

UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

Work Session

December 13, 2007

A work session of the Board of Regents was held on Thursday, December 13, 2007 at 1:15 p.m. in the East Committee Room, 600 McNamara Alumni Center.

Regents present: Patricia Simmons, presiding; Clyde Allen, Anthony Baraga, Dallas Bohnsack, Maureen Cisneros, Linda Cohen, John Frobenius, Venora Hung, Steven Hunter, Dean Johnson, David Larson, and David Metzen.

Staff present: President Robert Bruininks; Vice President Richard Pfutzenreuter; and Executive Director Ann Cieslak.

Regent Simmons explained that the work session would focus on funding the mission through state support and is part of a series of scheduled meetings for 2007-2008 to address the financial future of the University. President Bruininks began the presentation by stating that understanding the state budget outlook and trends in revenue is vitally important to understanding how the state will provide funding to the University in the near future.

State Economist Tom Stinson reported that the presentation would examine the most recent state budget forecast, Minnesota employment statistics, and long-term demographic trends for the state, as detailed in the materials distributed at the meeting. Stinson made the following points about the budget forecast:

- The state budget has changed from having a \$294 million surplus at the end of the 2007 legislative session to a forecasted deficit of \$373 million for FY 2008-09.
- FY2008-09 revenues are down \$739 million while state spending has increased \$66 million in year two of the biennial budget.
- A structural shortfall of \$211 million is projected for FY2010-11.

Stinson explained that the national economic slowdown is primarily caused by the poor outlook for housing, credit markets, and energy prices. He reported that economic problems associated with the housing market have been more extreme in Minnesota and that this sector is not predicted to recover until spring 2009. Stinson provided the following statistics from the period of 2004 to 2006 to explain the downturn in the state economy:

- Total personal income grew by 4.2 percent, which ranked 48th in the country (national average – 5.7 percent);
- Personal income per capita grew by 3.5 percent, which ranked 47th (national average – 4.7 percent); and
- Gross state product grew by 2.1 percent, which ranked 37th (national average – 3.4 percent).

Stinson also reported that job growth in Minnesota has been well below the national average since 2005. He explained that this is a concern in the long term as well because from 2005 to 2015 the largest demographic growth in Minnesota will be in ages 55 to 69, thereby resulting in a dramatic drop in the size of the workforce.

Stinson explained that academic research is a key factor in long-term state economic growth and that Minnesota has dropped in recent years in national rankings of academic research and development. In response to a question from Bruininks, Stinson reported that Minnesota has seen slower growth in research and development funding from state, federal, and private sources in recent years.

In response to a question from Regent Johnson, Stinson explained that increasing income taxes and decreasing property taxes might not be beneficial to the state's budget because individuals might be inclined to leave the state. In response to a question from Regent Frobenius, Stinson reported that Minnesota has been hurt by a national economy focused on defense production, which is not a strong market in the state.

The work session adjourned at 2:15 p.m.



ANN D. CIESLAK
Executive Director and
Corporate Secretary