MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES

Agenda Item Summary Sheet

Committee: Finance, Facilities and Technology **Date of Meeting:** January 19, 2010

Agenda Item: Revenue Fund Update

☐ Proposed Policy Action ☐ Approval Required by Policy ☐ Other Approvals ☐ Monitoring

☒ Information

Cite policy requirement, or explain why item is on the Board agenda: The legislature created the Revenue Fund in 1955, which gave the Fund authority to issue revenue bonds to finance construction and renewal of revenue-generating facilities, primarily student residence halls and student unions. Under current statute, the Board of Trustees has authority to issue revenue bonds up to the statutory debt ceiling imposed by the legislature to finance revenue-generating facilities.

Scheduled Presenter(s): Allan Johnson, Associate Vice Chancellor Facilities
Laura M. King, Vice Chancellor – Chief Financial Officer

Outline of Key Points/Policy Issues: A revenue bond sale is tentatively scheduled to take place in January 2011. Early indications are that a sale of approximately $125 million would be required to accommodate the new projects. With only $15 million available under the current debt ceiling, a new bond sale of $125 million will require legislative action during the 2010 session to increase the debt ceiling. A change in the Revenue Fund debt ceiling last occurred in 2008, when the ceiling was increased from $150 million to $200 million. The legislature will be asked this coming session to increase the Revenue Fund debt ceiling from $200 million to $325 million to accommodate the new projects. The Revenue Fund currently carries outstanding debt of approximately $185 million.

Background Information: Debt obligations of the Revenue Fund, unlike capital appropriations for academic facilities, are not debt obligations of the State of Minnesota and are backed solely by the physical assets pledged and the revenue generated from them. Authority for participation in the Revenue Fund, which had been restricted to the universities since its creation, was expanded to the colleges through legislation in 2008.

BOARD OF TRUSTEES
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INFORMATION ITEM
Revenue Fund Update

BACKGROUND

The legislature created the Revenue Fund in 1955, which gave the Fund authority to issue revenue bonds to finance construction and renewal of revenue-generating facilities, primarily student residence halls and student unions. Under current statute, the Board of Trustees has authority to issue revenue bonds up to the statutory debt ceiling imposed by the legislature to finance revenue-generating facilities. The statutory debt ceiling for the Revenue Fund is $200 million pursuant to Minnesota Statutes §136F.98. The Revenue Fund currently carries outstanding debt of approximately $185 million.

The overall debt capacity of the Revenue Fund is different than the statutory debt ceiling. The debt capacity reflects the amount the Fund in the aggregate can afford, taking into account revenues, expenses and debt service. Recently, Springsted, Inc., the financial advisor to the Revenue Fund, evaluated the Fund's overall debt capacity. Springsted determined that at current bond rates of 4.5%, the Revenue Fund had the capacity to carry $346 million in total debt.

Debt obligations of the Revenue Fund, unlike capital appropriations for academic facilities, are not debt obligations of the State of Minnesota and are backed solely by the revenue generated from them. Authority for participation in the Revenue Fund, which had been limited to the universities since its creation, was expanded to the colleges through legislation in 2008. The Board of Trustees has ultimate control over the finances and operations of the Fund, while the legislature retained the authority to set the limit on debt. Statute also requires the Board to seek the advisory recommendations of the chair of the House Ways and Means Committee and the Senate Finance Committee prior to sale of bonds.

In order to minimize bond sale cost, projects are usually bundled into taxable and tax-exempt series totaling together at least $20 million. Once a school has determined the need and approximate size of a project, the Fund's financial advisor (Springsted, Inc.) and bond counsel (Leonard, Street, and Deinard) will review the components: the financial advisor to appropriately size the sale and bond counsel to provide legal documentation. All Revenue Fund construction projects follow the same planning, design and construction process as academic projects.

Revenue Fund bonds usually are for 20 years, and may be either taxable or tax-exempt. In the past the Fund has issued bonds with shorter or longer maturities depending on specific circumstances. Taxable bonds are issued primarily for construction or renovation of dining services and student unions because those facilities house for-profit services. The bonds are sold in a competitive process and are generally purchased by financial institutions and brokers.

DELEGATION AND FINANCIAL RESPONSIBILITIES

The Board has fiduciary responsibility for the Revenue Fund, and has delegated the responsibility to manage the assets to the Chancellor, who in turn has delegated responsibility to the presidents while retaining management oversight responsibility in the Office of the Chancellor. This delegation includes all monies, programs, operations, and the maintenance and repair of Revenue Fund facilities at each institution. Staff level management oversight resides in the Office of the Chancellor, Finance Division.

Similar to financial operations within the General Fund, Revenue Fund activities adhere to the Minnesota State Colleges and Universities financial policies and procedures, and provide financial and facilities information as scheduled or requested. Financial detail is also provided in the annual financial statements.

Although the presidents are delegated the responsibility to manage the Revenue Fund programs at their institutions, the Board is required by statute and the Fund’s Master Indenture to approve fees and long term financial commitments. Annual finance plans for each institution’s portion of the Revenue Fund, including fees to support these plans, are submitted to the Office of the Chancellor staff for review. Each institution is required to present a balanced finance plan. Finance plans must include funds for operations, Repair and Replacement (R&R), debt service (if required), and operating reserves, as prescribed by Minnesota State Colleges and Universities. Plans are also required to reflect funding of the Revenue Fund Reinvestment Program. While operating revenues normally produce enough funds for operations and R&R, Reinvestment Program funds have typically come from the sale of Revenue Fund bonds. The fees to support the operations and facilities are approved by the Board prior to the beginning of the fiscal year.

REVENUE FUND REINVESTMENT PROGRAM

A facility condition assessment was undertaken in 1998-99 to quantify the physical condition of all facilities within the system. An estimated $165 million maintenance and repair backlog was identified within the Revenue Fund facilities. The backlog when coupled with out-dated facilities prompted the development of the Reinvestment Program which was approved by the Board of Trustees in January 2000. The overarching goal of the Reinvestment Program is to maximize available financial resources to achieve the greatest improvements and reduce deficiency backlogs in the Revenue Fund facilities.

Each institution is responsible for developing a plan that works within their programmatic and financial parameters. Reinvestment plans may use a variety of approaches including renovation, decommissioning/demolition, and building of new facilities.

In 2005, the Office of the Chancellor contracted with a national facilities consulting firm, Pacific Partners Consulting Group, to work with all MnSCU colleges and universities in developing a new facilities data base and reinvestment model. A base line report as of the end of fiscal year 2006 shows the Revenue Fund backlog has dropped to about $100 million system-wide but is concentrated at three universities. However, modernization is not included in this backlog number, and so a direct comparison to the 1999 data should not be made. In addition to monitoring backlog reduction, the model also predicts building systems replacement or renewal scheduling, and associated costs on a building, campus, and system-wide basis.

The campuses use operating funds for some remodeling projects, but primarily bond proceeds for large renovation projects or new construction. While backlog reduction is an important part of the Reinvestment Program, equally important is the cyclical planning for building component replacement so that the backlog does not increase. The institutions usually use Repair & Replacement funds for this purpose.

2011 BOND SALE PROCESS

A revenue bond sale is tentatively scheduled to take place in January 2011. Early indications are that a sale of approximately $125 million would be required to accommodate the new projects. A preliminary project list is included as **Attachment A.** This list is considered very tentative, in that detailed project scope definition, costs and financing plans have not been studied. At this point in time, the list is meant to frame the size of a potential bond sale for January 2011. This date was chosen in order to have bond proceeds available for construction work to commence as soon as possible in FY2011. As mentioned previously, the Revenue Fund has outstanding debt of $185 million and a $200 million debt ceiling. With only $15 million available under the current debt ceiling, a new bond sale of $125 million will require legislative action during the 2010 session to increase the debt ceiling. A change in the Revenue Fund debt ceiling last occurred in 2008, when the ceiling was increased from $150 million to $200 million. The legislature will be asked this coming session to increase the Revenue Fund debt ceiling from $200 million to $325 million to accommodate the new projects.

The planning process will continue to run concurrently with these legislative efforts. The planning process begins on the individual campuses when administrators and students formulate the need for a specific project. Since student fees are usually the sole source of revenue for the repayment of Revenue Fund debt, students are involved in project planning. The institution's student senate must confirm that they have been consulted on the project and its financial impact. Current practice has been for students to approve the projects and resulting fees prior to seeking Board approval. That process is ongoing for the 2011 projects. Planned milestone dates for the 2011 sale is included for reference in **Attachment B.**

For reference purposes, the most recent sale of $36.7 million of revenue bonds took place in June 2009, and included the renovation of athletic fields at MSU Mankato (ongoing), refurbishment of parking lots at Century College (complete), the renovation and addition to the student center at Normandale Community College (ongoing), and the renovation and addition to the student center at Minneapolis Community and Technical College (ongoing). A prior sale of $41 million that took place in June 2008 included the construction of a new residence hall (ongoing) and the expansion of Memorial Hall to include the Student Wellness Center (also ongoing) on the Winona State University campus.

Attachments

A. **List of Preliminary Projects for the 2011 Revenue Bond Sale**

B. **Timeline for 2011 Bond Sale**

Date Presented to the Board: January 20, 2010

Attachment A

Summary of 2011 Projects (as of January 5, 2010)	Total Cost (in millions)
Anoka Ramsey Community College – Wellness Center	$ 11.1
Bemidji State University – Birch Hall renovations	$ 8.9
Mesabi Range Community and Technical College, Virginia – Residence Hall	$ 2.5
Minnesota State Community and Technical College, Moorhead – Wellness Center	$ 2.2
MSU, Mankato – Residence hall	$ 37.7
MSU Mankato – Centennial Student Union renovations	$ 2.2
MSU Moorhead – Residence hall	$ 26.6
St. Paul College – Parking Ramp	$ 16.7
St. Cloud State University – Residence hall renovations	$ 16.5
	$124.4

Attachment B
Tentative Timeline for Next Sale

March 1, 2010	**Next Revenue Fund Sale: Predesigns (50% complete) and preliminary pro forma submitted**
Mid - March 2010	**Submission of all projected FY2011 Revenue Fund fees and finance plans**
April 20, 2010	**Board of Trustees review of FY2011 Revenue Fund fees, operating and finance plans - 1st Reading**
May 1, 2010	**Student consultation letters due on FY 2011 Revenue Fund fees**
May 18, 2010	**Approval by the Board of Trustees of FY2011 Revenue Fund fees, operating and finance Plans - Final Reading**
May - June 2010	**Assessment billing for FY 2010 sent to schools. Earned interest on debt service reserve forwarded to schools.**
June 2010	**Debt capacity analysis performed by Financial Advisor – Springsted – on next bond sale projects**
August 2010	**Information meeting with campus accounting staff on Revenue Fund bond sale and operating procedures.**
September 1, 2010	**Next Revenue Fund sale: Predesigns & pro forma finalized - Student consultation letters on new projects due**
October 2010	**Board of Trustees Revenue Fund Bond Sale - First Reading**
November 2010	**Rating agencies (Moody's/S&P) conduct pre-bond sale visit**
November 2010	**Board of Trustees Revenue Fund Bond Sale - Second Reading**
January 2011	**Revenue Fund Bond sale**