

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
FINANCE, FACILITIES AND TECHNOLOGY COMMITTEE
MEETING MINUTES
November 17, 2009**

Finance, Facilities and Technology Committee Members Present: Tom Renier, Chair; Trustees Duane Benson, Christopher Frederick, Ruth Grendahl, Clarence Hightower, Dan McElroy, Scott Thiss, and James Van Houten

Other Board Members Present: Jacob Englund, David Paskach and Louise Sundin

Leadership Council Representatives Present: Vice Chancellor Laura King, President Robert Musgrove

The Minnesota State Colleges and Universities Finance/Facilities Policy Committee held its meeting on November 17, 2009, 4th Floor, Board Room, 30 East 7th Street in St. Paul. Chair Renier called the meeting to order at 1:05 pm.

1. MINUTES OF JULY 21, 2009

The minutes were approved as submitted.

2. MINUTES OF JOINT MEETING OF THE ACADEMIC AND STUDENT AFFAIRS AND FINANCE, FACILITIES AND TECHNOLOGY COMMITTEES OF SEPTEMBER 8, 2009

The minutes were approved as submitted.

3. FINANCE, FACILITIES AND TECHNOLOGY UPDATE (*Information*)

Vice Chancellor King reported that Pat Nordick, Chief Financial Officer at Minnesota State Community and Technical College, has been named the 2009 Outstanding Chief Business Officer by the National Community College Business Officers organization for the Midwest region. Ms. King concurred with MSCTC President Ann Valentine's comments that the college is fortunate to have Nordick's professional service and is honored that he has received national recognition for his work.

Vice Chancellor King noted that the All Hazards Steering Committee continues to monitor the outbreaks of H1N1 influenza. The committee has not received any reports concerning campus academic disruption.

Minnesota State Colleges and Universities reported fall enrollment of 198,792 students or 12,641 more students than last fall when 186,150 students were enrolled. That's nearly a 7 percent increase. The increased enrollment will be factored into the January committee discussion about FY2011 budget planning.

Vice Chancellor King commented that Presidents Szymanski and Valentine hosted the Leadership Council in Moorhead earlier in November and that all presidents and one or two their staff participated in round table discussions about lessons learned during last

spring's flood emergency. Moorhead Mayor Mark Voxland and City Manager (and former trustee) Michael Redlinger and members of the House and Senate legislative delegation participated in the discussions. Noted in the discussion was support for the incident response team strategy and advice to presidents to plan "big" and more robustly in All Hazards and Continuity of Operations Plans. Vice Chancellor King extended appreciation to the hosts of the meeting.

The Audit Committee will receive the results of the Financial Statement work today. Strong participation was received by all of the presidents and their staff.

Vice Chancellor King noted she had a very preliminary list of Revenue Fund projects totaling approximately \$95M in new debt. The list will be refined in the coming weeks and a more complete project discussion will be brought to the committee at a future meeting.

4. 2010-2015 CAPITAL BUDGET UPDATE (*Information*)

Associate Vice Chancellor Allan Johnson updated the committee on the 2010-2015 capital budget requests. Legislators from the House and Senate Capital Investment Committees, the Commissioner and staff from Minnesota Management and Budget, and a representative from the governor's office have been touring locations around the state where capital projects have been proposed, including campuses of Minnesota State Colleges and Universities. Mr. Johnson thanked the presidents for the great hospitality their campuses have provided.

Mr. Johnson reported on comments he has heard from the visits including hope of an early bonding bill to stimulate construction jobs; fast execution of projects (the System has 11 projects ready to go for bidding including the 6 vetoed projects from 2008); and some support for a HEAPR only appropriation.

Vice Chancellor King responded to Trustee Van Houten's inquiry about how HEAPR affects the Financial Statements by noting that much of the HEAPR appropriation is capitalized and increases the net assets of the individual campuses. This is a benefit to the System.

Trustee Van Houten also inquired about the ratings of other higher educational systems. Vice Chancellor King noted that Moody's higher education ratings are generally holding and are not being downgraded at this time. Trustee Benson asked if technology investments may be eligible to be bonded. Vice Chancellor King noted that the investment must be of a "capital nature to a physical asset" and the State has not moved off that position for general obligation bonds for technology. A relatively small amount of bond proceeds may be used for initial outfitting of a capital project however.

Trustee Frederick inquired what percentage of the capital projects adds new space and does this relate to increased enrollment. Mr. Johnson noted that there is approximately 600,000 new square feet in the 2010-2012 capital program. The new space is driven by academic programs and enrollment. The focus has been on renovation and re-purposing of existing space (almost 1,000,000 square feet in the 2010-2012 program).

Mr. Johnson commented that he has had no early signals of the legislature's intention. He confirmed that the System's request remains as it was approved in terms of projects, priorities, and cost. Vice Chancellor King noted there is concern about the state's debt capacity which will affect the overall size of a bonding bill.

5. 2010-2017 CAPITAL BUDGET GUIDELINES (*Information*)

Associate Vice Chancellor Allan Johnson solicited input from the Finance/Facilities/Technology Committee of the Board regarding the next capital budget cycle. As the FY2010 – 2015 capital budget request moves forward to the governor and legislature for deliberation in the 2010 legislative session, action must now begin on the development of the FY2012 –2017 capital budget. The foundation for this next capital budget will be the FY2012 – 2017 Capital Budget Guidelines which will shape the development of capital projects by colleges and universities for submission to the Office of the Chancellor in late 2010. The first reading of the guidelines is scheduled for the April 2010 committee meeting.

Mr. Johnson reviewed that the current guidelines call for capital projects that support the goals and objectives of the System's Strategic Plan. Projects are preferred that directly and positively impact the state's economy through development of a highly educated and trained workforce. Projects in support of science, technology, engineering and math programs (STEM) should be a high priority. Projects should provide capacity to increase delivery of four-year baccalaureate programs in the Twin Cities metro area. Projects should reflect improved alignment between campus physical capacity and academic program requirements, community and public service, and appropriate stewardship of state buildings. Projects should encourage creative use of space, particularly in support of technical programs.

Mr. Johnson noted that the current guidelines encourage repair, renovation and modernization of existing facilities rather than construction of new space. The guidelines continue a robust HEAPR program as critical to the ongoing preservation of existing facilities. All projects must demonstrate improved energy efficiency. All projects are required to meet Minnesota State Colleges & Universities Design and Construction Guidelines as well as the state's B3 Guidelines. Bundling a number of smaller projects for energy efficiency may be advantageous similar to past initiative projects for STEM and classroom renovations. Advancing the use of alternative fuel sources should be encouraged. In addition, projects should improve space use. Each campus has unique building space constraints and academic offerings. Capital projects should specifically target improved space use, such as rightsizing, leasing out under-utilized space to an appropriate tenant, development of multi-use space, collaborative use with campus partners, etc.

Trustee Van Houten commented that the guidelines appear to be very broad and essentially encompass all projects and wondered what projects wouldn't be included. Mr. Johnson explained that projects wouldn't score well if they didn't have an academic purpose, e.g. a gymnasium or cafeteria. The project review teams carefully evaluate each of the submitted projects critically and note that all "classroom"

renovations are not the same, i.e. factors such as space utilization, academic programs, enrollment, overall condition assessment play an important role during the review and evaluation process.

A vigorous discussion centered on the future needs of the System. With changing demographics, would the space needs of the System remain the same; will there be enough money for future maintenance given the State's current economic situation; will the System have the debt capacity to support more capital projects? Vice Chancellor King confirmed that the future is not expected to mirror the past and the capital budget guidelines could be written even more explicitly to define the type of projects the Board of Trustees wishes to support. Trustee McElroy felt the System perpetuates the status quo more than he is comfortable with. He noted that the "middle" college concept may develop as the K-12 system changes in the future which would change space needs. President Musgrove commented that space needs won't go away but the academic space will likely look different in the future. He remarked that the current process is rigorous and sets hard priorities.

Trustee Hightower favors a robust HEAPR request. Trustee Van Houten urged the committee to err on the side of caution because of the current economic situation. Trustee Dickson suggested tightening the criteria for projects. Vice Chancellor King thanked the committee for the thoughtfulness of the dialogue and indicated that the trustees' suggestions will be incorporated into the next draft of the guidelines.

6. THE ROLE OF FINANCIAL AID IN THE COST OF ATTENDANCE

(Information)

Vice Chancellor King introduced this report about the role of financial aid in the cost of attendance and the implications for college and university enrollment and financial planning. Financial aid interacts with tuition and fee rate increases and family income. Pending changes in federal law could also substantially impact a broad portion of the system's target student population. It is expected that these events will have consequences for fiscal year 2011 tuition planning discussions which will begin in early spring 2010.

Christopher Halling, System Director for Financial Aid, commented that financial aid produces a net price for students. Table 1 demonstrates that because of changes in state and federal legislation approximately 39 percent of students enrolled full-time for both terms would experience a net decrease in the cost of tuition and fees for FY2010.

Most of financial aid is awarded to help students with the difference between the cost of attendance and family resources. Financial aid comes in several forms: need-based federal and state grants which do not have to be repaid; loans from federal and state government or private banks that must be repaid with interest; scholarships and educational benefits for students with special circumstances (i.e., military benefits, child care assistance, and merit aid for academic achievement), and employment/ work-study jobs. Most financial aid is money provided to help students pay college costs that exceed the amount the federal government has determined they and their families can pay.

In fiscal year 2008 undergraduate students enrolled in the Minnesota State Colleges and Universities received \$793.2 million of financial aid. Of the System's students, 52 percent (89,299) enrolled at the colleges and 58 percent (46,149) of undergraduate students enrolled at the universities received at least one type of financial aid award (including loans that were accounted for in the system's financial aid module). Approximately 48 percent of state college students and 59 percent of state university students applied for financial aid (fiscal year 2006 data). The data indicates that the system's students are dependent on financial aid and increasingly independent, self supporting students. The number of students applying for financial aid is increasing.

The number of students enrolled in the Minnesota State Colleges and Universities who borrowed to pay for a portion of their higher education costs increased from 28 percent in fiscal year 2003 to 36 percent in fiscal year 2008. During that same time period, the average loan increased from \$4,441 to \$5,802; an increase of 31 percent. During that same time period, the average cost of attendance for a full-time undergraduate student increased 36 percent.

Mr. Halling will ask for more information from the Office of Research and Planning regarding the household income distribution of System students in response to a question from Trustee Van Houten. President Musgrove asked that this information be compared to the University of Minnesota or Minnesota private colleges to get a relevant comparison.

Mr. Halling updated the committee on the HR 3221, Student Aid and Fiscal Responsibility Act of 2009. If enacted into law, this resolution will make a number of significant changes to federal student financial aid programs. The Senate has not yet taken action on its version of the Bill. The most significant of the financial aid changes are in four areas.

1. The House legislation proposes to end the Federal Family Education Loan, or FFEL, program by July 2010, and requires all colleges to participate in the Direct Loan program. The terms and provisions of the loans are identical and the change should be almost completely transparent to students. Ten of the Minnesota state colleges and universities are currently Direct Loan schools. The System is moving forward to be ready to make the transition to direct lending by July, 2010.
2. The legislation will increase the maximum annual Pell grant to \$5,550 in 2010 and to \$6,900 by 2019. The legislation increases the size of awards but not the number of recipients.
3. The existing Perkins Loan program will be replaced it with a new Federal Direct Perkins Loan. However, it also requires an expensive "buy-in" from institutions by requiring them to pay interest on behalf of their borrowers, and it eliminates flexibility in awarding the loans.

4. The Bill significantly reduces the number of questions asked on the Federal Aid Application (FAFSA) and will allow students and families to apply for aid using the information on their tax returns.

Mike López, Associate Vice Chancellor for Student Affairs, described the current process that a student (and their families) go through to receive financial aid. The student's need for financial aid is based on a formula that determines the cost of attendance minus the resources available. Dr. López provided an explanation of the federal methodology used to determine the expected family contribution and eligibility for Pell grants. The federal methodology includes parental contributions from both income and assets, with allowances for taxes and other items that reduce the amount of income and assets that are actually assessed in determining the parental contribution. The student contribution has fewer allowances, and student assets are assessed at a higher rate than parent assets. The Pell grant is calculated by subtracting the maximum Pell grant amount from the expected family contribution.

The State Grant award considers the amount of Pell Grant a student received and the expected parent contribution. Examples of state grant calculations provided by Dr. López illustrated that low income students attending state colleges may receive smaller state grants than higher income students attending private colleges. Because the state grant calculation for part time students does not prorate the award as the Pell grant calculation does, State College and University students who attend school part-time receive smaller grants than they might otherwise receive. The state grant calculation also places an added burden on independent students, because they are responsible for both the student share and the family contribution in the state grant formula.

Dr. López provided data showing that grants as a percentage of total aid awarded has decreased significantly over the past 10 years, while loans have increased. The total amount of money borrowed by students has increased dramatically, leading to large loan indebtedness by state college and university graduates.

Trustee McElroy expressed concern about the loan debt of students who do not graduate. Vice Chancellor King asked the committee to think about the State budget outlook in FY2012-2013, the colleges and universities and their financial condition, and tuition rates. The FY2011 operating budget will be brought to the committee in the spring.

5. **RISK MANAGEMENT PROGRAM** (*Information*)

Associate Vice Chancellor Allan Johnson and Director of Risk Management Keswic Joiner reviewed the System's Risk Management Program. The primary functional areas in the program are the Finance Division, Office of General Counsel, Officer of Internal Auditing, and Human Resources Division.

Historically the program has focused on insurance. The System purchased insurance from the State of Minnesota Risk Management Fund for property and casualty, automobile liability, commercial general liability and other coverage as needed at each campus. The premiums (paid individually by campuses) are approximately \$5.15M per

year. Dividends of \$2M have been returned over the last three years because of low claims. Dividends are returned to the colleges and universities.

Several programs have been implemented to help campuses identify and manage their risk exposures including the vehicle fleet safety program; the Facilities Renewal and Reinvestment Model (FRRM) which quantifies the condition of the physical plants and calculates the cost of building replacement; and the Construction, Occupancy, Protection and Exposure (COPE) program which provides walk-through inspections on campuses with campus personnel and risk management representatives to find ways to reduce hazards and improve campus safety. The Fire/EMS/Safety Center provides technical expertise to campuses on health and safety issues. The Workers' Compensation Program, which is based in the Human Resources Division, coordinates claims with ADA and FMLA laws and provides workers' compensation training to campus supervisors and other personnel.

The Office of the Legislative Auditor and the Office of Internal Auditing support risk management through continuing assurance of operational and fiscal integrity. The Compliance Coordinator, an Assistant General Counsel, leads initiatives across the System to address potential compliance gaps. The Accountability Dashboard reports on ten measures and makes it possible to monitor the performance of the System in specific areas. The Accreditation Review Process is a non-governmental peer-review process that assures the quality of postsecondary education. Each president's performance is reviewed annually by the Chancellor. Improvements to this evaluation process are under consideration by the Human Resources Committee.

Study abroad programs have been gaining popularity and as a result exposures have increased. The Office of the Chancellor, in collaboration with the colleges and universities, is developing templates of procedures for campuses to use when planning study abroad opportunities. In addition, the OOC is looking at improving procedures for student health and athletic insurance. Efforts are also underway to indentify, document and improve the administration of credit card programs at the campuses.

Mr. Joiner responded to a question about the greatest potential risk to the System by noting that student safety causes the most concern.

The meeting adjourned at 3:30 pm.

Respectfully submitted,
Nancy Lamden, Recorder