MNSCU ENDOWMENT FUND				
Planned Statutory Spending	**5**	**5**	**5**	**10**
Total Governor's Recommendations	**5**	**5**	**5**	**10**

Change Item: Enrollment Adjustment

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures: New Initiatives	$55,300	$52,200	$52,200	$52,200
Expenditures: Enrollment Adjust.	(94,800)	(36,000)	(36,000)	(36,000)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($39,500)	$16,200	$16,200	$16,200

Recommendation

The Governor recommends that the MnSCU system's General Fund appropriation be increased by a total of $107.5 million for the specific initiatives that are focused on the system's priorities for the future and that are detailed in the Change Item pages that follow. The Governor's recommendations are designed to give the MnSCU system the new funding it needs to provide Minnesotans with a high quality, efficient and accessible system of public postsecondary education. The Governor's recommendations support excellence, access and accountability in higher education.

The Governor concurs with many of the recommendations of the Citizens League Higher Education Study Committee that were released last fall. The Governor is particularly interested in bringing greater clarity, focus and differentiation to the individual missions of Minnesota's public colleges and universities. With these budget recommendations the Governor is focusing his support on the future priorities of the MnSCU system. The Governor supports the State Colleges and Universities' critical role in Minnesotans' postsecondary education, whether they are seeking to begin a career, to advance in their chosen career, or to retrain for a new career opportunity. The Governor's recommendations include new funding for MnSCU to accelerate the development of centers of excellence within its system. They also provide resources needed: to reinvest in its member colleges and universities; to continue to advance online learning; to meet critical state needs for postsecondary education; and to respond to changing workforce needs in innovative ways.

The Governor also recommends a reduction of $94.8 million in FY2006 and $36 million in FY2007 to the State Colleges and Universities (MnSCU) system's enrollment adjusted base funding.

Background

Under Minnesota Statutes section 135A.031, the State Colleges and Universities' instructional services base (which is related to, but not equivalent to, its appropriated biennial base of $1.1 billion) was increased in the November 2004 forecast by $130.8 million. This increase is the result of adjusting the State Colleges and Universities' instructional services base for one-time and recurring increases in enrollment from 2003 through 2005.

The enrollment adjustment provision requires the state to pay a specified percentage of the MnSCU system's instructional costs. Because higher education enrollment numbers are only updated once (in the November forecast before setting the next biennial budget), part of the recognized enrollment adjustment is one-time funding to correct past misestimates of enrollment that have occurred since the previous biennial budget was set. The other part is ongoing base adjustments from enrollment changes that move forward into the new biennium. MnSCU's $130.8 million total adjustment is comprised of $58.8 million in one-time adjustments and an ongoing adjustment to the base of $36 million per year.

The Governor is concerned that the enrollment adjustment statute, which was enacted in 1994, unnecessarily limits the state's ability to provide new funding to the MnSCU system that directly supports MnSCU's own identified priorities and statutory mission. In the ten years since the enrollment adjustment was enacted much has changed in the way the state's budget priorities are set and funded. Rather than support this input–based funding matrix, the Governor is recommending that MnSCU's adjusted base appropriation for maintenance and operations be reduced by $130.8 million, an amount which offsets the enrollment adjustment that was recognized in the November forecast. Instead, the Governor recommends that MnSCU's General Fund appropriation be increased by a total of $107.5 million for the specific initiatives that are focused on the system's priorities for the future and that are detailed in the following Change Item pages.

With the goal of updating the enrollment formula to a more appropriate and relevant model, the Governor recommends that the public postsecondary education funding statutes be revised. The Governor will direct the Higher Education Services Office to convene a stakeholder group to review issues and offer a recommendation that will better meet the state's needs.

Relationship to Base Budget

Overall the Governor's $107.5 million package of new initiatives at the State Colleges and Universities system will result in an 8.5% increase over MnSCU's appropriated amounts for the FY 2004-05 biennium.

Statutory Change: Minnesota Statutes, sections 135A.01 to 135A.034

Change Item: Allocation Framework

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$25,000	$25,000	$25,000	$25,000
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$25,000	$25,000	$25,000	$25,000

Recommendation

The Governor recommends an appropriation of $25 million in FY 2006 and $25 million in FY 2007 from the General Fund to distribute to MnSCU's member institutions, in order to fully implement MnSCU's adopted allocation framework.

Background

In 1999, the MnSCU Board of Trustees adopted a vision for its allocation framework (the method the board uses to allocate the state appropriations out to its member institutions). That vision is for "*a single model which equitably recognizes the diversity of MnSCU students' needs and adequately supports the unique educational goals of each institution.*" By 2002 the board had developed and partially implemented its allocation framework. However, the board has stopped short of full implementation because of the state's recent budget challenges. These challenges did not allow for the levels of new funding that the board feels is needed to fully implement the allocation framework and still enable the board to provide transition funding to mitigate significant changes in funding levels that specific campuses would otherwise experience under full implementation.

The Governor's recommended increase of $50 million gives the Board of Trustees the new resources it needs to fully implement its adopted allocation framework. The Governor's recommendation recognizes that in order for the MnSCU system to respond to the state's changing needs for higher education it must be able to move away from the requirements of past institutionalized financing structures, so that it can focus on priorities that reflect and support the future of the state's largest higher education system—access, collaboration and quality.

Relationship to Base Budget

This $50 million initiative represents 46.5% of the Governor's proposed $107.5 million increase in state operational funding for the MnSCU system. Overall the Governor's $107.5 million package of new initiatives at the MnSCU system will result in an 8.5% increase over MnSCU's appropriated amounts for the FY 2004-05 biennium.

Change Item: Centers of Excellence

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$10,000	$10,000	$10,000	$10,000
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$10,000	$10,000	$10,000	$10,000

Recommendation

The Governor recommends an increase of $10 million in FY 2006 and $10 million in FY 2007 from the General Fund for the MnSCU system to create and support up to eight distinct programs of excellence in these fields: manufacturing technology; science/engineering; health care; information technology; business; and teacher education.

Under this recommendation the system will establish focused post-secondary programs of excellence at selected MnSCU institutions. By establishing flagship programs in general areas of study, Minnesota will:

- provide its students with educational and economic opportunities equal to the best in the world;
- attract students, faculty, talent and jobs from outside Minnesota;
- leverage external support from employers and other organizations;
- build a more strategic educational system in Greater Minnesota, and
- help Minnesota ensure its stature as a leader and innovator in education.

The MnSCU Board of Trustees will use a competitive proposal process to select at least four and up to eight programs of excellence. Programs of excellence must include one state university and up to two two-year state college partners with a single lead campus named.

Selected programs will use the funds to pay for teaching and learning equipment, resources, planning and general capacity building for their programs. (The Governor has a related recommendation that provides funding for competitive salaries at these programs of excellence.)

Background

For Minnesota to emerge a leader in today's highly competitive economic and educational environment, it must focus its resources more precisely in key areas. Current state and system funding models provide incentives for every state college and university to open their doors to as many students as possible. While this fosters access and brings about competition among institutions, it limits the ability of a few exceptional programs to emerge that will beckon high-achieving students, jobs and teaching talent from across the state, region and country.

Relationship to Base Budget

This $20 million initiative represents 18.6% of the Governor's proposed $107.5 million increase in state operational funding for the Minnesota State Colleges and Universities system. Overall the Governor's $107.5 million package of new initiatives at the MnSCU system will result in an 8.5% increase over MnSCU's appropriated amounts for the FY 2004-05 biennium.

Key Measures

The Minnesota State Colleges and Universities Board of Trustees will select programs based on the following measures:

- Annual data: Submit data on the program's enrollment, student demographics, external support, graduate outcomes and employer involvement to the Board of Trustees and the Legislature.
- Comprehensive academic plan: A seamless academic continuum including areas of academic emphasis plus program options for associate, baccalaureate, graduate degree programming and customized training for employers.

- Employer commitments: A demonstrated commitment equal to or greater than the state's commitment on the part of employers or other organizations external to the MnSCU system in the form of cash contributions, equipment, employee and student exchanges, scholarships or other relevant support.
- Endowment growth: Creation and growth of a program endowment at the lead campus.
- External advice: Creation of an ongoing external advisory group representing local, statewide and national leaders in the field.
- Development and proof of best-in-class program stature: A description of how the institution will explore best-in-class programs and seek out expertise to develop and sustain a world-class program. Proof of progress.
- Institutional commitment: Demonstration that the entire institution (or institutions) support the proposal, that designated funding will not "replace" existing dollars on campus, and that the institution (or institutions) are willing to contribute to the program's success.
- Budget, tuition, admissions, enrollment and staffing plan. (Note: The Board of Trustees will grant tuition and admissions criteria waivers to programs as needed.)

Selected programs will be required to submit a satisfactory five–year plan and annual progress reports to the Board of Trustees and the Legislature, beginning in 2006.

Statutory Change: Minnesota Statutes, section 136F.30 [Courses and Programs]

Change Item: Competitive Salaries

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$2,500	$2,500	$2,500	$2,500
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$2,500	$2,500	$2,500	$2,500

Recommendation
The Governor recommends an increase of $2.5 million in FY 2006 and $2.5 million in FY 2007 from the General Fund to the MnSCU system for competitive salaries and salary supplements for faculty and staff at campuses with a program designated by the Board of Trustees as a program of excellence.

Background
The Governor concurs with the Board of Trustees' goal of encouraging excellence from its faculty and staff. It is particularly important for the board to have the ability and resources to encourage and reward the efforts and outcomes of the faculty and staff connected to the State Colleges and Universities' designated programs of excellence. This recommendation allows the board to use selective adjustments and discretionary or incentive payments to attract and retain the high caliber faculty and staff that are an integral part of "best-in-class" programs of excellence. This initiative supports the goal of increasing faculty retention and/or hiring in areas related to the designated programs of excellence.

Relationship to Base Budget
This $5 million initiative represents 4.7% of the Governor's proposed $107.5 million increase in state operational funding for the Minnesota State Colleges and Universities system. Overall the Governor's $107.5 million package of new initiatives at the MnSCU system will result in an 8.5% increase over MnSCU's appropriated amounts for the FY 2004-05 biennium.

Change Item: MN Online

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$9,000	$5,000	$5,000	$5,000
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$9,000	$5,000	$5,000	$5,000

Recommendation

The Governor recommends an increase of $9 million in FY 2006 and $5 million in FY 2007, in a combination of both one-time and ongoing funding, from the General Fund to strengthen existing online services for students and faculty at campuses throughout the MnSCU system.

Background

The State Colleges and Universities system has made important strides in developing its online learning capacity. Through **Minnesota Online** MnSCU institutions now offer more than 80 programs completely or predominantly online, and more than 3,500 course sections. In the past year over 25,000 students took at least one online course. The Governor's recommended funding will allow the system to continue to expand the depth and breadth of its online offerings.

This recommendation is for $4 million of one-time funding in FY 2006 only, and $5 million in each year of the FY 2006-07 biennium to fund ongoing investments in the Minnesota Online program. MnSCU will be able to strengthen and expand e-learning opportunities by: expanding tutoring and training services; enhancing and improving Call Center and other technical support; creating online programs in areas of strategic state needs; and promoting collaboration between institutions and among faculty.

Relationship to Base Budget

This $14 million initiative represents 13% of the Governor's proposed $107.5 million increase in state operational funding for the Minnesota State Colleges and Universities system. Overall the Governor's $107.5 million package of new initiatives at the MnSCU system will result in an 8.5% increase over MnSCU's appropriated amounts for the FY 2004-05 biennium.

Change Item: Nursing

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$4,800	$5,200	$5,200	$5,200
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$4,800	$5,200	$5,200	$5,200

Recommendation

The Governor recommends an increase of $4.8 million in FY 2006 and $5.2 million in FY 2007 from the General Fund to provide the full requested amount of funding for MnSCU's initiative to meet critical state needs in nursing by increasing capacity for training nurses.

Background

The state of Minnesota continues to face and respond to shortages of nurses within the next decade. The state needs more nurses at all levels of professional preparation. The Governor supports MnSCU's proposed initiative to meet critical state needs in nursing education through a variety of means:

- By increasing enrollment in registered nurse programs;
- By expanding licensed practical nurse programs where there are shortages;
- By recruiting more nursing faculty; and
- By expanding distance learning in nursing and healthcare

Relationship to Base Budget

This $10 million initiative represents 9.3% of the Governor's proposed $107.5 million increase in state operational funding for the MnSCU system. Overall the Governor's $107.5 million package of new initiatives at the MnSCU system will result in an 8.5% increase over MnSCU's appropriated amounts for the FY 2004-05 biennium.

Change Item: Innovations Fund

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$2,500	$3,000	$3,000	$3,000
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$2,500	$3,000	$3,000	$3,000

Recommendation

The Governor recommends appropriating $2.5 million in FY 2006 and $3 million in FY 2007 from the General Fund to provide the full requested amount of funding to MnSCU for their Innovations Fund initiative.

Background

The Innovations Fund will provide resources for the MnSCU system to decrease time to market delivery of new programs and curricula to meet critical business, industry and community needs. This program will provide seed funds, triggered on a matching basis by partner organizations, for the design and development of emerging programs and curricula, and for equipment acquisition and services development.

Relationship to Base Budget

This $5.5 million initiative represents 5.1% of the Governor's proposed $107.5 million increase in state operational funding for the MnSCU system for the FY 2006-07 biennium. Overall the Governor's $107.5 million package of new initiatives at the MnSCU system will result in an 8.5% increase over MnSCU's appropriated amounts for the FY 2004-05 biennium.

Change Item: Farm & Small Business Management

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$1,500	$1,500	$1,500	$1,500
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$1,500	$1,500	$1,500	$1,500

Recommendation

The Governor recommends an increase of $1.5 million in FY 2006 and $1.5 million in FY 2007 from the General Fund to provide the full requested amount of funding for MnSCU's initiative to address needs in agriculture and small business management education.

Background

Management education programs provide education to a student population that is unable to participate in the traditional higher education format. Students in this program currently own or manage a farm or small business on a full-time basis. Because the farm and small business community is a critical factor in the health of Greater Minnesota, the MnSCU system has found that it is important that these entrepreneurs have access to education that is primarily provided through individualized instruction offered at varying times and locations. The individualized format enables these students to directly apply the knowledge they gain to their businesses and also allows them to continue to commit the time needed for the success of their business. The recommended new funding will enable the MnSCU institutions to provide financial support to these students and also provide additional funds for colleges to support the necessary, individualized delivery of management education at a lower student-to-faculty ratio. As a result, this initiative will improve the ability of MnSCU institutions to serve the management education needs of farm and small business owners.

Relationship to Base Budget

The $3 million represents 2.8% of the Governor's proposed $107.5 million increase in state operational funding for the MnSCU system. Overall the Governor's $107.5 million package of new initiatives at the MnSCU system will result in an 8.5% increase over MnSCU's appropriated amounts for the FY 2004-05 biennium.

Change Item: LCMR Projects

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Other Fund				
Expenditures	$469	$469	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$469	$469	0	0

Recommendation

The projects recommended by the Legislative Commission on Minnesota Resources (LCMR) are displayed as part of the State Colleges and Universities' biennial budget request. The Governor is not making specific recommendation on these projects.

Background

1. Improving water quality on the central sands - $587,500
   (Central Lakes College – Agricultural Center)

2. Bio-conversion of potato waste into marketable biopolymers - $350,000
   (Bemidji State University – CEESS)

Relationship to Base Budget

Project funding is available for FY 2006-07.

Key Measures

See individual project proposals. Also see the LCMR web site at http://www.lcmr.leg.mn.us/lcmr.htm

Minnesota State Colleges and Universities
2006 – 07 Biennial Budget Request

Agency Change Item: Nursing

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$4,800	$5,200	$5,200	$5,200
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$4,800	$5,200	$5,200	$5,200

Request
Minnesota State Colleges and Universities requests $4.8 million in FY 2006 and $5.2 million in FY 2007 for nursing education.

Background
Minnesota, like many states, faces a severe shortage of nurses in the next five to 10 years. Shortages of licensed practical nurses pose a significant problem for long-term care facilities. The funding would increase capacity for training nurses, add innovative ways to educate nurses in a timely manner and build strategic partnerships in the healthcare industry.

The objective is to increase the number of nursing graduates in the Minnesota State Colleges and Universities System by 40% by 2008. This will include nurses at all levels of professional preparation through the master's degree, including qualified nurse faculty in order to expand our teaching and clinical capacities.

- Increase enrollment to produce 440 more registered nurses by 2008.
- Expand practical nursing programs where shortages exist.
- Recruit 40 nursing faculty to seek advanced degrees in nursing education by offering a $10,000 tuition forgiveness program for those willing to teach at a state college or university.
- Use new technology to expand distance learning in nursing and health care.

Partners: Health care employers and associations representing hospitals and long-term care and assisted living facilities, Minnesota Nurses Association, Minnesota Association of Colleges of Nursing

More nurses and health care workers will ease the pending shortages and ensure that the state remains attractive to businesses.

Expand Nursing Enrollment and Nurse Educator Programs:
Expand the system's enrollment in registered nursing programs ($4.4 million);
Support practical nursing programs in regions of high need ($500,000);
Address the shortage of nursing faculty ($500,000)

Healthcare Education Simulation Equipment and Digital Learning Library:
Provide learning opportunities for students using simulation equipment ($600,000) – matched 1:1 with industry contributions
Development of "digital library" of learning scenarios for use with simulation equipment ($500,000)

Nursing Online:
Phase I: Planning and design ($55,000)
Phase II: Development of RN nursing pathway (MCTC model) on line ($500,000); development of clinical education system ($100,000); iSEEK healthcare channel ($50,000)
Phase III: Scaled to serve 400 students ($2.095 million)

Strategic Partnerships:
Support for collaborative nursing program development ($200,000)
Biomedical and allied health (laboratory/radiology) curriculum development ($200,000)
Support for the Healthcare Education Industry Partnership ($300,000)

Relationship to Base Budget

Minnesota State Colleges and Universities spent approximately $50 million in nurse education in FY 2003. The request of $4.8 million in FY 2006 represents an approximate increase of 9% over this base.

Key Measures

Increase the number of nursing graduates in the Minnesota State Colleges and Universities System by 40% by 2008.

Agency Change Item: Teacher Education

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$1,500	$1,500	$1,500	$1,500
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$1,500	$1,500	$1,500	$1,500

Request

Minnesota State Colleges and Universities requests $1.5 million in FY 2006 and $1.5 million in FY 2007 for teacher education initiatives.

Background

The Teaching Commission, in its report, Teaching at Risk: A Call to Action, said, "Nothing is more vital to our future than ensuring that we attract and retain the best teachers in our public schools." To that end, the Minnesota State Colleges and Universities system is establishing a Teacher Center that will advance opportunities for the professional growth and development of educators throughout the state and throughout their careers, using both face-to-face and online programs and services. Through strengthened collaboration among the seven state universities and, as appropriate, with two-year colleges, and with close ties with practitioners in the field, the center will enable the system and its institutions to maximize the efficiency and effectiveness of the programs and services it offers to the state's teachers, administrators and school districts. It will also support "quick response" program and service changes or additions based on continuous assessment of customer needs.

Specifically, the Teacher Center will work in partnership with P-12 schools to provide:

- ♦ Mentoring and induction programs designed to improve the performance and retention of new teachers;
- ♦ Research–based solutions and models to meet educator, district, and state needs in critical areas;
- ♦ Expanded alternative or accelerated pathways to certification in high need areas, particularly for adults holding baccalaureate degrees and wishing to become licensed teachers; and
- ♦ A WEB-based clearinghouse for information about teacher education programs, services and resources in the system.

The Center was established in early FY 2005 with modest initiative funding of approximately $200,000, the reallocation of matching internal Office of the Chancellor funds, and the reallocation of staff resource by each state university to support a part-time campus teacher center coordinator. The FY 2006-07 budget request of $1.5 million per year would enable the system to fully implement an array of programs and services designed to ensure that Minnesota has an adequate supply of highly qualified teachers and administrators. Nonstate funding sources are being sought as well.

Relationship to Base Budget

Minnesota State Colleges and Universities spent approximately $43 million in teacher education in FY 2003. The request of $1.5 million in FY 2006 represents an approximate increase of 4% over this base.

Key Measures

- ⇒ Develop, improve, and promote flexible pathways to achieve licensure in high-demand fields.
- ⇒ Increase the number of teachers receiving certification through accelerated pathways.
- ⇒ Increase the numbers of prospective and practicing teachers and administrators who obtain information about available programs and services through new WEB-based and print tools.
- ⇒ Increase the retention of teachers in schools and districts participating in system-developed induction and mentoring programs.

⇒ Increase the number and quality of professional development opportunities that are readily available to educators throughout the state and targeted to needs identified in collaboration with teachers and administrators.

Agency Change Item: Farm & Small Business Management

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$1,500	$1,500	$1,500	$1,500
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$1,500	$1,500	$1,500	$1,500

Request

Minnesota State Colleges and Universities requests $1.5 million in FY 2006 and $1.5 million in FY 2007 for farm and small business management education programs.

Background

Management education programs in Minnesota State Colleges and Universities include the following: farm business management, small business management, computerizing small business, lamb and wool management, and specialty crop management.

The specialized delivery method of the management education programs focuses on individualized instruction at varying times and locations. This enables the student to receive timely instruction related to topics that are directly influencing the success of their businesses. These students place a priority on educational experiences that are directly relevant to their business activity.

Management education programs provide education to a student population that is unable to participate in the traditional higher education format. Students in this program currently own or manage a farm or small business on a full-time basis. Because the farm and small business community is a critical factor in the health of Greater Minnesota, it is imperative that these entrepreneurs continue to have access to education in a format that enables direct application to their businesses and allows them to continue to commit the time needed for the success of their business. Even though individualized on-site instruction is the primary delivery method, it is apparent that innovative enhancements to the program are needed.

Initiatives:

- Diverse Needs $200,000
  Funding for new programs and instructors in the diverse needs initiative would serve diverse populations that have not previously participated in management education programs.
- Student Support $1,500,000
  The student support initiative will increase the tuition subsidy to students to reflect tuition increases of more than 50% over the last four years.
- Revenue Coverage to Support Specialized Delivery $900,000
  The revenue coverage initiative will provide additional funds for colleges to support the necessary, individualized delivery at a lower student-to-faculty ratio.
- Capacity Building $100,000
  The capacity-building initiative will support enrollment growth through innovative statewide initiatives designed to improve efficiency, expand delivery and improve quality in meeting the changing needs of students
- Statewide Collaboration $300,000
  The statewide collaboration initiative will expand existing and build new collaborative efforts to increase program efficiency, enhance faculty development efforts and secure resources to reach more students.

Relationship to Base Budget

Half of the request ($750,000 annually) is student support that helps to offset student tuition. The other half will become part of the institution's base for supporting the educational programs. In FY 2003, the colleges spent approximately $10 million on the small business and farm business management programs. The $750,000 request to represents a 7.5% increase to base.

Key Measures

Increase the number of farms and small businesses served by the Minnesota State Colleges and Universities.

Agency Change Item: Minnesota Online

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$3,500	$4,600	$4,600	$4,600
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$3,500	$4,600	$4,600	$4,600

Request

Minnesota State Colleges and Universities requests $3.5 million in FY 2006 and $4.6 million in FY 2007 for Minnesota Online.

Background

The strategic goal of Minnesota Online is to be the trusted provider of choice for high quality e-learning opportunities by expanding access to lifelong learners within Minnesota and throughout the world. For Minnesota, Minnesota Online will be able to respond more rapidly to prepare the skilled employees necessary to accelerate the state's economic growth, offering e-learning opportunities to businesses and emerging key industry sectors like advanced manufacturing, healthcare, biosciences, and others.

Targeted outcome: The strategic focus of Minnesota Online is to create the nation's top public online university by 2008, utilizing the resources of the Minnesota State Colleges and Universities System, supplying seamless education and training services offered 24/7, when and where Minnesotans need them.

The state of Minnesota will benefit from increased tax revenue generated by additional economic activity and an enhanced ability to contribute toward the growth of targeted industries. Minnesota taxpayers will benefit from a significantly better return on their investment in workforce development.

Funding for Minnesota Online will:

- ♦ Create critical online programs that meet strategic state needs.
- ♦ Strengthen existing online services by expanding tutoring and training services.
- ♦ Improve the Call Center (student information) support function.
- ♦ Enhance technical support for all online faculty and students 24 hours a day, seven days a week.
- ♦ Develop increased services to corporate clients.
- ♦ Promote collaboration between institutions and between faculty as a means to reduce program duplication.

Relationship to Base Budget

The budget for Minnesota Online in FY 2005 is approximately $2.5 million. (This does not include the cost of the courses offered online.) This request would nearly double the base.

Key Measures

Increase in the number of students taking online courses.
Increase the number of courses as course sections offered.
Increase satisfaction of corporate clients served.

Agency Change Item: Competitive Salaries

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$4,600	$9,300	$9,300	$9,300
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$4,600	$9,300	$9,300	$9,300

Request

Minnesota State Colleges and Universities requests $4.6 million in FY 2006 and $9.3 million in FY 2007 for competitive salaries.

Background

Minnesota State Colleges and Universities seeks financial resources to enhance its competitive salary position in the academic marketplace and to encourage excellence from its faculty and staff. We wish both to improve in high-demand academic disciplines and to encourage and reward particular actions and outcomes. This approach carries the potential of more differentials in faculty and staff compensation improvements than has typically been the case in previous contract settlements; however, the specifics of any such compensation arrangements would remain subject to the collective bargaining process. It is likely that resources would be needed to fund some combination of general adjustments and discretionary or incentive payments.

Relationship to Base Budget

Minnesota State Colleges and Universities spent approximately $650 million in salaries in FY 2003. The request of $4.6 million in FY 2006 represents an approximate increase of 0.7% over the salary base.

Key Measures

Increase the number of successful job searches in high demand areas.

Agency Change Item: Innovations Fund

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$2,500	$3,000	$3,000	$3,000
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$2,500	$3,000	$3,000	$3,000

Request

Minnesota State Colleges and Universities requests $2.5 million in FY 2006 and $3.0 million in FY 2007 for an Innovations Fund.

Background

The Innovations Fund would provide resources for curriculum design, equipment acquisition and program or service development to address significant state needs. Knowledge Age citizens are learning every day – all of the time and everywhere. Learning is interactive, collaborative, distributed and lifelong. Recognizing the changing needs of students and employers and the changing nature of work and careers, the Innovations Fund would provide resources for the development and design of emerging programs and curriculum. Developments in information technology, telecommunications, computer-assisted industrial applications, as well as continuing acceleration in technological advancements affecting virtually every aspect of human endeavor, are revolutionizing the way postsecondary education is organized and delivered in the state, nation and world. A rapidly growing student population is becoming older, increasingly diverse and faces continuing challenges to develop new skills. Employers expect higher education to provide necessary education and training in a highly flexible and responsive manner, often anticipating new needs as they emerge.

In order to remain competitive, continue to serve as Minnesota's primary source of postsecondary education and training for the system, and reduce the time to delivery, additional resources are required. The Innovations Fund would assist the system in addressing rapidly-changing needs for education and training by providing seed funds that would be triggered on a matching basis by our institution's partner organizations, businesses and industries. It would focus on the state's critical economic and workforce development needs as the basis for aligning the educational products and services with the needs of business, industry and Minnesota communities. This funding is needed because:

- ♦ Upgrading and extending the skills of the existing workforce are crucial in a competitive, global economy.
- ♦ Building a sound future skill base requires a commitment to quality learning interventions and integrated industry and community involvement.
- ♦ Enhancing education and training's quality, relevance and flexibility are fundamental to the quality of a community's economic vitality.
- ♦ Ensuring that curriculum, equipment and delivery modes are best-in-class is essential for students to be successful.

Key Measures

- ♦ Decrease time to market of new programs and new curriculum to meet the state's critical skill needs.
- ♦ Increase the number of new programs and curriculum to meet the state's critical skill needs.
- ♦ Increase leveraged contributions from the state's business and industry sectors to support program and curriculum development.
- ♦ Increase business and industry satisfaction with results of leveraged partnerships.

Agency Change Item: Repair and Replacement

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$5,000	$6,000	$6,000	$6,000
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$5,000	$6,000	$6,000	$6,000

Request

Minnesota State Colleges and Universities requests $5 million in FY 2006 and $6 million in FY 2007 for facilities repair and replacement.

Background

Minnesota State Colleges and Universities facilities average 34 years of age. A review of the life expectancy of building components on average indicates there are a considerable number of major components requiring replacement during the 25- to 40-year timeframes. All heating, ventilation, air conditioning, electrical distribution, roofs, some doors and hot/cold water lines tend to need replacement in this timeframe. There is a growing need to repair and replace the major infrastructure systems which have exceeded their useful lives.

A 1999 assessment indicated backlog of nearly $500 million. Since 1995, facilities have not been adequately funded – both in operations budgets and in capital budgeting for renovation – resulting in increasing the size of that backlog. Furthermore, when maintenance or replacement is delayed, problems can be compounded. For example, a ventilation system that only partially works can cause potential long-term air quality problems that can affect the health and welfare of the building's inhabitants.

The HEAPR funds in the capital budget request represent the "catch-up" portion of the facilities investment strategy – the funding of larger projects to reduce the current backlog. In addition to HEAPR funds, the overall capital budget is used to "catch-up" with renovation and repair. In 2004, over 75% of the square footage affected by the Capital budget request was for renovation and repair. That budget was not approved, so more than 900,000 square feet of space was not renovated.

The annual operating budget request represents the "keep up" portion of the facilities investment strategy – the annual repair and replacement work that campuses should be undertaking for ongoing projects. Investing in the "keep up" portion is a more cost-effective means of maintaining facilities than allowing conditions to deteriorate, avoiding costly problems compounded by deteriorating conditions, time and inflation.

Relationship to Base Budget

Minnesota State Colleges and Universities spent approximately $17.5 million on repair and replacement in FY 2004. The request of $6 million in FY 2007 represents an approximate increase of 34% over this base.

Key Measures

- ♦ Maintain the stewardship of the existing campus facilities resource as a warm, dry, environmentally safe structure for students, staff and public.
- ♦ Increase energy efficiency with roof replacements, major mechanical and ventilation improvements. Funds saved through increased energy efficiency would be placed back into on-going repair and replacement efforts.
- ♦ Reduce the projected increase in deferred maintenance backlog.
- ♦ Improve the Facilities Condition Index (FCI is the measure of the deferred maintenance divided by the current replacement cost).

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$6,000	$6,000	$6,000	$6,000
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$6,000	$6,000	$6,000	$6,000

Request

Minnesota State Colleges and Universities requests $6 million in FY 2006 and $6 million in FY 2007 for initiatives to serve underserved populations.

Background

Demographic changes are significantly changing the face of this state. Increasingly, Minnesota is becoming a state where racial and ethnic diversity is a fact, rather than a future demographic projection. Diversity is apparent across whole neighborhoods throughout the Twin Cities. Even in Greater Minnesota, migration across state lines and immigration across borders are contributing to changes in the populations of neighborhoods and schools.

This increasing diversity is most readily noticeable in the schools. School districts that 10 or 12 years ago had very few students of color are now seeing explosive increases in these students. For example, between 1999 and 2003, the number of students of color enrolled in Anoka-Hennepin schools increased by 219%, in Eden Prairie schools by 329%, in Owatonna schools by 441%, and in Worthington schools by a staggering 541%, from 138 students in 1990 to 884 students in 2003.

Unfortunately, the academic achievement of these new students is not in keeping with their increasing numbers. By almost every criterion used, the academic achievement of students of color in Minnesota is below that of their white classmates. Students of color also have lower high school graduation rates and lower college participation rates than their White peers. Especially troublesome, because we know that Minnesota's quality of life has been made possible, and will be sustained, by a highly educated workforce. Quite simply, we cannot afford to allow an increasingly important segment of the population slip through the cracks and fail to obtain the opportunities of higher education. Efforts must be undertaken now to ensure that all Minnesotans in the K-12 system are aware of the higher education opportunities available to them, and that they take and succeed in appropriate coursework during their junior high and high school years so that they will be prepared to undertake college-level work upon graduation from high school.

This initiative is designed to address the problems of students who have traditionally been under-served in higher education, including low-income, first-generation, immigrants and students of color, by taking a multi-level, multifaceted approach to improving the academic achievement and college motivation of these students. We envision the initiative to be similar in part to the successful TRIO programs, the federal educational opportunity outreach programs designed to motivate and support students from disadvantaged backgrounds. However, the initiative also relies heavily on the establishment of partnerships between colleges and universities to improve performance of students in lower grades by providing consultation, curriculum development and professional development for teachers. Federal funds for additional TRIO programs are extremely difficult to obtain, so state funds are being sought to advance this critical initiative. Working in partnership with the K-12 system, the colleges and universities will undertake projects that will work with students at all levels of the K-12 educational pipeline.

Educational Partnerships
Select 20 K-8 schools with high percentage of students eligible for free or reduced-price lunches.
Provide professional development for teachers
Engage parents
Provide enrichment activities for students
Award competitive grants, 20 projects across the state, $50,000 per project per year.

Total: $1,000,000

Academic Development
Select 30 junior and high schools
Provide academic enrichment, tutoring, mentoring
Work with parents
Provide summer academies
Fund 30 projects, $100,000 each for two years
Total: $3,000,000

Bridges to Success
Ensure that high school to college transition is successful
Provide summer bridge programs
Programs to include learning communities, intrusive advising, supplemental instruction
Fund 20 projects, $100,000 each for two years
Total: $2,000,000

Agency Change Item: LCMR Recommendation

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Other Fund				
Expenditures	$469	$469	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$469	$469	0	0

Background

1. Improving water quality on the central sands - $587,500
   (Central Lakes College – Agricultural Center)
2. Bio-conversion of potato waste into marketable biopolymers - $350,000
   (Bemidji State University – CEESS)

	Current		Governor Recomm.		Biennium
Dollars in Thousands	FY2004	FY2005	FY2006	FY2007	2006-07
Direct Appropriations by Fund					
Environment & Natural Resource					
Current Appropriation	290	291	291	291	582
Recommended	**290**	**291**	**2,237**	**2,237**	**4,474**
Change		0	1,946	1,946	3,892
% Biennial Change from 2004-05					670.1%
General					
Current Appropriation	547,284	550,067	550,067	550,067	1,100,134
Recommended	**547,284**	**550,067**	**608,567**	**612,067**	**1,220,634**
Change		0	58,500	62,000	120,500
% Biennial Change from 2004-05					11.2%
Health Care Access					
Current Appropriation	2,157	2,157	2,157	2,157	4,314
Recommended	**2,157**	**2,157**	**2,157**	**2,157**	**4,314**
Change		0	0	0	0
% Biennial Change from 2004-05					0%
Expenditures by Fund					
Direct Appropriations					
Environment & Natural Resource	290	291	2,237	2,237	4,474
General	547,284	550,067	608,567	612,067	1,220,634
Health Care Access	2,157	2,157	2,157	2,157	4,314
Open Appropriations					
Special Revenue	23,359	21,861	21,644	21,429	43,073
Statutory Appropriations					
Miscellaneous Agency	5,600	4,918	5,858	5,862	11,720
Total	**578,690**	**579,294**	**640,463**	**643,752**	**1,284,215**
Expenditures by Category					
Local Assistance	578,690	579,294	640,463	643,752	1,284,215
Total	**578,690**	**579,294**	**640,463**	**643,752**	**1,284,215**
Expenditures by Program					
Maintenance & Operations	547,284	550,067	593,567	612,067	1,205,634
Medical Education	25,516	24,018	23,801	23,586	47,387
Permanent University Fund	5,600	4,918	5,858	5,862	11,720
Lcmr/Mn Resources	290	291	2,237	2,237	4,474
Special Projects	0	0	15,000	0	15,000
Total	**578,690**	**579,294**	**640,463**	**643,752**	**1,284,215**

		Dollars in Thousands		
		Governor's Recomm.		Biennium
	FY2005	FY2006	FY2007	2006-07
Fund: ENVIRONMENT & NATURAL RESOURCE				
FY 2005 Appropriations	**291**	**291**	**291**	**582**
Technical Adjustments				
One-time Appropriations		(291)	(291)	(582)
Subtotal - Forecast Base	**291**	**0**	**0**	**0**
Change Items				
LCMR Projects	0	2,237	2,237	4,474
Total Governor's Recommendations	**291**	**2,237**	**2,237**	**4,474**
Fund: GENERAL				
FY 2005 Appropriations	**550,067**	**550,067**	**550,067**	**1,100,134**
Technical Adjustments				
November Forecast Adjustment		58,362	15,388	73,750
Subtotal - Forecast Base	**550,067**	**608,429**	**565,455**	**1,173,884**
Change Items				
Enrollment Adjustment	0	(58,362)	(15,388)	(73,750)
Biosciences for a Healthy Society	0	12,000	24,000	36,000
Competitive Compensation	0	5,000	10,000	15,000
Research Support	0	20,000	15,000	35,000
Preparing Students for 21st Century Econ	0	6,500	13,000	19,500
Biotech & Genomics Research Partnership	0	15,000	0	15,000
Total Governor's Recommendations	**550,067**	**608,567**	**612,067**	**1,220,634**
Fund: HEALTH CARE ACCESS				
FY 2005 Appropriations	**2,157**	**2,157**	**2,157**	**4,314**
Subtotal - Forecast Base	**2,157**	**2,157**	**2,157**	**4,314**
Total Governor's Recommendations	**2,157**	**2,157**	**2,157**	**4,314**
Fund: SPECIAL REVENUE				
Planned Open Spending	**21,861**	**21,644**	**21,429**	**43,073**
Total Governor's Recommendations	**21,861**	**21,644**	**21,429**	**43,073**
Fund: MISCELLANEOUS AGENCY				
Planned Statutory Spending	**4,918**	**5,858**	**5,862**	**11,720**
Total Governor's Recommendations	**4,918**	**5,858**	**5,862**	**11,720**

Change Item: Enrollment Adjustment

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures: New Initiatives	$51,000	$62,000	$62,000	$62,000
Expenditures: Enrollment Adjust.	(58,362)	(15,388)	(15,388)	(15,388)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$(7,362)	$46,612	$46,612	$46,612

Recommendation

The Governor recommends that the University of Minnesota's General Fund appropriation be increased by a total of $113 million for the specific initiatives that are focused on the University's priorities for the future and that are detailed in the Change Item pages that follow. The Governor's recommendations are designed to give the University of Minnesota the new funding it needs to provide Minnesotans with a high quality, efficient and accessible system of public postsecondary education. The Governor's recommendations support excellence, access and accountability in higher education.

The Governor concurs with many of the recommendations of the Citizens League Higher Education Study Committee that were released last fall. The Governor is particularly interested in bringing greater clarity, focus and differentiation to the individual missions of Minnesota's public colleges and universities. With these budget recommendations the Governor is focusing his support on the future priorities of the University of Minnesota. The Governor supports the University's mission to be the state's primary research university and to provide exceptional postsecondary undergraduate and graduate education. The Governor's recommendations are designed to enable the University to maintain and improve its excellence in research, especially in areas where the University has a comparative advantage. The Governor's recommendations include new funding: for specific research initiatives in the biosciences area; for initiatives that support research more generally; and for the University to attract and retain talented students and faculty. The Governor also recommends new funding for the University's research partnership in biotechnology and medical genomics with the Mayo Foundation.

The Governor also recommends a reduction of $58.4 million in FY2006 and $15.4 million in FY2007 to the University of Minnesota's enrollment adjusted base General Fund appropriation for maintenance and operations.

Background

Under Minnesota Statutes, section 135A.031, the University of Minnesota's instructional services base (which is related to, but not equivalent to, its appropriated biennial base of $1.1 billion) was increased in the November 2004 forecast by $73.8 million. This increase is the result of adjusting the University's instructional services base for one-time and recurring increases in enrollment in 2003 and 2004.

The enrollment adjustment provision requires the state to pay a specified percentage of the University's instructional costs. Because higher education enrollment numbers are only updated once (in the November forecast before setting the next biennial budget), part of the recognized enrollment adjustment is one-time funding to correct for changes in enrollment that have occurred since the previous biennial budget was set. The other part is ongoing base adjustments from enrollment changes that move forward into the new biennium as an ongoing adjustment. The University's $73.8 million total adjustment is comprised of $43 million in one-time adjustments and an ongoing adjustment to the base of $15.4 million per year.

The Governor is concerned that the enrollment adjustment statute, which was enacted in 1994, unnecessarily limits the state's ability to provide new funding to the University that directly supports the University's own identified priorities and statutory mission. In the ten years since the enrollment adjustment was enacted much has changed in the way the state's budget priorities are set and funded. Rather than support this input–based funding matrix, the Governor is recommending that the University's adjusted base appropriation for maintenance and operations be reduced by $73.8 million to offset the enrollment adjustment that was recognized in the November forecast. Instead, the Governor recommends that the University's General Fund appropriation be increased by a total of $113 million for the specific initiatives that are focused on the University's priorities for the future and that are detailed in the following Change Item pages.

With the goal of updating the enrollment formula to a more appropriate and relevant model, the Governor recommends that the public postsecondary education funding statutes be revised. The Governor will direct the Higher Education Services Office to convene a stakeholder group to review issues and offer a recommendation that will better meet the state's needs.

Relationship to Base Budget

Overall the Governor's $120.5 million package of new initiatives at the University of Minnesota will result in an 11.2% increase over the University's general fund appropriated amounts for the 2004-05 biennium. (When the Mayo Foundation's half, or $7.5 million, of the Biotech Partnership appropriation is excluded, the Governor's $113 million package of new funding for the University is a 10.3 percent increase over the University's FY2004-05 appropriations.)

Statutory Change: Minnesota Statutes, sections 135A.01 to 135A.034

Change Item: Biosciences for a Healthy Society

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$12,000	$24,000	$24,000	$24,000
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$12,000	$24,000	$24,000	$24,000

Recommendation

The Governor recommends an increase of $12 million in FY 2006 and an additional $12 million in FY 2007 from the General Fund to the University of Minnesota to provide the full requested amount of funding for its **Biosciences for a Healthy Society** initiative.

Background

The Governor supports the University of Minnesota's mission as the state's primary research university, and recommends funding this initiative to enable the University to maintain and improve its excellence and competitiveness in research, especially in areas where the University has a comparative advantage. The Biosciences for a Healthy Society initiative has the potential to turn basic research-derived knowledge into new technologies, products, companies and jobs in the biosciences area. This funding will enable the University to recruit new faculty in these areas, support current faculty working on projects in these areas, and support the graduate and professional students and the technical personnel working on the research.

Relationship to Base Budget

Overall the Governor's $120.5 million package of new initiatives at the University of Minnesota will result in an 11.2% increase over the University's general fund appropriated amounts for the 2004-05 biennium.

When the Mayo Foundation's half, or $7.5 million, of the Biotech Partnership appropriation is excluded, the Governor's $113 million package of new funding for the University is a 10.3 percent increase over the University's FY2004-05 appropriations. This $36 million initiative represents 31.9% of the Governor's proposed $113 million increase in state operational funding for the University of Minnesota.

Change Item: Competitive Compensation

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$5,000	$10,000	$10,000	$10,000
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$5,000	$10,000	$10,000	$10,000

Recommendation

The Governor recommends an increase of $5 million in FY 2006 and an additional $5 million in FY 2007 from the General Fund to the University of Minnesota to provide the full requested amount of funding for its **Competitive Compensation** support initiative that will allow for merit-driven salary increases for targeted faculty and staff.

Background

The Governor supports the University of Minnesota's efforts to maintain and improve its excellence in research, especially in targeted areas where the University has a comparative advantage. This recommendation improves the University's ability to recruit talented new faculty and researchers, and also to retain its top educators and researchers.

Relationship to Base Budget

Overall the Governor's $120.5 million package of new initiatives at the University of Minnesota will result in an 11.2% increase over the University's general fund appropriated amounts for the 2004-05 biennium.

When the Mayo Foundation's half, or $7.5 million, of the Biotech Partnership appropriation is excluded, the Governor's $113 million package of new funding for the University is a 10.3 percent increase over the University's FY2004-05 appropriations. This $15 million initiative represents 13.3% of the Governor's proposed $113 million increase in state operational funding for the University of Minnesota.

Change Item: Research Support

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$20,000	$15,000	$15,000	$15,000
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$20,000	$15,000	$15,000	$15,000

Recommendation

The Governor recommends an appropriation of $20 million in FY 2006 and $15 million in FY 2007, in a combination of both one–time and ongoing funding, from the General Fund to the University of Minnesota for its **Research Support** initiatives.

Background

The Governor supports the University of Minnesota's mission as the state's primary research university, and recommends new funding to enable the University to maintain and improve its excellence in research. This recommendation is for one-time and ongoing investments in research support. The funding will enable the University to: cover the costs associated with research "start–up packages" for new faculty; provide seed capital to begin research projects; obtain and support major research equipment; and enhance the security infrastructure in many research areas on campus.

Relationship to Base Budget

Overall the Governor's $120.5 million package of new initiatives at the University of Minnesota will result in an 11.2% increase over the University's general fund appropriated amounts for the 2004-05 biennium.

When the Mayo Foundation's half, or $7.5 million, of the Biotech Partnership appropriation is excluded, the Governor's $113 million package of new funding for the University is a 10.3 percent increase over the University's FY2004-05 appropriations. This $35 million initiative represents 31% of the Governor's proposed $113 million increase in state operational funding for the University of Minnesota.

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$6,500	$13,000	$13,000	$13,000
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$6,500	$13,000	$13,000	$13,000

Recommendation

The Governor recommends an increase of $6.5 million in FY 2006 and an additional $6.5 million in FY 2007 from the General Fund to the University of Minnesota to provide the full requested amount of funding for its **Preparing Students for the 21st Century Economy** initiative.

Background

The University of Minnesota has identified several investments it can make in new or expanded programs that will enhance the undergraduate experience and help it continue to attract and retain talented students. For example, the University knows that Honors Programs provide the small class sizes and individual attention that many top students look for when they choose a college. “Fast Track” Programs, which accelerate the time it takes a student to complete an undergraduate program and move into a professional school, are another draw for talented students. An Undergraduate Research Opportunities Program gives students the opportunity to learn the tools for conducting research and potentially develop an interest in graduate study. By expanding capacity in these areas, and also by enhancing graduate and professional education as well as services to help students’ transition to the world of work, this initiative will improve the University’s ability to attract and retain talented students.

Relationship to Base Budget

Overall the Governor’s $120.5 million package of new initiatives at the University of Minnesota will result in an 11.2% increase over the University’s general fund appropriated amounts for the 2004-05 biennium.

When the Mayo Foundation’s half, or $7.5 million, of the Biotech Partnership appropriation is excluded, the Governor’s $113 million package of new funding for the University is a 10.3 percent increase over the University’s FY2004-05 appropriations. This $19.5 million initiative represents 17.3% of the Governor’s proposed $113 million increase in state operational appropriations for the University of Minnesota.

Change Item: Biotech & Genomics Research Partnership

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$15,000	$0	$0	$0
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$15,000	$0	$0	$0

Recommendation

The Governor recommends a one-time appropriation of $15 million in FY 2006 to the University of Minnesota for operating funds for the **Minnesota Partnership for Biotechnology and Medical Genomics**.

Background

The Minnesota Partnership for Biotechnology and Medical Genomics is a collaborative venture between the University of Minnesota, the Mayo Foundation, and the state. The Partnership's goal is to position Minnesota as a leader in biotechnology and medical genomics applications that will result in important new medical discoveries and support the development of new businesses and jobs in the biosciences industry in the state. Research projects funded by the Partnership advance medical research and discovery in disease, disease prevention, diagnosis and therapeutics. Selected projects are expected to seek additional outside funding.

Relationship to Base Budget

The Partnership received a $2 million state general fund appropriation in the FY 2004-05 biennial budget. (Laws 2003, chapter 128, article 10, section 2, subdivision 2) This new $15 million appropriation provides additional operating funding to continue the work that is underway by the Partnership. The University's share of this new funding, $7.5 million, represents 6.6% of the Governor's proposed $113 million increase in state operational funding for the University of Minnesota.

Change Item: LCMR Projects

Preliminary Proposal

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Other Fund				
Expenditures	$2,237	$2,237	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$2,237	$2,237	0	0

Recommendation

The projects recommended by the Legislative Commission on Minnesota Resources (LCMR) are displayed as part of the University of Minnesota's biennial budget request. The Governor is not making specific recommendations on these projects.

Background

1. W-05 - Unwanted Hormone Therapy: Protecting Water & Public Health – Dept. of Civil Engineering
Funding: FY06 - $150,000 and FY07 - $150,000

2. W-12 - Climate Change impacts on Minnesota's Aquatic Resources - NRRI
Funding: FY06 - $125,000 and FY07 - $125,000

3. W-44 - Upgrades to Research Vessel Blue Heron - Large Lakes Observatory
Funding: FY06 - $147,750 and FY07 - $147,750

4. H-01 - Integrated & Pheromonal Control of Carp - Continuation
Funding: FY06 - $250,000 and FY07 - $250,000

5. H-10 - Third Party Certification of Private Woodlands - Cloquet Forestry Center
Funding: FY06 - $151,000 and FY07 - $151,000

6. H-04 - Evaluating Riparian Timber Harvesting Guidelines: Phase 2 - Continuation – Dept. of Forest Resources
Funding: FY06 - $150,000 and FY07 - $150,000

7. H-20 - Cedar Creek Savanna & Prairie Restoration & Interpretation - Cedar Creek Natural History Area
Funding: FY06 - $200,000 and FY07 - $200,000

8. H-42 - Land Acquisition, Minnesota Landscape Arboretum
Funding: FY06 - $325,000 and FY07 - $325,000

9. E-02 - Wind to Hydrogen Demonstration & 100% Biodiesel Evaluation - Central Research & Outreach Ctr.
Funding: FY06 - $400,000 and FY07 - $400,000

10. E-06 - Biomass-Derived Oils for Generating Electricity & Reducing Emissions
Funding: FY06 - $75,000 and FY07 - $75,000

11. E-14 - Economic Development via Energy Independence - Duluth
Funding: FY06 - $120,000 and FY07 - $120,000

12. R-15 - Regional Parks for Minnesota's New Urban Areas – Dept. of Forestry
Funding: FY06 - $43,000 and FY07 - $43,000

13. R-24 - Minnesota River Trail Communities: Design Trails & Waterfronts - Ctr. for Changing Landscapes
Funding: FY06 - $100,000 and FY07 - $100,000

Relationship to Base Budget

Project funding is available for FY 2006-07.

Key Measures

See individual project proposals. Also see the LCMR website at http://www.lcmr.leg.mn/lcmr.htm

University of Minnesota
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Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$12,000	$24,000	$24,000	$24,000
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$12,000	$24,000	$24,000	$24,000

Request

The University requests $12 million in FY 2006 and an additional $12 million in FY 2007 for the University of Minnesota as part of an investment in the biosciences through four academic initiatives in areas where the state and the University have demonstrated leadership. Funds will be used to recruit new faculty in these cutting-edge disciplines, support faculty who will be working on projects in these areas, support graduate and professional students working on research, and support the technical personnel who assist in the research. These investments are designed to increase the University's competitiveness in leveraging new outside funding from federal and private sources.

Background

The state of Minnesota is a world leader in a number of areas of the biosciences, including medical devices, products for animal and human health, and food production. The state has made a commitment to invest in biosciences development and education, with the Governor's Biosciences Council report outlining directions for growth, and it must make investments in critical areas to retain and increase its leadership in this area.

The University can also be a leader in the biosciences because the University is ranked in the top 10 nationally for intellectual property generation and technology commercialization, the state benefits from the jobs and companies that are created as a result of University research. The University, as the state's only research university, is uniquely positioned to leverage an investment in the biosciences into significant returns for the state. If investments are not made now, Minnesota will have missed an opportunity to lead in the biosciences.

This initiative, **Biosciences for a Healthy Society**, offers the state an important opportunity to build on several leading-edge areas of bioscience where the University has a comparative advantage. Biosciences for a Healthy Society is comprised of four academic initiatives; each one has the potential to turn basic knowledge into new technologies, new products, new jobs, new companies, and new ways to improve the lives of Minnesotans, just as past investments in University research led to the formation of the medical device industry, production agriculture, taconite mining, and food design and production. **Academic Initiatives** proposed all build upon University strengths where applied, interdisciplinary research can advance human health.

Healthy Foods, Healthy Lives will focus on four areas: disease and obesity prevention; food safety and security; improvement of the nutrients and healthfulness of foods and food products; and public policy research. Through the development of new technologies, new policies, and appropriate changes in diet and lifestyle the effect of chronic diseases on human health can be ameliorated and health care costs constrained.

University researchers, working in interdisciplinary areas, were the first to find a link between eating oats and lowering cholesterol. The University, because of its integration of agriculture, medicine, public health, veterinary medicine, nutrition, the behavioral sciences, and public policy, is uniquely positioned to make new discoveries in areas where disciplines intersect. And the University can connect that research to people through its strong relationships with the state's more than 400 food companies, its health care system, its agricultural and agribusiness organizations, and nonprofit organizations, improving the quality of life for all Minnesota's citizens.

Translational Research in Human Health connects basic science knowledge to the treatment of diseases. The process begins when basic science researchers figure out how things work. They reveal new knowledge that contributes to the work of translational researchers, who begin to uncover questions about using that research.

These questions in turn are conveyed to clinical researchers who assess whether the translational approaches work—they test possible breakthroughs in disease prevention and treatment that result in new drugs, devices, or therapies.

The University has pioneered applications of basic science for the betterment of human health, including transplant surgery, open-heart surgery, and bone and blood marrow transplantation. In recent years, the University has made significant investments in new facilities and competitive faculty to perform research. University researchers, working in areas such as neuroscience, biochemistry, genetics, and cell biology and development, are now paving the way for future breakthroughs. Promising areas of translational research include regeneration of heart muscle injured in heart attacks; new methods of diagnosing and treating cancers of the lung, colon, and breast, as well as other cancers; and improving the safety and effectiveness of current medications and other treatments while designing new and better ones.

Investment in this initiative will assure that the past investments made in the earlier stages of the research enterprise will result in new approaches to disease prevention and treatment, with Minnesotans being among the first to benefit from these innovations.

New Products through Biotechnology provides the state a unique economic opportunity to build on its leadership in the agricultural and natural resource industries. Advances in the frontiers between biology, chemistry, engineering, and information sciences make this the right time to build upon existing University strengths by an increased investment in biocatalysis. Biocatalysis—the use of biological systems and processes to transform biological material into useful products—has the potential for the development of new bio-based industries in the state, such as soil remediation. University researchers are looking into ways of transforming corn, soybeans, and forest biomass into commercially useful chemicals, polymers, plastics, and other materials. The state can continue to be a leader in the development of new, bio-based products through an investment in the University.

Brain Function Across the Lifespan draws upon new tools, including modern genetics, molecular and cellular biology, and state-of-the-art imaging techniques, to shed light on how changes in the brain influence the way humans think, feel, and act. University clinicians and researchers will use emerging knowledge of the growth, development, organization, and reorganization of the brain to better understand the range of cognitive impairments that can afflict the very young as well as the very old. For example, learning and memory problems afflict those born very prematurely as well as those elderly who suffer from Alzheimer's disease. The goal of this research is to better diagnose and treat brain disorders and disease, find new ways to support learning and memory in healthy individuals across the lifespan, and maintain healthy brain function into old age.

The University has made a commitment to neuroscience research through investments in a strong faculty and in facilities where research into brain function is underway. Fostering collaboration through this initiative will enhance the University's ability to make great strides in basic research and its applications.

Relationship to Base Budget

Funding the University's enrollment adjustment plus the academic initiative requests of $42 million each year will increase the University's annual recurring General Fund appropriations to $607,455,000 in FY 2006 and $649,455,000 in FY 2007, or $1,256,910,000 for the biennium. This represents a biennial funding level that remains approximately $25 million below what the FY 2003 appropriation (at the end of the 2002 legislative session) would have generated had it been carried forward unchanged.

Key Measures

⇒ New approaches to prevent diet-related diseases including diabetes, obesity, high blood pressure, cancer, stroke, asthma, and arthritis
⇒ New or improved food crops that can be locally produced and innovations in food safety
⇒ Public health policy recommendations such as methods for improving the labeling of food products
⇒ Improved markets for Minnesota products and enhanced regional vitality

⇒ Development of methods to prevent and treat disease in humans and animals
⇒ New and increased federal grant support for research
⇒ New intellectual property that will be licensed or sold to existing Minnesota companies or used for start-up companies
⇒ Substantial reduction in health care costs through new approaches to the treatment and prevention of disease
⇒ New approaches to environmental clean up
⇒ New products and energy sources that will reduce dependency on petroleum
⇒ New bioprobes, drugs, and biomicroelectronics that will augment the state's already powerful capabilities in biomedical devices and pharmaceuticals
⇒ New treatments for neurodegenerative disorders such as ataxia, Parkinson's disease, Alzheimer's disease, and multiple sclerosis
⇒ New approaches to mental health
⇒ New diagnostic tools to identify children at risk for learning and attention problems
⇒ New interventions for better diagnosis and treatment of brain disorders

Alternatives Considered

This request is the result of an integrated process for setting priorities, improving results, and measuring success. The four critical activities of strategic positioning; financial planning; operational and tactical planning; and documentation of accountability and improvement result in the identification of those initiatives in which investment is critical for the University of Minnesota and the state. The state is being asked to partner with the University in funding those initiatives that will maintain the University's competitiveness, foster continued economic development, and preserve the quality of life that Minnesotans value. The University's responsibility in this partnership will be to cover the costs of faculty and staff base compensation increases, ensure continued operation of facilities infrastructure, meet inflationary support costs, and make selected investments to strengthen academic and service programs.

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$6,500	$13,000	$13,000	$13,000
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$6,500	$13,000	$13,000	$13,000

Request

The University requests $6.5 million in FY 2006 and an additional $6.5 million in FY 2007 for the University of Minnesota as part of an investment in attracting and retaining students. Funds will be used in four areas that address these concerns and have proven to be talent magnets for attracting and retaining students.

Background

Investments in human capital are essential for the state's continued advancement; people are the state's best assets. The University of Minnesota is in a unique position to meet the state's needs because of the comparative advantages that distinguish this University—its academic strengths, its research base, its outreach activities, and the opportunities that only the University provides to its students and faculty. **Preparing Students for the 21st-Century Economy** focuses on attracting, retaining, and educating the best students from every sector of the state's population with the goal of preparing them to contribute significantly to the future of the state's economy.

Talent Magnet for Undergraduate Students **Serving the state's very best students and keeping them in Minnesota is important to the state's future. In the past decade, the University has improved the undergraduate educational experience and developed more effective recruiting, thereby creating greater demand and increased selectivity. Despite these changes, the state is still losing some of its best and brightest students—70% of the students admitted to the University who choose not to enroll attend institutions outside the state. The majority of these students are in the top 25% of their high school class. This initiative will expand some proven recruiting activities and enhance the undergraduate educational experience by increasing opportunities to participate in advanced classes and cutting-edge research.**

The Northern Stars Leadership Program targets the state's high-achieving high school students early in the process of choosing a college. Every high school in the state nominates its top sophomores; they are invited to the Twin Cities campus to showcase the University, and interest them in attending. This program gives the state's top students early exposure to higher education and to the University and supports their development as the state's future leaders.

Fast Track *Programs* are designed to accelerate a student's completion of an undergraduate program and transition to a professional school. The College of Agricultural, Food, and Environmental Sciences and the College of Veterinary Medicine developed VetFAST, a unique program designed to meet the high demand for veterinarians trained to work with food production animals. VetFAST allows a student to get an admissions decision by the College of Veterinary Medicine at the end of the first year in college, allowing the student to complete pre-veterinary studies in three years instead of four. The development of this program has resulted in a 30% increase in applications from high-achieving students.

Honors Programs provide the small classes and individual attention that many of the state's most talented students want. Studies indicate that students who are part of smaller classes have higher retention rates and higher grade point averages. The University currently has many honors programs designed to provide students with rigorous academic study in a small class setting. They also provide a chance for undergraduates to work directly with outstanding researchers.

Undergraduate Research Opportunities give students on all University campuses the opportunity to work on research. Students receive individual attention from faculty members and graduate students, learn the tools for conducting research, and potentially develop interest in pursuing postgraduate study. The most talented students are attracted to universities that provide significant opportunities for research at the undergraduate level.

Retaining the State's Best and Brightest The University successfully recruits many of the state's most talented undergraduate students in a broad range of programmatic areas. Students who plan to major in the physical sciences, life sciences, and materials sciences are the students most likely to be recruited aggressively by public and private institutions in other states. This initiative would establish a "challenge grant program" that would leverage new private dollars to create new scholarships in these critical areas. In addition to whatever need-based aid they might be eligible to receive, selected students would receive merit-based scholarships to fully cover the cost of their undergraduate education. These scholarships would be coupled with opportunities to work in a research laboratory and would provide students with hands-on experience and career guidance from faculty and graduate students. This would greatly increase the University's competitive advantage in recruiting students in the physical, life, and materials sciences as well as increase the number of students who could be recruited.

Enhancing Graduate and Professional Education Graduate and professional education at the University is critical to meeting the state's need for knowledge-based workers. Graduate education is a distinctive feature of the educational programs of the University, and excellence in graduate education is the hallmark of a great university. Graduates of the University's graduate and professional programs meet critical needs for a highly educated workforce across a wide variety of economic sectors.

The quality of the University's research depends not only on its faculty, but also on the University's ability to attract the brightest graduate students to work with them. The University proposes to increase the number of graduate student fellowships awarded each year and to increase the level of compensation packages awarded to graduate student employees working as teaching assistants and research assistants. Particular priority will be given to research areas that are critical to the future of the University and the state. Graduate student support is essential to remaining competitive nationally and internationally in attracting the most talented students.

Transition to the World of Work Employers across the state need to attract the best graduates to their workplaces if the state's economy is to remain strong and competitive. This initiative would provide an enhanced, coordinated effort to better prepare undergraduate, graduate, and professional students for the world of work through better career advising, expanded internship opportunities, and a welcoming "front door" for Minnesota employers.

This initiative would increase career services staff to better support student learning and development, in order to insure both successful academic progress and effective preparation for life following graduation. Increased internship opportunities would also be available to students. Successful internship experiences in Minnesota companies better prepare students for the world of work and increase other opportunities.

This initiative would also provide employers access to graduating students. As part of these enhanced career services, the University would establish a program to coordinate relationships between the employment community and students, creating a welcoming "front door" that serves employers in gaining access to potential recruits.

Relationship to Base Budget

Funding the University's enrollment adjustment plus the academic initiative requests of $42 million each year will increase the University's annual recurring general fund appropriations to $607,455,000 in FY 2006 and $649,455,000 in FY 2007, or $1,256,910,000 for the biennium. This represents a biennial funding level that remains approximately $25 million below what the FY 2003 appropriation (at the end of the 2002 legislative session) would have generated had it been carried forward unchanged.

Key Measures

⇒ Increase percentage of top high school students who enroll at the University.
⇒ Increase participants in the Northern Stars Leadership Program from 500 to 1,000 students annually.
⇒ Develop fast track programs in areas of critical need to our state such as medicine and public health.
⇒ Improve outreach to attract the state's best students to participate in honors programs and increase capacity within the programs.
⇒ Increase the number of undergraduate research opportunities available for students from 440 to 800 per year.
⇒ Create 500 additional four-year challenge grant scholarships at an average of $5,000 per year.
⇒ Improve articulation between undergraduate and graduate and professional programs.
⇒ Improve retention and graduation rates.
⇒ Increase by 35 percent the number of graduate fellowships by the second year of the biennium.
⇒ Enhance graduate assistant compensation to make the University competitive with peer institutions in attracting graduate student talent to the state.
⇒ Enhance services available to students in career centers, providing them with career guidance and preparation throughout their undergraduate career.
⇒ Improve job placement of undergraduates.
⇒ Provide more specialized career guidance to graduate students and enhance their connections to Minnesota business and industry.
⇒ Create 500 internship opportunities with modest stipends for undergraduates.

Alternatives Considered

This request is the result of an integrated process for setting priorities, improving results, and measuring success. The four critical activities of strategic positioning; financial planning; operational and tactical planning; and documentation of accountability and improvement result in the identification of those initiatives in which investment is critical for the University of Minnesota and the state. The state is being asked to partner with the University in funding those initiatives that will maintain the University's competitiveness, foster continued economic development, and preserve the quality of life that Minnesotans value. The University's responsibility in this partnership will be to cover the costs of faculty and staff base compensation increases, ensure continued operation of facilities infrastructure, meet inflationary support costs, and make selected investments to strengthen academic and service programs.

Agency Change Item: Competitive Compensation

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$5,000	$10,000	$10,000	$10,000
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$5,000	$10,000	$10,000	$10,000

Request

The University requests $5 million in FY 2006 and an additional $5 million in FY 2007 for the University of Minnesota as part of a long-term effort to respond to competitive compensation pressures for its best educators and researchers. Funds will be used to award compensation increases differentially, based on individual merit and competitive market issues, in ways that will allow the University to take advantage of the most strategic opportunities to retain and recruit top educators and researchers.

Background

Distinguished faculty are essential for first-rate teaching and research. As the state's only research institution, the University is committed to making continued investments in the "human capital" of the institution. It is the faculty, the many people devoted each day to instruction and discovery, that serve as the cornerstone of the University. It is essential that planning and budgeting efforts focus on attracting and retaining the best and the brightest. In turn, by securing a world-class faculty, the University will be better placed to attract Minnesota's best students, attract research funds, stimulate patentable ideas, and develop licensable technology.

Finding and keeping talented faculty is a fluid process, based on a continuing examination of the University's academic directions. Forty percent of current faculty have been hired in the last 10 years. Each year, the University hires approximately 120 new faculty to replace those who have left or retired. The University is also confronted with numerous serious retention decisions as top faculty in fields with competitive advantage are recruited nationally by other premier public and private institutions. When the University fails to compete in hiring and retention, there are long-term effects on the quality of departments and the University's ability to help the state of Minnesota maintain and improve its economic advantage and social and cultural quality of life.

Recently, the University of Texas at Austin embarked on a serious effort to recruit a leading researcher in materials science away from the University of Minnesota. Texas offered an endowed chair and a salary that was significantly higher ($20,000 per month) compared to other faculty here, in the Institute of Technology. In the present financial environment, the University of Minnesota simply could not match the offer. The loss of this faculty member is a serious blow to the materials science program, which recently has been positioned to move into the top ten of U.S. materials science programs as ranked by the National Research Council. This was the third person lost from the University of Minnesota to the University of Texas for the same reason during the past seven years.

At the same time, there have been numerous examples of successful efforts to retain faculty that are essential to the world-class status of some of the University's programs. The Center for Magnetic Resonance Research and the Stem Cell Institute within the Medical School are two such programs. The University has been successful in retaining the leaders of these programs, who are aggressively and constantly recruited by other universities. Their retention offers came at great cost to the University (millions of dollars, including compensation, commitments for new faculty, operating support, and capital improvements) but the results are extraordinary—increased federal research funding that exceeds $10 million annually, more than 20 new world class faculty attracted to the University, advances in knowledge related to many diseases (including diabetes, heart disease, breast cancer, and hypoglycemia), and numerous national and international awards and honors.

Leading faculty do matter. The recent substantial cuts in state funding for the University have made it increasingly difficult for the University to keep its best faculty and compete for talented new faculty. Support for the University's initiative on competitive compensation is critically important and represents a commitment to the long-term quality of the University.

Relationship to Base Budget

Funding the University's enrollment adjustment plus the academic initiative requests of $42 million each year will increase the University's annual recurring general fund appropriations to $607,455,000 in FY 2006 and $649,455,000 in FY 2007, or $1,256,910,000 for the biennium. This represents a biennial funding level that remains approximately $25 million below what the FY 2003 appropriation (at the end of the 2002 legislative session) would have generated had it been carried forward unchanged.

Key Measures

⇒ Provision of selective compensation increases above an anticipated 4% per year total compensation increase (salary and fringe benefits), which the University will self-finance through internal reallocation of existing resources, tuition increases, and other non-state sources of money
⇒ Increased ability to take advantage of strategic opportunities to retain and recruit top educators and researchers, resulting in increased ability to attract the best students, gain research funds, stimulate patentable ideas, and develop licensable technology
⇒ Modest improvement in the University's competitive salary position (relative to other research universities) during the next two years

Alternatives Considered

This request is the result of an integrated process for setting priorities, improving results and measuring success. The four critical activities of strategic positioning; financial planning; operational and tactical planning; and documentation of accountability and improvement result in the identification of those initiatives in which investment is critical for the University of Minnesota and the state. The state is being asked to partner with the University in funding those initiatives that will maintain the University's competitiveness, foster continued economic development, and preserve the quality of life that Minnesotans value. The University's responsibility in this partnership will be to cover the costs of faculty and staff base compensation increases, ensure continued operation of facilities infrastructure, meet inflationary support costs and make selected investments to strengthen academic and service programs.

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$11,500	$23,000	$23,000	$23,000
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$11,500	$23,000	$23,000	$23,000

Request

The University requests $11.5 million in FY 2006 and an additional $11.5 million in FY 2007 for the University of Minnesota as part of an investment in research support. Funds will be used in five areas of immediate concern including research start-up costs, acquiring and supporting major research equipment, supplying seed capital to initiate research projects, research security infrastructure, and libraries and information centers.

Background

Research and new discoveries give the state a leading advantage. The University of Minnesota is the state's only research university, receiving more than 98% percent of all sponsored research grants awarded to higher education institutions in the state. Researchers at the University brought in more than $523 million in sponsored research in FY 2004, marking the third time in the past three years the University's external awards have surpassed a half billion dollars. The University leverages the public's investment in research many times over through job creation and by expanding the state's tax base. The U.S. Department of Commerce estimates that 39 jobs are created in the state for every $1 million spent on university-based research in Minnesota.

However, the costs to support the University's competitive research have grown substantially in recent years. For example, research overhead is expanding at an alarming rate. Among the most recent requirements faced by research universities are those related to human research and subject protection; clinical compliance with the Health Insurance Portability and Privacy Act of 1996 (HIPPA); laboratory animal research; facility and laboratory security; and the security and transport of hazardous waste and materials.

Meeting these challenges takes a sustained, dedicated effort as well as on going investments.
Without an investment in research infrastructure, the University's comparative advantage, and the benefits that accrue to the people of this state, will be compromised.

<u>Research Start-up Costs</u> Each year the University attracts talented new faculty in high-priority areas. The talent these new faculty bring to the University is accompanied by the need for new and different kinds of equipment, remodeled research space to accommodate their research, and library acquisitions. Costs associated with starting a laboratory for a new investigator are usually on the order of $500,000, while highly sought after specialists sometimes require $1,000,000. These expenditures are necessary to recruit world-class faculty and to provide them, within a short timeline, an environment in which they can be productive.

The funding requested here is to support start-up packages across the University and would be awarded to needs other than those in the clinical sciences related to the biennial initiative, Biosciences for a Healthy Society.

<u>Acquisition and Support of Major Research Equipment</u> The costs for research equipment, which is critical to the University's research programs, are rising. The purchase of major equipment is necessary if the University is to effectively compete for research funding. Additional costs are incurred through required maintenance contracts, remodeling facilities to accommodate equipment, and increased utility costs. The need for research equipment exists in the physical sciences, engineering, and the biosciences—electron microscopes, mass spectrometers, robots, massive electronic databases, X-ray crystallography, semiconductor processing technology, and others. The University must support the creativity and commitment of its researchers by providing them access to the tools necessary to implement their ideas, so that they might compete on national and international levels and attract distinction to the University and the state.

The right piece of equipment can make the difference in moving a field forward. A team of faculty from the Institute of Technology was successful in competing for a Major Research Instrumentation grant from the National Science Foundation in 2003 to acquire a high-resolution transmission electron microscope (TEM) worth $1.3 million. This equipment is critical for the development of a research infrastructure for nanotechnology at the University. The new TEM will allow University researchers to successfully compete for additional funding in this rapidly developing field.

Seed Capital for Research Projects
Seed capital allows University researchers to initiate research projects to develop preliminary data that is used to make funding proposals more compelling. In some research fields, particularly the biosciences, preliminary research data is a precondition for a successful research proposal. Modest, initial investments can enable University researchers to quickly respond to emerging new fields of research and position them to act immediately on solicitations for research proposals.

As a case in point, in 1998, the National Science Foundation (NSF) awarded the University a Materials Research Science and Engineering Center (MRSEC) with a four-year budget averaging $1.9 million per year. In order to compete for additional funding from NSF for the MRSEC in 2002, a separate but related initiative on magnetic materials needed to be developed. In order to position the University's researchers for a renewal of the grant, the Institute of Technology provided seed funding of $180,000 per year. The strategy was a complete success—the magnetic materials initiative was the linchpin of a six-year renewal of the University's MRSEC; the budget for the center is now $3.0 million per year.

Research Security Infrastructure Since the events of 9-11-01, the federal government has expanded security regulations for research; some are unfunded federal mandates. It is essential that the University fulfill these new, and often expensive, security requirements. Without state funding, the University will be forced to curtail critical research.
Renovation has addressed security issues in areas where attacks have occurred. Formal security planning and design processes, appropriate to the research activities, are now included and funded for new construction projects. The University must also address security issues in existing buildings. Potential research areas that require enhanced security include: hazardous material laboratories, bio-safety laboratory facilities, animal research housing facilities greenhouses, stem cell facilities, and infectious-agent laboratories.
University of Minnesota Libraries and Information Centers At the heart of any research University is its library. Information resources—publications, data, and media—are the building blocks of knowledge creation and discovery. In Minnesota, the University's library system also serves as a comprehensive intellectual resource for all citizens of the state. While students, staff, and faculty are the primary users of the library, the general public accounts for nearly 20% of the onsite use of the facilities and nearly 10% of the circulation of books. The University libraries also act as the statewide resource for research and archival material, allowing for great efficiencies for libraries throughout the state in accessing one of the world's great collections of knowledge, and are especially valuable for other state colleges and universities, both public and private.

In 2000, the University of Minnesota ranked 14th among the 114 North American university library members of the Association of Research Libraries (ARL). In 2003, the University's ranking dropped to 19th. This ranking reflects a composite index of the size and growth of collections, funding, and staffing. The overall acquisition budget dropped to 25th nationally, placing the University behind some much smaller universities.

ARL reports that between 1986 and 2002, the unit cost and average library expenditure for subscriptions to academic and research journals have risen a staggering 227%, compared to an overall consumer price index increase of 64% for that same period. Inflation data for the last several years have averaged 10% annually. While acquisition costs in science, technology, and medicine have experienced continued high inflation, inflation rates for the humanities and social sciences have now also reached double digits. To sustain current commitments of books, journals, and electronic licenses requires nearly $900,000 in new funds each year for the University Libraries acquisitions budget. Additionally, the development of new subdisciplines and interdisciplinary areas of research also strains acquisition funds, requiring investment in new publications as well as greater depth in multiple fields, such as biomedical engineering, global climate change, nanotechnology, microbial and plant genomics, and biotechnology.

In addition to inflationary increases, the price of electronic publications is significantly higher than print. Incremental costs of 15 to 20%, above the cost of print, are typical for electronic journals. Many reference or high-demand journals are significantly higher. For example, an institutional print subscription to *Science* is $500, while the campus site license is $10,000. Increasingly, online publications contain information not found in print or are solely delivered in this medium.

Libraries are increasingly dependent on technology. University libraries are forced, in effect, to manage two parallel libraries—print and digital—with funds that are barely adequate for print acquisitions. In addition, many publishers will sell electronic versions of publications only to customers who have paid for a print version. Additionally, faculty, students, and the general public alike expect access to speedy, state-of-the-art computers for their digital needs.

New digital products, databases, and media are also entering the marketplace, providing new resources for the researcher. It is estimated that the 10-year growth rates in scientific and scholarly databases is 150%, compared to a 3.3% annual growth rate in the number of journals. Some examples of recent acquisitions reflect this high cost: MICROMEDEX is a comprehensive pharmaceutical utility incorporating monographs, reference sources, and dosing and drug tools, which costs $35,000 per year. The New York Times Historical Database 1851-2001 provides fully searchable text of the complete *New York Times* for an $86,000 initial cost and $8,200 per year thereafter.

Relationship to Base Budget

Funding the University's enrollment adjustment plus the academic initiative requests of $42 million each year will increase the University's annual recurring General Fund appropriations to $607,455,000 in FY 2006 and $649,455,000 in FY 2007, or $1,256,910,000 for the biennium. This represents a biennial funding level that remains approximately $25 million below what the FY 2003 appropriation (at the end of the 2002 legislative session) would have generated had it been carried forward unchanged.

Key Measures

- ⇒ Provide research start-up costs to allow the University to be highly competitive in attracting and competing for the best faculty nationally.
- ⇒ Attract the most talented faculty from other universities, who must currently be overlooked because of a lack of these types of funds.
- ⇒ Acquire and support three to four pieces of research equipment per year.
- ⇒ Leverage and multiply the effect of investments in equipment through additional successful competitive research grants.
- ⇒ Provide seed capital for 8 to 10 research projects per year to enable faculty to explore new ways to transfer research into important technologies and leverage opportunities for future outside funding.
- ⇒ Improve security deficiencies in high-risk areas.
- ⇒ Assure compliance and accountability in relation to federal and private security requirements.
- ⇒ Support research through the acquisition of information resources in new disciplines and multidisciplinary areas.
- ⇒ Accelerate the digitization of unique library collections.
- ⇒ Provide four to five specialized information consultants for emerging disciplines that require this type of support.
- ⇒ Maintain a critically important resource for the University and the state.

Alternatives Considered

This request is the result of an integrated process for setting priorities, improving results, and measuring success. The four critical activities of strategic positioning; financial planning; operational and tactical planning; and documentation of accountability and improvement result in the identification of those initiatives in which investment is critical for the University of Minnesota and the state. The state is being asked to partner with the University in funding those initiatives that will maintain the University's competitiveness, foster continued economic development, and preserve the quality of life that Minnesotans value. The University's responsibility in this partnership will be to cover the costs of faculty and staff base compensation increases, ensure continued operation of facilities infrastructure, meet inflationary support costs, and make selected investments to strengthen academic and service programs.

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$7,000	$14,000	$14,000	$14,000
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$7,000	$14,000	$14,000	$14,000

Request

The University requests $7 million in FY 2006 and an additional $7 million in FY 2007 for the University of Minnesota to invest in new technologies. Funds will be used to support investments in a new financial system, core functions of high-performance national research networks, accelerated document imaging efforts, a strategic data storage system, classrooms, and new advising and portal systems.

Background

World-class universities are distinguished by their ability to manage and sustain complicated information-based systems, high performance networks and complimentary service offerings in a complex computing environment. Funding this request will allow the University to address the goals of increased efficiency, effectiveness, and service quality through investments in strategic and important technology improvements.

Financial System Replacement - The University relies on several computer systems to support its mission and the associated administrative infrastructure. One of these computer systems, the College and University Financial System (CUFS), was licensed by the University in 1988, and implemented in full production in 1991. CUFS is the remaining mainframe-based system at the University and is no longer supported by the original vendor. The risks of continuing to use CUFS include potential system failure, increased maintenance costs, loss of knowledgeable staff, and increasing software replacement costs. Investing in a new financial system is necessary to ensure continued strong financial operations and accountability. The cost of replacing the financial system is projected to be at least $25 million over the next four years.

High-Performance National Research Networks - The University actively participates in two high-performance national research networks, Internet2 and the National Lambda Rail. Connection to these networks gives the University a competitive edge in pursuing institutional research grants and maintaining academic partnerships with the state, K-12, and other agencies. These networks are critical to research growth in areas such as bioinformatics, nanotechnology, and functional genomics. Network participation has also led to new research relationships such as the University of Minnesota and the Mayo Clinic partnership. Investment is necessary to support the core functions of these networks to improve services and financial efficiencies.

Imaging - Turning paper records into digital documents can save space and money and improve the quality of services through near-instant search and retrieval capabilities. Additionally, an optimized system will allow the University to streamline its business processes and create new self-service business models. Pilots with the Office of the Registrar, University of Minnesota, Duluth and the Academic Health Center are underway. More than two dozen University units are prepared to implement this imaging technology.

Storage - Reliable and scalable data storage strategies are critical to the University's technology infrastructure. For example, cutting-edge research in the life sciences requires the ability to collect, store, analyze, and synthesize massive amounts of digital information. The genetic information obtained from a single microbe results in a document equivalent in size to the Minneapolis phone book. Sequencing something even slightly more genetically complex, like a fungus, requires 10 times the data capacity. These research storage needs combined with the needs of the University's colleges and business systems make it critical that the University have a managed, integrated storage strategy. The new system's capabilities will meet local, state, and federal compliance requirements, such as HIPPA, avoid financial penalties and lost worker productivity, and reduce the overall cost of data storage and management.

Supporting the Learning Environment - In the past decade the University has made great strides in technology enhanced learning, but much more needs to be done.

Technology Enhanced Classrooms Approximately two-thirds of all University centrally scheduled classrooms are now equipped with up-to-date Internet and presentation technology. To bring the remaining classrooms up to date will require approximately $5 million. An additional $3.5 million recurring will be required to fund lifecycle replacement costs for all classrooms on all campuses. The University also needs to invest in more flexible learning environments, such as portable laptop learning systems and Internet distance education. New funds will first be used for high priority lifecycle equipment replacement and then to complete upgrades of the remaining classrooms. The University's strategy for completing the overall upgrade of classrooms is reflected in its capital budget requests to the state.

Advising and Portals One of the University's most important goals is to ensure timely graduation of its students and subsequent entrance into the job market or graduate studies. Two important technology applications support this goal. The Grad Planner will combine several University systems into a user-friendly tool for students and advisors to plan curriculum choices throughout a student's career. Another application, Portfolio, allows students to collect and present a variety of academic work in an integrated online portfolio, producing a virtual, multi-media history of their academic work and resume material. Additionally, the University will invest further in its student portal strategy, which helps make the University seem smaller and more personalized for students. Through the portal, students can customize their Web space, allowing for integration of course materials, online course enhancements, and advising. It will also serve as the University's integrated delivery system for new learning and advising strategies such as Grad Planner and Portfolio.

Relationship to Base Budget

Funding the University's enrollment adjustment plus the academic initiative requests of $42 million each year will increase the University's annual recurring General Fund appropriations to $607,455,000 and $649,455,000 respectively, or $1,256,910,000 for the biennium. This represents a biennial funding level that remains approximately $25 million below what the FY 2003 appropriation (at the end of the 2002 legislative session) would have generated had it been carried forward unchanged.

Key Measures

The new financial system will result in improved internal controls; more comprehensive reporting options for financial information; automated and streamlined business processes; and greater flexibility in the budget and reporting processes.

- ⇒ Investment in the national research networks will increase the University's ability to successfully compete for research grants.
- ⇒ Expanding the imaging system will result in business process efficiencies and savings in the area of document storage and retrieval, potentially saving $1 million annually.
- ⇒ An improved data storage strategy will simplify data storage by creating shared storage space that can be used by many applications for many purposes, and will reduce costs, security risks and noncompliance risks associated with private data.
- ⇒ Investments in classroom technology will provide for an adequate lifecycle replacement strategy for all technology installed over the past several years and will ensure updated technology is in place in nearly all classrooms.
- ⇒ Improved tools for students to manage their curriculum and work with advisors will help to improve the University's retention and graduation rates.
- ⇒ An enhanced portal strategy has the potential of becoming an outreach tool for Minnesotans by allowing citizens to access different parts of the University in individualized ways.

Alternatives Considered

This request is the result of an integrated process for setting priorities, improving results and measuring success. The four critical activities of strategic positioning; financial planning; operational and tactical planning; and documentation of accountability and improvement result in the identification of those initiatives in which investment is critical for the University of Minnesota and the state. The state is being asked to partner with the University in funding those initiatives that will maintain the University's competitiveness, foster continued economic development, and preserve the quality of life that Minnesotans value. The University's responsibility in this partnership will be to cover the costs of faculty and staff base compensation increases, ensure continued operation of facilities infrastructure, meet inflationary support costs, and make selected investments to strengthen academic and service programs.

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Other Fund				
Expenditures	2,237	2,237	0	0
Revenues	0	0	0	0
Net Fiscal Impact	2,237	2,237	0	0

LCMR Recommendations:

1. W-05 - Unwanted Hormone Therapy: Protecting Water & Public Health – Dept. of Civil Engineering
   Funding: FY06 - $150,000 and FY07 - $150,000

2. W-12 - Climate Change impacts on Minnesota's Aquatic Resources - NRRI
   Funding: FY06 - $125,000 and FY07 - $125,000

3. W-44 - Upgrades to Research Vessel Blue Heron - Large Lakes Observatory
   Funding: FY06 - $147,750 and FY07 - $147,750

4. H-01 - Integrated & Pheromonal Control of Carp - Continuation
   Funding: FY06 - $250,000 and FY07 - $250,000

5. H-10 - Third Party Certification of Private Woodlands - Cloquet Forestry Center
   Funding: FY06 - $151,000 and FY07 - $151,000

6. H-04 - Evaluating Riparian Timber Harvesting Guidelines: Phase 2 - Continuation – Dept. of Forest Resources
   Funding: FY06 - $150,000 and FY07 - $150,000

7. H-20 - Cedar Creek Savanna & Prairie Restoration & Interpretation - Cedar Creek Natural History Area
   Funding: FY06 - $200,000 and FY07 - $200,000

8. H-42 - Land Acquisition, Minnesota Landscape Arboretum
   Funding: FY06 - $325,000 and FY07 - $325,000

9. E-02 - Wind to Hydrogen Demonstration & 100% Biodiesel Evaluation - Central Research & Outreach Ctr.
   Funding: FY06 - $400,000 and FY07 - $400,000

10. E-06 - Biomass-Derived Oils for Generating Electricity & Reducing Emissions
    Funding: FY06 - $75,000 and FY07 - $75,000

11. E-14 - Economic Development via Energy Independence - Duluth
    Funding: FY06 - $120,000 and FY07 - $120,000

12. R-15 - Regional Parks for Minnesota's New Urban Areas – Dept. of Forestry
    Funding: FY06 - $43,000 and FY07 - $43,000

13. R-24 - Minnesota River Trail Communities: Design Trails & Waterfronts - Ctr. for Changing Landscapes
    Funding: FY06 - $100,000 and FY07 - $100,000

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Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
Expenditures by Fund					
Statutory Appropriations					
Miscellaneous Agency	223	230	0	0	0
Total	**223**	**230**	**0**	**0**	**0**
Expenditures by Category					
Total Compensation	223	230	0	0	0
Total	**223**	**230**	**0**	**0**	**0**
Expenditures by Program					
Hgher Educ Fac Authr	223	230	0	0	0
Total	**223**	**230**	**0**	**0**	**0**
Full-Time Equivalents (FTE)	**2.4**	**2.8**	**0.0**	**0.0**	

		Dollars in Thousands		
		Governor's Recomm.		Biennium
	FY2005	FY2006	FY2007	2006-07
Fund: MISCELLANEOUS AGENCY				
Planned Statutory Spending	**230**	**235**	**240**	**475**
Change Items				
Consolidation- Facility Bonding Services	0	(235)	(240)	(475)
Total Governor's Recommendations	**230**	**0**	**0**	**0**

Revenue Change Items

Fund: MISCELLANEOUS AGENCY				
Change Items				
Consolidation- Facility Bonding Services	0	(235)	(240)	(475)

Change Item: Consolidation- Facility Bonding Services

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$0	$0	$0	$0
Revenues	0	0	0	0
Other Fund				
Expenditures	390	390	390	390
Revenues	(390)	(390)	(390)	(390)
Net Fiscal Impact	$0	$0	$0	$0

Recommendation

The Governor recommends that the powers and duties of the Higher Education Facilities Authority (HEFA) be assumed by the Higher Education Services Office, and that HEFA be abolished on July 1, 2005. The Governor also recommends canceling HEFA's operating fund reserves of approximately $2.1 million to the General Fund.

Background

HEFA was created in 1971 to assist nonprofit institutions of higher education in the construction, financing and refinancing of capital projects.

Under current practice, the fees charged to participating higher education institutions and 40% of the associated expenditures are managed outside of the state's accounting and budget systems. The other 60% of the expenditures, for compensation, flows through the accounting system and has been reflected in the related fiscal pages.

Under the Governor's proposed transfer of HEFA duties to the Higher Education Services Office, both the fees and expenditures will be managed within the state's accounting and budget systems. As a result the full amount of this activity will be reflected in the Services Office's budget and managed within the state's accounting system.

At the end of FY 2004 HEFA had a reserve of about $2.1 million in net operating assets. This reserve was built up through the annual fee HEFA charges each participating institution. The fee has generally been set at 1/8 of 1% of the value of the amount outstanding of the bonds issued for the institution. In recent years HEFA has applied significant discounts to this fee level.

Relationship to Base Budget

HEFA covers its operating costs through the fees it charges to participating higher education institutions. The Governor recommends that the Higher Education Services Office continue to use this fee mechanism to cover the administrative costs and expenses it will incur when it assumes HEFA's functions.

Statutory Change: Minnesota Statutes, sections 136A.25 to 136A.42

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MAYO FOUNDATION

Agency Overview

Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
Direct Appropriations by Fund					
General					
Current Appropriation	1,391	1,391	1,391	1,391	2,782
Recommended	**1,391**	**1,391**	**1,391**	**1,391**	**2,782**
Change		0	0	0	0
% Biennial Change from 2004-05					0%
Expenditures by Fund					
Direct Appropriations					
General	1,332	1,391	1,391	1,391	2,782
Total	**1,332**	**1,391**	**1,391**	**1,391**	**2,782**
Expenditures by Category					
Local Assistance	1,332	1,391	1,391	1,391	2,782
Total	**1,332**	**1,391**	**1,391**	**1,391**	**2,782**
Expenditures by Program					
Mayo Medical School	514	514	514	514	1,028
Mayo Family & Residency	472	531	531	531	1,062
St Cloud Hospital/Family Med	346	346	346	346	692
Total	**1,332**	**1,391**	**1,391**	**1,391**	**2,782**