FINANCE, FACILITIES AND TECHNOLOGY COMMITTEE
JANUARY 19, 2010
9:00 a.m.

BOARD ROOM
WELLS FARGO PLACE
30 7TH STREET EAST
SAINT PAUL, MN

Please note: Committee/Board meeting times are tentative. Committee/Board meetings may begin up to 45 minutes earlier than the times listed below if the previous committee meeting concludes its business before the end of its allotted time slot.

Committee Vice Chair Clarence Hightower calls the meeting to order.

(1) Minutes of November 17, 2009 (pp 1-7)
(2) Finance, Facilities and Technology Update
(3) Revenue Fund Update (pp 8-14)
(4) FY2011 Budget Outlook (pp 15-25)
(5) Update on Enterprise Technology Investment Plan (pp 26-36)
(6) FY2009 and FY2008 Audited Financial Statements (pp 37-49)
(7) Proposed Amendments to Board Policies: (pp 50-61)
Policy 5.13 Information Technology Administration;
Policy 5.14 Procurement and Contracts;
Policy 5.22 Acceptable Use of Computers and Information Technology Resources;
Policy 7.4 Financial Reporting;
Policy 7.7 Gifts and Grants Acceptance
(First Reading)

<u>Members</u>
Thomas Renier, Chair
Clarence Hightower, Vice Chair
Duane Benson
Christopher Frederick
Ruth Grendahl
Dan McElroy
Scott Thiss
James Van Houten

Bolded items indicate action required.

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

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
MINNESOTA STATE COLLEGES AND UNIVERSITIES

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**

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: Fiscal Year 2011 Budget Outlook

☐ Proposed Policy Change ☐ Approvals Required by Policy ☐ Other Approvals ☐ Monitoring

☒ Information

Cite policy requirement, or explain why item is on the Board agenda: The system is continuing budget planning for fiscal year 2011. The budget planning is incorporating the Governor's unallotment of $50 million which was announced in June 2009.

Scheduled Presenter(s): Laura M. King, Vice Chancellor - Chief Financial Officer
Judy Borgen, Associate Vice Chancellor Budget
Karen Kedrowski, System Budget Director

Outline of Key Points/Policy Issues: The purpose of this report is to provide the Committee with information on the state's most current economic forecast, the impact of the Governor's $50 million unallotment, and an outlook for the 2012-2013 biennium. Guidance will be sought from the Committee regarding tuition parameters and preliminary planning framework assumptions.

Background Information: The Committee was presented a preliminary outlook for fiscal year 2011 in June/July 2009. Several events have occurred since the last discussion including the Governor's unallotment and a new state budget forecast which impact the system's fiscal year 2011 budget outlook.

BOARD OF TRUSTEES
MINNESOTA STATE COLLEGES AND UNIVERSITIES

INFORMATION ITEM
FY 2011 Budget Outlook

BACKGROUND

The purpose of this report is to undertake a discussion with the Finance, Facilities, and Technology Committee regarding the budget outlook for fiscal year 2011. Preliminary budget planning for fiscal year 2011 began two years ago with development of the system's 2010-2011 biennial operating budget. At its June and July 2009 meetings, the Board of Trustees was presented a preliminary outlook for fiscal year 2011 at the time action was taken on the fiscal year 2010 operating budget. Several events have occurred since the last Board discussion of the 2011 outlook. Concurrent with the July 2009 board meeting, the Governor unallotted $50 million from the system's fiscal year 2011 appropriation. The November 2009 state budget forecast indicated a deficit for the fiscal year 2010-2011 biennium at $1.203 billion.

Information will be provided on the state's most recent economic forecast, impact of the $50 million unallotment, use of federal funds received under the American Recovery and Reinvestment Act of 2009, outlook for the 2012-2013 biennium, and the budget planning timeline. It is expected that discussion will generate further guidance for fiscal year 2011 operating budget planning. The Board will be asked to adopt the 2011 budget in April/May 2010.

State's economic forecast

The February 2009 forecast projected a budget gap of $4.570 billion for the 2010-2011 biennium. The 2009 legislative session reduced the deficit to $2.676 billion which was then addressed through the Governor's unallotment and executive actions. With the release of the November 2009 economic forecast on December 2, the state is now projecting an additional $1.203 billion general operating fund deficit for the current 2010-2011 biennium after the Governor's unallotment and executive actions. The deficit is comprised of a reduction in general fund revenues of $1.156 billion (3.7 percent), a small decrease of $44 million in general fund expenditures, and a $91 million reduction in the ending balance from fiscal year 2009. (Table 1) The forecast takes into account the national and state economic outlook, caseload, enrollment and cost changes in the state's entitlement programs (K-12, intergovernmental aids, health care, and family support), and actual fiscal year 2009 closing information. The forecast also takes into account the Governor's unallotment and other executive actions.

Table 1

State of Minnesota
General Fund Budget
Fiscal Years 2010-2011

($ in millions)	Legislatively Enacted Budget	Governor's Unallotments	End-of-Session	November Forecast	$ Change
Balance from FY2009	**$538**	**$0**	**$538**	**$447**	**($91)**
Revenues	$30,925	$217	$31,142	$29,986	($1,156)
Expenditures	$33,789	($2,459)	$31,330	$31,286	($44)
Budget Reserve	$0	$0	$0	$0	$0
Cash Flow Account	$350	$0	$350	$350	$0
Balance	**($2,676)**	**$2,676**	**$0**	**($1,203)**	**($1,203)**

Source: Minnesota Management and Budget, November 2009 Forecast.

An $827 million reduction in expected individual income tax receipts accounted for nearly three-quarters of the $1.156 billion revenue forecast decline. Job losses and wage declines throughout the state have been substantial. The average hours worked per week has reached a historic low. Fewer jobs and reduced hours worked result in a decrease in total wages paid and a significant impact to the individual income tax base and revenues to the state. (Minnesota Management and Budget, Press Conference, December 2, 2009)

The outlook for the 2012-2013 biennium has also worsened. The revenue forecast shows a $5.426 billion shortfall compared with $4.431 billion projected at end-of-session, a $995 million increase. (Table 2)

Table 2

State of Minnesota
General Fund Budget
Fiscal Years 2012-2013 Planning Estimates

($ in millions)	Legislatively Enacted Budget	Governor's Unallotment	End-of-Session	November Forecast	$ Change
Revenues	$34,406	($101)	$34,305	$33,218	($1,087)
Expenditures	$37,511	$1,225	$38,736	$38,644	($92)
Difference	**($3,105)**	**($1,326)**	**($4,431)**	**($5,426)**	**($995)**
Inflation			*$1,953*	*$1,179*	*($774)*

Planning estimates assume:

- Complete repayment of the K-12 aid deferral. Delaying repayment would save $1.167 billion.

- No repayment of the K-12 property tax recognition shift. Repayment would cost $562 million.

- No continued GAMC spending. Restoring the program would cost $928 million.

Source: Minnesota Management and Budget, November 2009 Forecast.

Expenditure projections do not include any adjustment for proposed inflation. Using the Consumer Price Index (CPI), inflation is projected at 2.1 percent for fiscal year 2012 and 1.9 percent for fiscal year 2013 for a cost of $1.179 billion in the next biennium. The planning estimates include the repayment of the K-12 aid deferral. However, the estimates do not include repayment of the K-12 property tax shift ($562 million) or restoration of the GAMC program ($928 million) which would have increased the deficit by an additional $1.490 billion.

The state is faced with a structural issue. Revenues are projected to grow slowly and spending pressures will be driven by issues of an aging population and health care services. As a result, state spending will likely shift from education, infrastructure and higher education to the care and support of the aging. With this shift, it is more than likely that the share of the system's budget from state resources will continue to decline.

Actions could be taken during the 2010 legislative session that would balance the fiscal years 2010-2011 deficit or that would begin to resolve the structural shortfall for the 2012-2013 biennium.

Budget planning

The system's budget planning for the 2010-2011 biennium has been guided by three principles:

- The Chancellor and system leadership will seek to make decisions in a way that best serves students;
- Decisions will strive to take into account the system's mission to serve the economic development needs of the state and its communities; and
- Planning will take a multi-year approach, positioning the system for long-term financial viability.

At the close of the 2009 legislative session, the higher education bill provided the Minnesota State Colleges and Universities with $1.28 billion of state resources during the 2010-2011 biennium. The funds were to be distributed as $614 million in fiscal year 2010 and $666 million in fiscal year 2011. The system's fiscal year 2011 overall budget outlook had a positive gap of $9.7 million before any programmed use of fund balance.

Since that time, the Governor has exercised his unallotment authority and recommended a $50 million unallotment for fiscal year 2011. This reduces the fiscal year 2011 funding level from $666 million to $616 million, virtually the same level as fiscal year 2006. A $50 million unallotment represents a 7.5 percent reduction in state appropriation from the approved level or a 3.2 percent reduction when evaluated on the basis of total general fund revenue including funds from the American Recovery and Reinvestment Act of 2009 (ARRA). After applying the $50 million reduction, the fiscal year 2011 budget outlook shifts from a positive budget gap of $9.7 million to a negative gap $40.3 million (2.6 percent of expenses) before the programmed use of fund balance or other budget reduction actions. (Table 3)

Table 3

Minnesota State Colleges and Universities
Summary Outlook – General Fund
Fiscal Year 2011

($ in millions)	Fiscal Year 2010 Proposed Budget	Preliminary Fiscal Year 2011 Outlook	Revised Fiscal Year 2011 Outlook
Revenues			
State appropriation	$614.2	$666.0	$616.0
Tuition*	$708.3	$740.5	$740.5
ARRA funds*	$26.7	$26.7	$26.7
Other revenues	$126.8	$124.5	$124.5
Total budgeted revenues	$1,476.0	$1,557.7	$1,507.6
Expenses			
Compensation	$1,085.9	$1,103.6	$1,103.6
Other operating costs	$404.7	$444.3	$444.3
Total budgeted expenses	$1,490.6	$1,547.9	$1,547.9
Gap	($14.6)	$9.7	($40.3)
Programmed fund balance	$16.3	$5.9	$5.9
Budget balance	$1.7	$15.6	($34.4)

*In fiscal years 2010 and 2011 approximately $12.9 million of ARRA funds were used to mitigate tuition increases. These resources are included in tuition revenue.

Colleges and universities have taken a multi-year approach to budget planning. Fiscal year 2011 budget planning began over a year ago within campus communities, in the Leadership Council and in the Office of the Chancellor. Budget planning and consultation will continue over the next several months with a focus on setting priorities and identifying budget balancing solutions.

Fiscal year 2011 guidance will be provided to the presidents and the campus communities in the weeks ahead. The preliminary planning framework suggests the following assumptions:

- Include a state support reduction of at least $50 million as announced by the Governor last spring;
- Assume tuition rate increases not to exceed 5 percent;
- Recognize modest compensation inflationary cost increases (insurance increase and steps for classified employees); and
- Expect the continuation of the already approved federal stimulus funds for one-time expenses.

The Chancellor and Vice Chancellor – Chief Financial Officer have directed the colleges and universities to reach structural balance at the beginning of fiscal year 2012 targeting the fiscal year 2011 funding level at the Governor's announced level which includes a $50 million reduction from 2009 session law. The Governor's 2011 unallotment announcement and the new 2011 state budget deficit place additional pressure on the colleges and universities to balance 2011 budgets while delivering services to record breaking enrollment levels.

Fiscal year 2011 unallotment

As previously outlined, the Governor has unallotted $50 million from the system's fiscal year 2011 state appropriation. With the state projecting an additional $1.203 billion general operating fund deficit for the current 2010-2011 biennium, it would be prudent for the system to plan for an additional reduction in appropriation above the $50 million unallotment. Because the state is receiving stabilization funds through the ARRA, there is a maintenance of effort that must be maintained in order to retain the federal funds.

The state must maintain the fiscal year 2006 level of funding to higher education which includes the Minnesota State Colleges and Universities and the University of Minnesota. Therefore, an additional reduction of $46.6 million could occur to higher education. If the maintenance of effort formula was carried through, the Minnesota State Colleges and Universities system could be reduced an additional $10.5 million above the $50 million unallotment. For the system, the fiscal year 2006 funding level was $605.5 million (adjusted for the Learning Network transfer in fiscal year 2010).

It would be the Chancellor's intent to distribute any reduction in state resources using the framework that was approved by the Finance and Administration Committee of the Leadership Council and the Finance, Facilities and Technology Committee of the Board of Trustees several years ago. The framework takes into account appropriation, tuition and the ARRA funds and distributes the impact of an appropriation reduction to the colleges and universities and the Office of the Chancellor.

The Chancellor will seek input and guidance from the Leadership Council regarding identifying state resources that could be redirected toward the unallotment. For example, $3.3 million of resources that were allocated to support college/university campus programs for fiscal year 2010 have been reserved to assist the colleges and universities in absorption of the unallotment. There is an additional $3.3 million allocated in fiscal year 2011 that could likewise be used to cover a portion of the unallotment. These resources are available during the 2010-2011 biennium due to the suspension of the awards of excellence and special initiative award programs.

Slightly more than 87 percent ($585.9 million) of the state resources the system receives are distributed to colleges and universities either as base or priority allocations. (Table 4) The Chancellor is committed to balancing the impact on the college and university base operations support with the need to advance the strategic priorities of the Board and support the system wide activities of the Office of the Chancellor.

Table 4

Minnesota State Colleges and Universities
Distribution of State and ARRA Resources

($ in millions)	Fiscal Year 2010	% of Total	Preliminary Fiscal Year 2011 (before unallotment)	% of Total
Institution allocations	$534.6	86.2%	$585.9	87.2%
- Basic allocations	$506.8		$558.1	
- Priority allocations	$27.8		$27.8	
Systemwide set asides	$38.1	6.1%	$38.6	5.7%
Office of the Chancellor/ Shared Services Division	$47.3	7.6%	$47.3	7.0%
Total state resources*	$620.1		$671.9	
ARRA resources	$39.6		$39.6	
Total state and ARRA resources	$659.7		$711.4	

*Includes state appropriation and invested treasury cash (interest earnings on tuition and misc. general fund revenue).

Tuition parameters

The colleges and universities are operating within the language of the Omnibus Higher Education bill that limits tuition increases for Minnesota resident undergraduate students to five percent each year of this biennium. It would be the interest of the Chancellor to apply the same method used in fiscal year 2010 which would set a maximum dollar per student rate increase for fiscal year 2011. This method provides the same amount of increased tuition revenue per full-year equivalent student and begins to address the disparity of rate based changes that results when maximum percentages are applied.

In keeping within the legislative language, tuition planning parameters at the colleges and universities will include a maximum fiscal year 2011 tuition increase for the colleges of $7.15 per credit and for the universities of $9.85 per credit. The total tuition increase for fiscal year 2011 will be borne by the students. In fiscal year 2010 ARRA funds have been used to mitigate two percent of the tuition increase so that students are charged no more than a three percent increase over prior year. The ARRA funds will be used again in fiscal year 2011 to pay for the mitigated two percent tuition increase from fiscal year 2010. Over the biennium, students will have experienced a maximum net increase of eight percent. In fiscal year 2012, students will be responsible for the mitigated two percent tuition increase before any new tuition increases.

The tuition cap language in the Omnibus Higher Education bill assumed that the system would be allocated $666.0 million in state appropriation for fiscal year 2011 which was an increase of $51 million over fiscal year 2010. With the system facing an appropriation reduction, the Chancellor and Vice Chancellor – Chief Financial Officer would like the Finance, Facilities, and Technology Committee to express its level of interest in pursuing removal of the tuition cap language during the 2010 legislative session. Removing the tuition cap language would provide some flexibility to colleges and universities at a time when state resources are being decreased by at least $50 million in fiscal year 2011 and some additional amount in 2012-2013.

Fund balance and reserves

There is an expectation that each college and university as well as the Office of the Chancellor will have a fund balance which is defined as budgetary cash balance at the close of a fiscal year. Maintaining a fund balance is an indication of responsible financial management and stability. A fund balance can increase/decrease year over year. A fund balance assists an organization to maintain operations for some period of time in spite of adverse financial conditions. It can be used to maintain continuity of operation in the face of revenue interruption (i.e., missed enrollment projections, unallotment of state resources, or other unforeseen expenses). Fund balances are built up in order to make large one-time investments such as instructional equipment, capital improvement projects, and repair/replacement projects.

Financial health is extremely important to the Higher Learning Commission (HLC). A Composite Financial Index (CFI) methodology is used by the HLC as a gauge of member institutions' financial health. The CFI calculation uses four financial ratios and assigns a specific weighting to each factor in computing a single, composite measure of financial health. Poor financial health can impact an institution's capacity to continue its mission and an institution's accreditation.

At the close of fiscal year 2009, the colleges and universities and Office of the Chancellor had a total general fund budgetary cash balance of $277.9 million. This represents 19 percent of total general fund revenues and is consistent with year end balances of the past five years. A portion of the budgetary cash balance ($32 million) is restricted in that it is reserved to cover obligations incurred but not yet paid prior to the close of the fiscal year. Board required reserves also represent a portion of the budgetary cash balance ($78 million). The colleges and universities programmed use of $17.2 million within their fiscal year 2010 general fund operating budgets.

The system's total general fund balance represents slightly more than 2 months of operating expenses for the Minnesota State Colleges and Universities. However, the range at the colleges and universities is from a low of .08 of a month (2.4 days) to a high of 3.8 months of operating expenses. Three months worth of operating expenses is a national standard minimum benchmark for a public college or university.

Beginning in the fall of 2009, the system began providing substantial cash flow assistance to the state's general fund. Minnesota Management and Budget (MMB) requested cash flow assistance to the state's general fund from the system as well as other participants in the state's general treasury. MMB has authority to move cash balances between the various funds in the statutory general fund as needed to meet cash flow needs. In the past with stable, performing revenue forecasts and a large rainy day fund and cash flow account, MMB only occasionally needed to shift monies between these accounts. Now with the state's general fund reserve gone and an underperforming revenue forecast, more shifting or lending activity between funds is required.

The system collectively maintains reserves and collects tuition and other revenues at the beginning of each term. Consequently, the system has excess cash available over daily expenses during certain portions of the year. The use of system cash avoids short-term borrowing by the state. The state's temporary use of system cash does not impact the day-to-day operations of the colleges and universities. College and university budgets are controlled by spending authority limits and those remain unchanged. The Office of the Chancellor manages the system's overall cash position.

The system has been assured by MMB that any funds lent will be repaid with interest in full before the end of the fiscal year or earlier if necessary to meet the cash needs of the system.

American Recovery and Reinvestment Act (ARRA) of 2009

The colleges and universities were allocated $79.2 million of one-time federal stimulus aid through the ARRA. The Board approved the designation of the federal stimulus funds for the following two purposes: (1) tuition mitigation (approximately $26 million) and (2) general operating budget support (approximately $53.2 million). The funds have been budgeted equally between fiscal years 2010 and 2011 and must be spent by September 30, 2011, which is three months after the end of the system's 2011 fiscal year.

To date, the colleges and universities have spent $12 million of federal stimulus funds which includes $6.9 million of tuition mitigation. Spending patterns are on track with the forecast. It is expected that 50 percent of the federal funds will be spent by the end of fiscal year 2010 and the balance by September 30, 2011. The funds are used to support the general operations of the colleges and universities as if they were a tuition or state support dollar. Almost 80 percent of the expenses (excluding tuition mitigation) have occurred within instruction and academic support. The funds have been used to support tuition mitigation for fall term, instruction and instruction-related salaries, supplies, and equipment, academic computing, faculty sabbaticals, and faculty and staff retirement costs.

2012-2013 Biennium

The 2009 Omnibus Higher Education bill established a base funding level for the system of $655 million of appropriation each year over the 2012-2013 biennium for a total of $1.31 billion. With the state now projecting a budget shortfall of $5.4 billion in the next biennium, it seems imprudent for the system to plan for that level of appropriation. The system represents 3.9 percent of the state's general operating budget. Depending on actions taken by the Governor and/or Legislature to solve the budget deficit (i.e., all in expense reductions or a combination of tax increases and expense reductions), the impact to the system could be from $105 million to $210 million reduction in appropriation over the next biennium.

The colleges and universities have been directed to begin the 2012-2013 biennium budget planning process assuming fiscal year 2006 level of funding at $605 million. Budget scenarios can be modeled to estimate the impact of any further reductions in the 2012-2013 biennium. The CPI referenced in the state's economic outlook will be used by the colleges and universities to estimate inflationary cost increases; 2.1 percent for fiscal year 2012 and 1.9 percent for fiscal year 2013.

Next steps

The Office of the Chancellor and the colleges and universities will continue with their multi-year budget planning process and with consultation with their campus communities. The Office of the Legislative Auditor is expected to release its study of the Office of the Chancellor services in late January-early February. That report will be carefully reviewed with the Board of Trustees and the Leadership Council for insight into future organizational planning and budgeting. Over the next several months, the Chancellor will also look to the Leadership Council for direction in identifying resources that could be reprogrammed toward the fiscal year 2011 appropriation reductions. The Chancellor will continue consultation with system constituents and will provide updates on the budget planning process to the Finance, Facilities, and Technology Committee. Action on the fiscal year 2011 operating budget is scheduled for the April and May 2010 meetings of the Board of Trustees.

The 2010 legislative session will begin in February, and three more economic forecasts will be released that impact the current and upcoming biennia - February 2010, November 2010, and February 2011.

Date Presented to the Board: January 20, 2010

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: Update on Enterprise Technology Investment Plan

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

☒ Information

Cite policy requirement, or explain why item is on the Board agenda: The Committee has assumed oversight of the IT Division. This report is intended to be the first of periodic updates of the work of the division.

Scheduled Presenter(s): Carolyn Parnell, Interim Vice Chancellor for Information Technology – Chief Information Officer

Outline of Key Points/Policy Issues: Interim Vice Chancellor Parnell will present a review of the current status of the information technology division's investments progress, risks and issues.

Background Information: This report provides an update on the progress in implementing the Enterprise Investment Plan and an overview of current project status and challenges.

BOARD OF TRUSTEES
MINNESOTA STATE COLLEGES AND UNIVERSITIES

INFORMATION ITEM
Update on Enterprise Technology Investment Plan

BACKGROUND

In 2006, Minnesota State Colleges and Universities leadership recognized the need to develop a long-term strategy for IT investments. An objective, third-party assessment recommended an investment plan which resulted in the development of the "2006 ITS Investment Strategy Report". The report was the basis for the FY08-FY09 Legislative funding request which garnered wide support from students, faculty and staff.

Under the auspices of the Enterprise Investment Committee the legislative appropriation has been used to strengthen the technology network foundation, enhance local campus networks and wireless networks, improve security and identity management and upgrade and expand online services to all users. The system has invested in the replacement of aging technology infrastructure; the hiring staff with sophisticated IT skills to re-engineer networks and tools; and improving campus technology infrastructure.

The report is intended to provide an update of the division's work. Committee discussion is invited.

Date Presented to the Board: January 20, 2010

ITS Review 2009

Approach to Campus Collaboration and Communication

- **Measurement**
- **Transparency**
- **Accountability**

A Deliberate, Planned Solution

- In 2006, MnSCU leadership recognized the need to develop a long-term strategy for IT investments
- Obtained an objective, third-party assessment and recommended investment plan
- Resulted in the development of the “2006 ITS Investment Strategy Report”
  - Fed into the operating budget development process
  - Basis for the FY08-FY09 Legislative funding request
- Garnered wide support from students, faculty and staff
- Approved by Board and Presidents

Slide 2

Benchmarks

- In FY2006 MnSCU enterprise level IT spending lagged comparable institutions

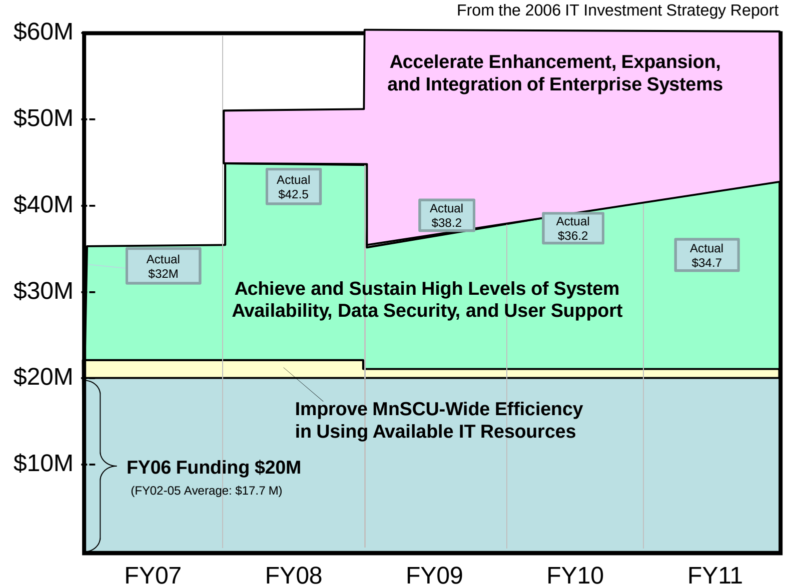
	FY2006 MnSCU	FY2006 Average of 5 Other Institutions	FY2010 MnSCU
Campuses	53	9	54
Student Headcount	373,115	93,354	382,061
Total Operation Budget	$1.4B	$2.2B	$1.8B
Enterprise Level IT Expenditures	$17.7M	$21.8M	$36.8M
% of Total Operating Budget	1.3%	1.25%	1.94%
$ Per Student	**$47**	**$793**	**$96**
$ Per Campus	$0.32M	$4.9M	$0.68M

Source: 2006 Enterprise and Campus IT Investment Survey of Selected Higher Education Systems

Slide 3

Recommended IT Investment Strategy

From the 2006 IT Investment Strategy Report



Slide 4

Legislative Request

Four Major Goals:

- Provide easy and reliable access to the technology network and tools, including round-the-clock availability for students, faculty and staff
- Significantly enhance protection against security breaches
- Modernize software for student records, finance and human resources to streamline access and provide up-to-date functionality
- Make it easier and faster for students, faculty and staff to complete computer-related tasks

Through:

- Strengthening technology network foundation
- Enhancing local campus networks and wireless networks
- Improving security and identity management
- Upgrading and expanding online services to all users

By Investing In:

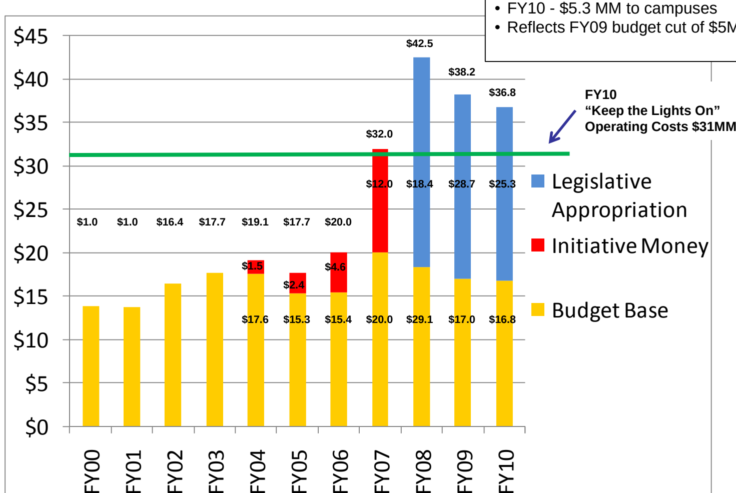
- Replacement of aging technology infrastructure
- Hiring staff with sophisticated IT skills to re-engineer networks and tools
- Improving campus technology infrastructure

Slide 5

Enterprise Technology Funding

$ Million

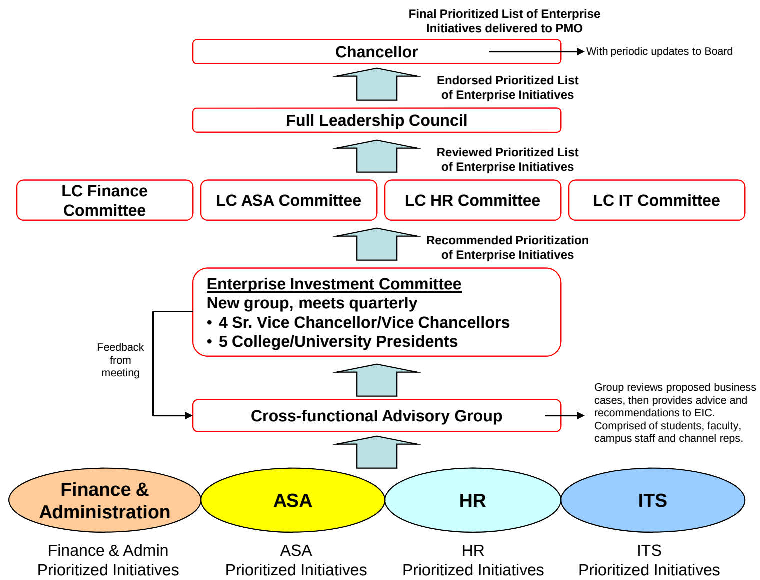
Excludes the following:
- FY08 - $5.0 MM to campuses
- FY09 - $7.5 MM to campuses
- FY10 - $5.3 MM to campuses
- Reflects FY09 budget cut of $5MM



projected

Slide 6

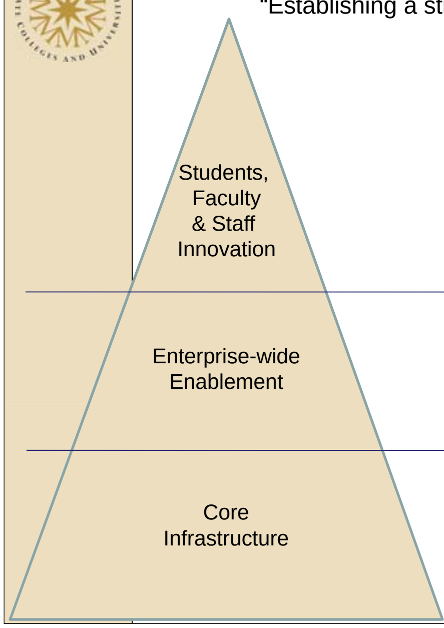
The Enterprise Investment Management Process



Slide 7

Completed Projects – 2007-2009

"Establishing a strong technology foundation to build upon"

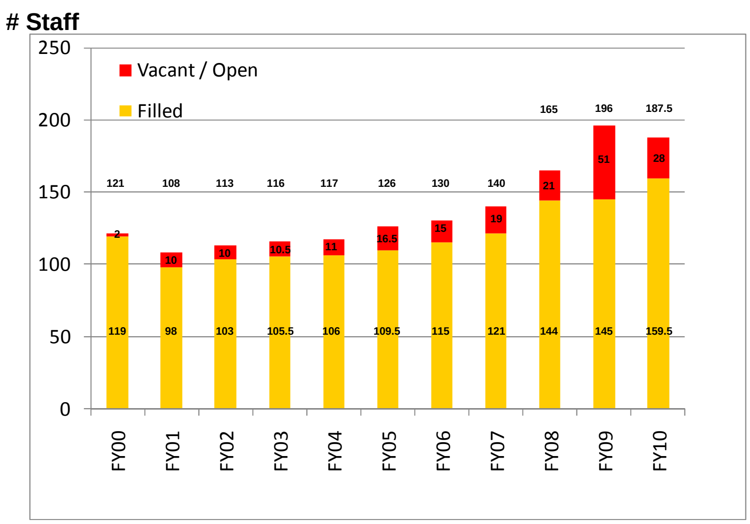


- Diploma transfer for H.S. Students
- REGIS
- ISRS Communications Module
- GPS Lifeplan
- eFolio
- Gaming and Simulation Development
- Continued Learning Objects Development
- iSeek Business Solutions
- Web Aid Apply, Failure Notification, Last Date of Attendance, Satisfactory Academic Progress
- Online Library Access and Development
- DARS/CAS
- Student Housing Module Rewrite
- Farm and Small Business Management Web Sites
- Star Alert
- Faculty Credentialing
- Electronic Medical Records/ATHENS
- Seamless Core - Data
- eTranscript
- Fall Readiness Program
- Security Training for Campus Technical Staff
- Action Analytics
- PCIDSS Standards

- PMO
- Refine and ratify IT governance
- Update Website Design/Collage
- Identity and Access Management
- CAP Application Migration
- Quality Assurance Improvements
- APPS
- Unifier
- Campus Reporting Enhancements
- Prinsys
- Budget Module
- APPS Project – BI Improvement
- Unifier/PMIS Integration
- Reporting Enhancements for Campuses
- Budget Module Phase I & II
- eTimesheets
- Reporting Enhancements for Campuses
- Applicant Tracking
- Public Affairs Next-Generation Web Site
- Support Labor Relations and Grievance Management
- Total Compensation Module
- Classification and Compensation
- Tuition Waiver App
- QA Operationalized
- Web App Security Pilot

- Redundant Network Paths
- Hardware upgrade –Tape Library
- Hardware upgrade – Storage Area Network
- Failover Capability D2L
- Enterprise Performance Monitoring Tools
- Secondary Data Center
- Firewall Replacement
- Security Event Monitoring
- Security Assessment Instruments
- Vulnerability Management
- Incident Response
- RDT to Oracle Conversion ISRS
- Oracle Conversion Replication Database
- Uniface to J2EE Conversion – HR
- ISRS Load/Capacity Performance Tests
- WAN Router Upgrade (40 Routers)
- Bandwidth Increase
- Upgrade Logging/Analysis for WAN and Data Center

Enterprise Technology Staff

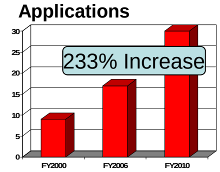


Note: Staffing numbers reflect levels at the beginning of the fiscal year, unless otherwise noted

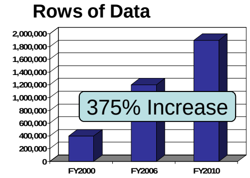
As of 12/23/09

ITS Metrics Comparison
FY2000 – FY2010

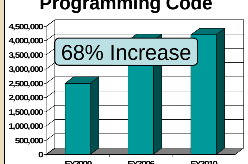
Enterprise Software Applications



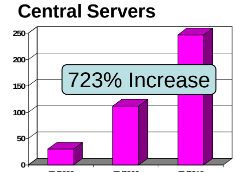
Production Database Rows of Data



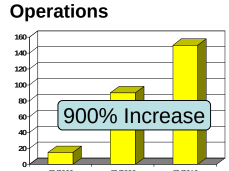
Lines of ISRS Programming Code



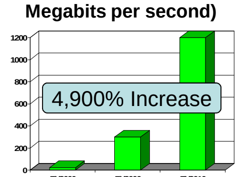
Critical Function Central Servers



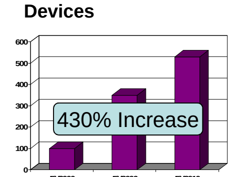
Servers with 24/7 Operations



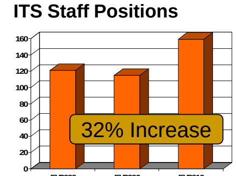
Network Bandwidth (in Megabits per second)



Network Hardware Devices



ITS Staff Positions



As of 12/31/09

EIC Approved Work Plan FY2010

Project	Funding Allocation
Action Analytics	$ 215,000
Identity and Access Management	$ 800,000
Secondary Data Center	$ 750,000
Security Program	$ 500,000
Students First	$ 1,500,000
Total FY10 Enterprise ITS Investment Funding	**$ 3,765,000**

Slide 11

ISRS Features

- One of the largest single higher education databases in the country
- 1.7 billion rows of data
- Handles up to 50,000 simultaneous queries per second
- Processes more than 100,000 transactions per hour
- Manages a database of information on more than 6 million unique persons
- Processes over 27 million financial transactions each year
- Produces the payroll for 22,000 student employees and manages the HR/Payroll for 45,000 employees
- Runs more than 1000 user defined jobs each night
- Manages set up and registration for more than 3 million courses each academic year
- Processes hundreds of millions of dollars in student tuition and fee payments
- Processes $169,000,000 in credit card payments each year
- Distributes more than $941,565,000 to students for scholarships, loans and aid
- “Serves up” 2 million web application pages in a single day
- Produces almost 12,000 reports per day for ISRS users during prime time alone, and over a quarter million report and batch jobs each month
- Produces 247,000 1098s in a typical year
- Accounts for 28.5 billion dollars of financial activity in a year

Slide 12

ISRS Modules

- Prospective Inquiry
- Application
- Admissions
- Registration
- Student Housing
- Assessment/Test Scores
- Disability Services
- Transcript
- Grades
- Curriculum
- Financial Aid
- Accounting
- Budgeting
- Financial Reporting
- Purchasing
- Payroll
- Cost Allocation
- Equipment/Fixed Assets
- Inventory
- Assets
- Accounts Payable
- Direct Deposit
- Check Writing
- Accounts Receivable
- Collections
- Online Payment
- Payment Plan Interface
- Prepayments
- Third Party Billing
- Tuition Waiver
- Timesheet
- HR Licensure
- HR

Slide 13

Current ITS Budget

Services	Total Expenses 2009	% of Total
Direct to Students	$ 11,289,884	25.21%
System Office (OOC)	$ 3,677,830	8.21%
Institutions/Campuses	$ 26,626,032	59.45%
State of MN	$ 426,594	.95%
Beyond Students	$ 2,768,002	6.18%
Totals	$ 44,788.345	100%

Slide 14

ITS 2009 KDV Security Audit

Finding:

- Significant deficiencies leading to material weakness due to inaction on prior audit items

Plan for Resolution:

- Assign responsibility for each prior finding (completed)
- Rigorous review monthly with accountability for action plan and time to resolution
- Written progress report to the Chancellor monthly

Slide 15

Looking Forward – FY11

- Cognizant of current economic environment and ongoing budget constraints
- Continuing pressure from Legislature and Board to further improve efficiency and effectiveness of operations
- Continue to implement solutions that benefit students, faculty and staff
- Continue measurement, transparency, accountability

Slide 16

Looking Forward – FY11

Strengths:

- Key technical infrastructure improvements have now positioned the organization to undertake projects that will provide even greater benefits to students, faculty, staff
- More appropriate staffing and accompanying skill-set upgrades
- Broad support for FY2011 Work Plan and Students First

Challenges:

- Budget constraints and reduction
- Demand continues to escalate – both in quantity of requests and size of scope
- Competing demands for resources
- Delivery and support of new services directly impact the ongoing ITS budget
- The cost to ‘keep the lights on’ will increase every year (currently $31M)

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: FY2009 and FY2008 Audited Financial Statements

☐ Proposed Policy Change ☐ Approvals Required by Policy ☐ Other Approvals ☐ Monitoring

☒ Information

Cite policy requirement, or explain why item is on the Board agenda: The purpose of this Board report is to present to the Finance, Facilities and Technology Committee of the Board of Trustees the audited financial report for the Minnesota State Colleges and Universities for the year ending June 30th 2009 and 2008 and the results of individual institutions financial statement audits.

Scheduled Presenter(s): Laura M. King, Vice Chancellor - Chief Financial Officer
Tim Stoddard, Assistant Vice Chancellor Financial Reporting

Outline of Key Points/Policy Issues: The system wide audit, revenue fund audit and the twelve individual college and university audits received unqualified opinion letters from the respective audit firms. The opinion letters provide the Board and other users of the financial statements with assurance that the information is accurate and reliable in all material respects.

FY2009 operating results yielded a modest improvement in financial position at June 30, 2009. Net assets increased $107 million or 7.4 percent; the increase was due to FY2009 capital appropriation revenue of $107 million that funded capital asset investment, preservation and replacement. Income before other revenues, expenses, gains or losses, also termed “net operating revenue,” decreased from a positive $8 million in FY 2008 to a negative ($9) million in FY 2009. This negative net operating revenue is the net of $1,734 million of operating and nonoperating revenues less $1,743 million of operating and nonoperating expenses.

The Statements of Net Assets, often referred to as the balance sheet, mirror the year’s financial results with modest growth in assets and liabilities during FY2009. The Primary Reserve measure remained constant at 2.5 months of operating expenses for the third consecutive year.

Background Information: The financial statements were prepared by the Finance division of the Office of the Chancellor with the assistance of the campus Finance departments and have been audited by the firm of Kern, DeWenter, Viere, Ltd.

BOARD OF TRUSTEES
MINNESOTA STATE COLLEGES AND UNIVERSITIES

INFORMATION ITEM

FY2009 Audited Financial Statements

BACKGROUND

The purpose of this Board report is to present to the Finance, Facilities and Technology committee of the Board of Trustees the audited, consolidated financial statements for the Minnesota State Colleges and Universities for the years ending June 30, 2009 and 2008. These financial statements were prepared by the Finance division of the Office of the Chancellor with the assistance of the campus Finance departments and have been audited by the firm of Kern, DeWenter, Viere, Ltd. This is the last year of a second consecutive three year contract with Kern, DeWenter, Viere, Ltd. as the system auditor. These statements were presented to the Audit Committee by the Finance division and Kern, DeWenter, Viere, Ltd., at the November 18, 2009 Audit Committee meeting.

AUDIT RESULTS

The system wide audit, revenue fund audit and the twelve individual college and university audits received unqualified opinion letters from the respective audit firms. The opinion letters provide the Board and other users of the financial statements with assurance that the information is accurate and reliable in all material respects.

The three external audit firms presented their respective results of audits, including audit opinions, internal control matters and other required communications at the November 18 Audit Committee meeting. In addition, the three audit firms communicated results of internal control assessments in writing to the Board of Trustees.

In the Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, Kern, DeWenter, Viere, Ltd, cited two significant internal control deficiencies. A “significant deficiency” is an internal control deficiency or combination of deficiencies that based on auditor judgment may have more than a remote likelihood of failing to prevent or detect a misstatement that is more than inconsequential to the financial statements. It is important to note that no financial statement errors were detected due to these deficiencies nor were any financial statement adjustments proposed or processed. The two significant deficiencies cited follow:

Significant deficiency 2009-01 Systemwide Information Technology:

Condition: "MnSCU has not fully developed a process to adequately address prior year Information Technology comments that are essential to data security and business continuity in a timely manner, and MnSCU has not implemented adequate user level security over current web application environments."

Recommentation: Kern, DeWenter, Viere, Ltd, recommend "MnSCU develop a comprehensive process for addressing Information Technology comments. The process should categorize, prioritize, assign responsibility, establish timelines and monitor results to ensure resolution of these comments."

Management's Response: The Office of the Chancellor will develop a comprehensive reporting process to ensure Information Technology audit comments are resolved in a timely manner.

Significant deficiency 2009-02 Reconciliation of Local Campus Bank Accounts:

Condition: "MnSCU has not reconciled all local campus bank accounts in a timely and accurate manner at June 30, 2009."

Recommendation: Kern, DeWenter, Viere, Ltd, recommend "that all campus local bank accounts be reconciled on a timely basis. To accomplish this recommendation, we recommend additional training be provided at the campus level to accurately complete bank reconciliations in a timely manner, and that the Office of Chancellor continue to monitor timely reconciliation compliance and reporting. We also recommend that the Office of Chancellor consider allocating additional resources to assist in the reconciliation process through increased campus assistance or coordination of shared campus services."

Management's Response: The Office of the Chancellor will work with the Colleges and Universities to reconcile all local bank accounts on a timely basis and consider allocating additional resources to the campuses if necessary.

Kern, DeWenter, Viere, Ltd, also issued a separate management letter for the system wide statements. This letter contained comments on matters deemed less significant under audit standards including internal controls, accounting, administration and operating matters. Management agrees with and will take the necessary steps to respond to the observations made in the management letter.

The Revenue Fund and twelve individual college and university financial statements have been incorporated into the consolidated system wide financial statements along with the financial statements of the unaudited colleges. The Audit Committee members spent considerable individual time reviewing the various annual financial reports prior to the formal meeting. The two hour formal Audit Committee meeting generated good discussion based on Trustees' questions. The Audit Committee recommended release of the audited statements, a motion that was approved by the full Board of Trustees at the November 19, 2008 meeting.

All audited financial reports may be viewed on the system's website at:
http://www.finance.mnscu.edu/accounting/financialstatements/index.html

INFORMATION

The system wide financial report for fiscal years 2009 and 2008 is presented in accordance with Statement No. 35 *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities* as established by the Governmental Accounting Standards Board (GASB). The system's financial information is presented in one column form as a "Business Type Activity". The resources are still governed by the governmental fund based principles and continue to be accounted for in the general, special revenue, enterprise, and revenue funds. Fund level information can be found in the financial statement supplemental schedules contained in a separate report (unaudited) titled "*Supplement to the Annual Financial Report for the year ended June 30, 2009*." This supplemental report also contains financial statements for each college and university.

All university foundations plus the Century College Foundation and Fergus Area College Foundation are separately included in the related institutions' financial reports and the system's financial report. Reporting standards require the inclusion of component entities if found to be "significant" to the primary organization. The foundations and their auditors are very cooperative in adjusting their audit schedules in order to conform to the system's financial reporting audit schedule.

Summary of Financial Results

Fiscal year 2009 operating results yielded another modest improvement in financial position at June 30, 2009 despite a small net operating revenue loss.

- Net assets increased $106.8 million or 7.4 percent; most of the increase was due to fiscal year 2009 capital appropriation revenue of $106.7 million that funded capital asset investment, preservation and replacement.
- Income before other revenues, expenses, gains or losses, also termed "net operating revenue" further below, decreased from a positive $8.4 million in fiscal year 2008 to a loss of $(9.3) million in fiscal year 2009. This net operating revenue loss is the net of $1,734.3 million of operating and nonoperating revenues less $1,743.6 million of operating and nonoperating expenses.
- Capital appropriation revenue of $106.7 million plus other capital asset related revenue offset the $(9.3) million net operating revenue loss and generated a change in

net assets of $106.8 million, a slight decrease from the $119.9 million change in net assets generated in fiscal year 2008.

Consolidated Statements of Net Assets

The primary driver of change within the Statements of Net Assets between June 30, 2009 and 2008 is capital asset development and renewal activity related to the system's 26 million plus square feet of academic and administrative buildings.

- New construction in progress of $192.4 million was the primary factor increasing the capital assets balance, net of depreciation, by $132.8 million
- Capital asset financing came primarily from $106.7 million of capital appropriation and $71.0 million of new long-term debt
- Net assets (e.g., net worth) increased $106.8 million including a $92.2 million increase in net assets invested in capital assets, net of related debt

Consolidated Statements of Revenues, Expenses and Changes in Net Assets

Fiscal year 2009 operating expenses of $1,717.3 million averaged $4.7 million per day when divided by 365 days. Looking at the operating expense number in relation to liquid assets, the system's $572.3 million of unrestricted cash and equivalents plus unrestricted investments would be adequate to cover approximately 4.2 months of expenses, a decrease of 0.3 months from fiscal year 2008.

- Revenue sources funding operations included $743.2 million of state appropriation and grants, $730.1 million of student payments, net, $216.5 million of federal grants, and $44.5 million of other revenue
- Expenses supporting operations included $1,224.8 million of compensation, $220.5 million of purchased services (utilities, enterprise and other IT support, etc.), $89.6 million of supplies, $83.0 million of depreciation and other expenses of $125.7 million

Measuring Financial Health-- Composite Financial Index (CFI)

What is CFI?

The Composite Financial Index calculation uses four financial ratios and assigns a specific weighting to each factor in computing a single, composite measure of financial health. The CFI methodology is contained within the *Strategic Financial Analysis for Higher Education* (Sixth Addition), jointly developed and sponsored by the firms of Prager, Sealy & Co., LLC, KPMG LLP and BearingPoint, Inc. This CFI calculation methodology is also used by the Higher Learning Commission as a gauge of member institutions' financial health. Without detailing the actual calculation methodology, financial ratio values are converted into strength factors which in turn are weighted to allow summing of the four components into a single, composite value.

The *primary reserve ratio* and *viability ratio* are measures of financial condition based on expendable net assets found on the Statement of Net Assets with each weighted 35 percent in the composite calculation. The *net operating revenues ratio* and *return on net assets ratio* are measures of financial performance based on results contained within the statements of revenues, expenses, and changes in net assets and are weighted 10 percent and 20 percent, respectively.

Institutions may have differing values across the four component ratios but still have equivalent overall financial health as indicated by similar composite scores. This approach allows easy comparisons of relative financial health across different institutions. Looking at the composite scores, *Strategic Financial Analysis for Higher Education* suggests a composite value of 1.0 is equivalent to very little financial health, in the for-profit world it could perhaps be viewed as a "going-concern" threshold value, while a composite value of 3.0 is considered to signify relatively strong financial health, an organization with moderate capacity to deal with adversity or invest in innovation and opportunity. CFI scores greater than 3.0 represent increasingly stronger financial health.

Is CFI new to the System?

The System started using CFI as an internal measure of financial health about five years ago. Colleges and universities incorporate CFI and other measures as deemed pertinent, including non-financial information, to prepare an annual "Financial Trends and Highlights" presentation. Audited colleges and universities present this annual assessment as part of the external audit exit meeting. Colleges not subject to external audit present the same assessment at one of several meetings where college leadership for 3 – 5 colleges plus system office finance personnel meet using a round-table discussion format. These have proven to be good learning and sharing opportunities.

November's Audit Committee meeting included a high-level discussion of CFI, and the System's Annual Financial Report for the Years Ended June 30, 2009 and 2008 included much of the CFI information that follows within the Management Discussion and Analysis.

Before looking at comparative CFI data and individual financial ratio values, the table below uses the System's fiscal year 2009 ratios and presents the CFI calculation, which first converts ratio values to strength factor values [(1)/(2)], applying the weighting factors to determine weighted strength factor values [(3)*(4)] and finally summing weighted strength factors to arrive at the composite value of CFI. It should be noted that the table also shows System CFI including the nine foundations presented separately in the System's annual financial report.

CFI Calculation Matrix					
Calculation step	Primary Reserve	Return on Net Assets	Viability	Net Operating Revenue [1]	CFI
(1) **FY2009 System Ratio values**	**0.208**	**0.074**	**0.788**	**(0.005)**	n/a
(2) Base Strength factor (set)[2]	0.133	0.02	0.417	0.007	n/a
(3) = [(1) ÷ (2)] Computed Strength factor [3]	**1.56**	**3.70**	**1.89**	**(0.77)**	n/a
(4) Weighting factor (set)	0.35	0.20	0.35	0.10	1.00
Weighted value—					
System	**0.55**	**0.74**	**0.66**	**(0.08)**	**1.87**
System with 9 Foundations	**0.55**	**0.55**	**0.62**	**(0.10)**	**1.62**

[1] Also called Operating Margin ratio
[2] A standard, fixed base value denoting a border-line or minimal level of financial health ("going concern").
[3] Following HLC protocol, these values are capped at -1.0 for and + 10.0 for computed strength factor values below -1.0 or above +10.0.

How does the System's financial health compare to other public institutions?

The FY 2008 values in the Composite Financial Index (CFI) Comparisons table below are computed from ratio values contained in *Moody's Fiscal Year 2008 Public College and University Medians* report and as such represent median values for 191 public colleges and universities rated (in whole or in part) within Moody's public college and university portfolio. Fiscal year 2009 public college and university financial data is not available as yet. Rated components range from large state higher education systems to small public colleges and universities. Ratings may also be for a segment of a system or institution such as the System's Revenue Fund, which is falls within the "Aa3" rating below.

The letter-based credit rating designations in the CFI comparison table below are defined and used by Moody's Investors Services. All ratings denote creditworthiness relative to other US municipal or tax-exempt issuers or issues. The relative credit worthiness is: Aaa = strongest, Aa = very strong, A = above average and Baa = average.

The System's and Revenue Fund's weighted components' and composite values are compared below with those of the various rating categories extracted from the Moody's median report. Required calculations have been made by the System using four specific Moody's median financial ratio values for each rating category and for the population as a whole. This information should only be used as an approximate indicator of the System's financial health relative to the financial health of other public colleges and universities. The System's individual colleges and universities show a similar range of composite values.

Composite Financial Index (CFI) Comparisons											
Financial Performance Measure	FY09 System* & Revenue Fund		Moody's 2008 Public College/University Medians - Converted to Weighted Values and Composite Statutory Income (CFI)								
	System *	Revenue Fund	All	Aaa/ Aa1	Aa2	Aa3	A1	A2	A3	Baa
Primary Reserve	0.55	2.24	1.18	2.61	1.42	1.26	1.39	1.08	0.82	0.53
Viability	0.62	0.31	0.84	1.85	1.43	1.01	0.76	0.50	0.34	0.25
Net Operating Revenue	(0.10)	1.00	0.26	0.60	0.43	0.41	0.20	0.10	0.23	(0.10)
Return on Net Assets	0.55	0.62	0.40	0.32	0.32	0.41	0.40	0.42	0.54	(0.20)
CFI	1.62	4.17	2.68	5.37	3.60	3.09	2.75	2.10	1.92	0.48

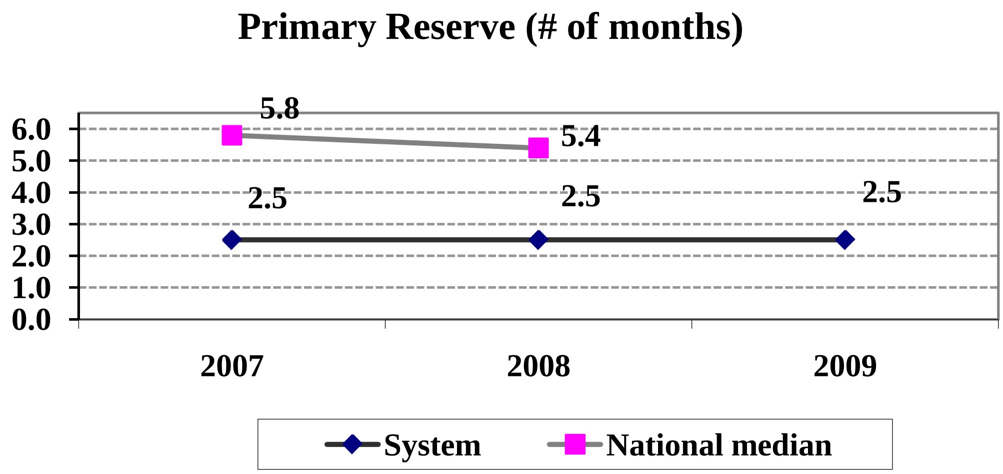
- The shaded cells link System values to the closest value(s) within a credit rating category

* Consistent with Moody's underlying ratios the System's individual and composite (CFI) values include component units; **component units reduced CFI from 1.87 to 1.62 due primarily to the foundations' collective realized and unrealized losses on investments**.

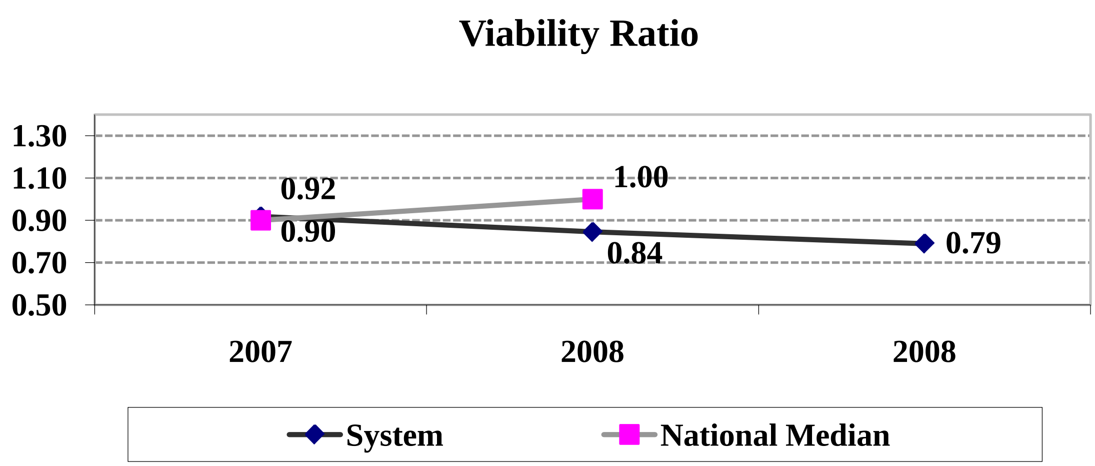
Summary ratios for FY2009, FY2008 and FY2007

The system-wide financial ratios and other measures presented below are generally consistent with prior years' presentations. The focus this year is on the four financial ratios used in computing CFI. The "National Median" data is taken from *Moody's Fiscal Year 2008 Public College and University Medians* report. All System ratios are computed using financial data taken from the accrual financial statements. *Note: Higher values are deemed better for all ratios presented.* The *Supplement to the Annual Financial Report* may be examined to view individual college and university financial statements (http://www.finance.mnscu.edu/accounting/financialstatements/yearendstatements/index.html).

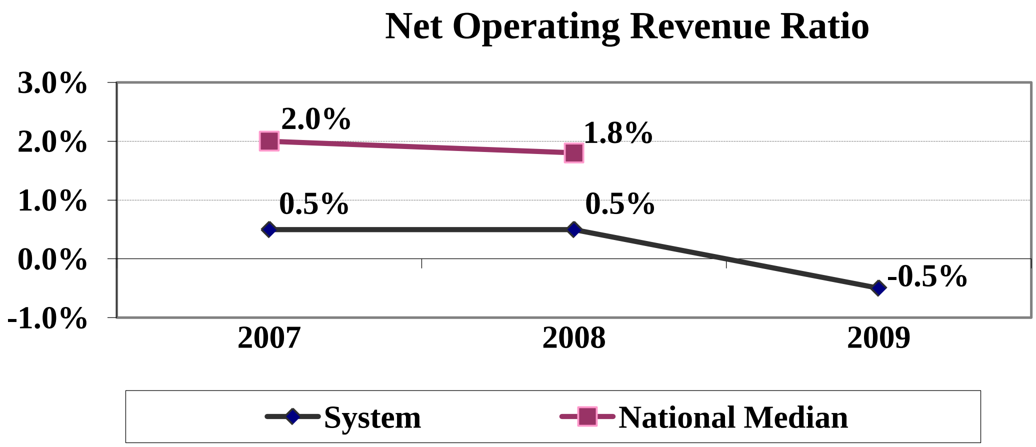
Moody's national data population includes a wide range of rated public institutions, including Research I institutions, but does not include two-year colleges (except for those included in a system) and so is not strictly comparable in all respects to the Minnesota State Colleges & Universities system. In addition, the Moody's data include component units (e.g., foundations) while the System data does not include foundations.



The number of months of primary reserve values shown above measure capacity to fund operating expenses without generating new assets such as could happen due to a significant business interruption event. This is an accrual measure somewhat similar in concept to the Board's "budget reserve" ratio. An increasing primary reserve measure indicates that expendable (restricted and unrestricted) net assets have increased from one year to the next at a greater pace than the growth in operating expenses.

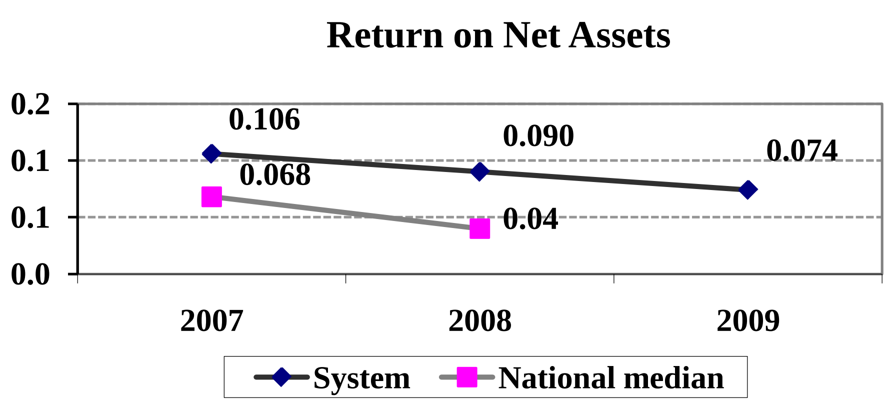


The viability ratio above is a debt management measure that demonstrates the extent to which outstanding debt (current and noncurrent portions of bond debt, capital lease debt and notes payable) as of June 30, 2009 could have been settled through use of expendable net assets (the same numerator as used to compute the primary reserve ratio above). A value of 1.0 or greater indicates the ability to settle all debt. Decreases in the ratio for the years presented below indicate that the System has not been able to increase expendable net assets at a rate equal to or greater than the approximate 33 percent increase in debt from June 30, 2007 to June 30, 2009.



The net operating revenues ratio above (sometimes referred to as the operating margin ratio) is a measure of the surplus or deficit generated by on-going operations and as such impacts the other three ratios through increasing or decreasing net assets. Net operating revenue totaled ($9.3) million, $8.4 million and $7.1 million, respectively, in fiscal years 2009, 2008 and 2007. This is the "Income (Loss) Before Other Revenues, Expenses, Gains, or Losses" line found on the statements of revenues, expenses, and changes in net assets.

Comparing the fiscal year 2008 median value of 1.8 percent and the fiscal year 2009 System value of -0.5 percent in the graph above, the median value represents $18,000 income per $1,000,000 of operating revenue while the System value represents $5,000 (loss) per $1,000,000 of operating revenue. To equal the 2008 Moody's national median of 1.8%, the system would have required positive net operating revenue of $31.2 million for fiscal year 2009.



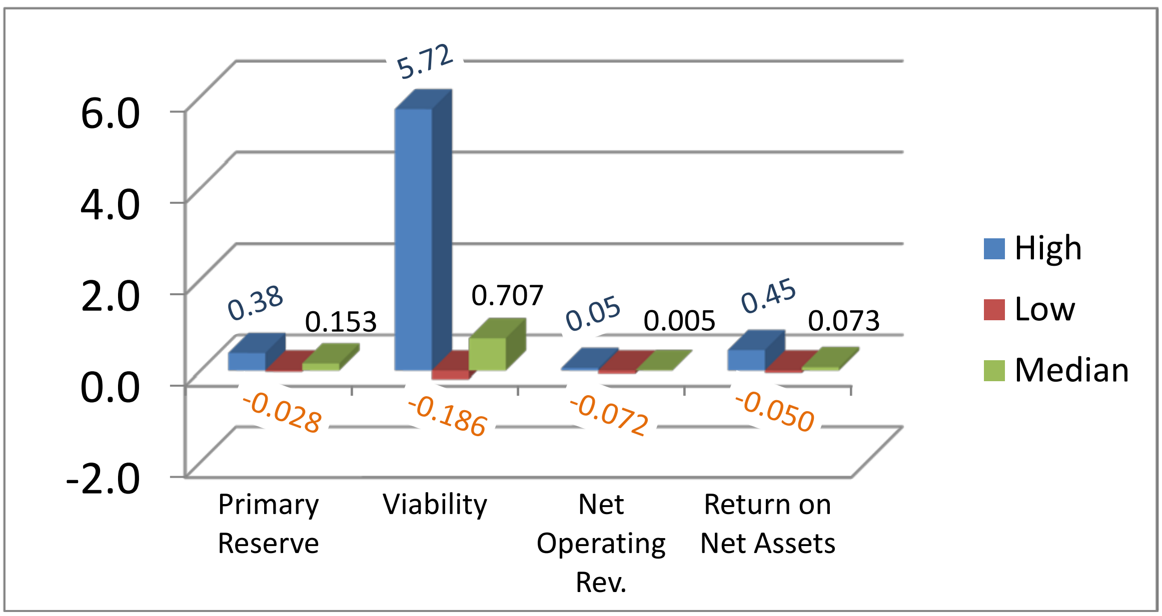
The return on net assets ratio above is in many respects a measure of financial stewardship. Given the assets available at the start of the fiscal year, has financial position improved or deteriorated as measured by the change in net assets line on the statements of revenues, expenses, and changes in net assets?

The System's return on net assets ratio is positively impacted by the state's financing of a significant portion of the System's buildings, building improvements, repairs and renovations, which has generated capital appropriation revenue of $106.7 million, $102.1 million, and $117.2 million in fiscal years 2009, 2008, and 2007, respectively. Capital appropriation is the reason for the significant difference between the System's net operating revenue ratio below and the return on net assets ratio. Without capital appropriation revenue, the System would need to generate equivalent net operating revenue through higher tuition and state operating appropriation or seek authority to issue equivalent debt.

Ratio Variability across Colleges and Universities

The graph below shows the broad ranges of individual CFI financial ratio values across all the colleges and universities. The primary reserve data is presented as a ratio; the equivalent number of months is computed by multiplying the ratio value times 12 (e.g., 0.38 x 12 = 4.6 months). The viability ratio value of 5.72 relates to a college with extremely low debt and as such is an outlier as the next highest value is 2.94.

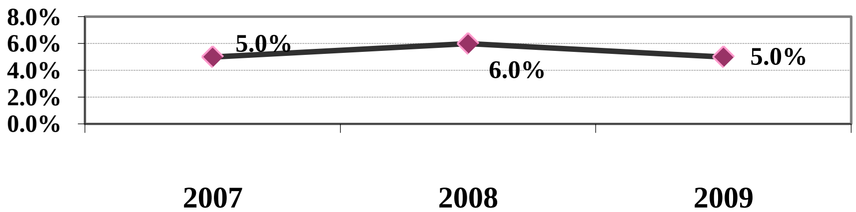
Variability in Fiscal Year 2009 Colleges' and Universities' Financial Ratios



Other Financial Measures for FY 2009, FY2008 and FY2007

The Board required reserve ratio below compares general fund cash-basis operating revenues to that portion of the general fund's end-of-year cash balance that has been designated as a special reserve amount; this is the total for all colleges & universities. The figure of 5 percent for fiscal year 2009 represents $74.5 million. The primary reserve measure discussed further above is somewhat similar in concept but is an all funds accrual-based measure computing the number of months of operating expenses covered by expendable net assets.

Board Required Reserve--Total Colleges & Universities



As shown below, 15 of the system's 32 colleges and universities continue to generate negative net operating revenues using a generally accepted accounting principles measurement; this compares to 19 colleges and universities in fiscal year 2008. However it should also be noted that the consolidated net operating revenue declined from a positive $8.4 million in fiscal year 2008 to a negative $9.3 million in fiscal year 2009. Of the 15 colleges and universities with negative net operating revenue in fiscal year 2009, 10 had negative net operating revenue in all three fiscal years shown above. Ongoing operating deficits negatively impact the ability of these institutions to maintain normal operations under adverse economic circumstances, such as the current recession, or implement new strategic initiatives. Negative unrestricted net assets generally indicate a college or university has experienced ongoing operating deficits. A Board reserve at less than 3 percent can also be an indicator of poor financial condition.

	FY2009		FY2008		FY2007	
	#	%	#	%	#	%
Net operating revenue loss*	15	47%	19	59%	18	56%
Negative unrestricted net assets	1	3%	1	3%	1	3%
Board reserves below 3%	2	6%	2	6%	2	6%

***** As shown in financial statements on line titled "Income (loss) before other revenues, expenses, gains, or losses." The Northeast Higher Education District is considered one college.

CONCLUSION

The system's financial condition improved during FY2009 as measured by the increase in net assets; this reflects the strong financial management exercised by the system's leadership team and continued strong investment in capital assets. The current recession raises significant concerns regarding the ability of state government to maintain future years' funding in the form of appropriation and grant revenue.

- Fiscal year 2009 state appropriation initially exceeded fiscal year 2008 by $17 million; however, the state's projected fiscal year 2009 deficit resulted in a $20 million downward appropriation adjustment.
- Fiscal year 2010 appropriation revenue of approximately $678 million, including one-time federal stimulus funding of approximately $64 million, is expected to exceed fiscal year 2009 revenue by about $15 million.
- Fiscal year 2011 appropriation revenue, including a $50 million appropriation unallotment, is expected to fall approximately $62 million from fiscal year 2010 to approximately $616 million.
- The early December 2009 Minnesota Management and Budget projection includes a $1.2 billion deficit for the FY2010-2011 biennium and $5.4 billion deficit for the FY2012-2013 biennium.

Increases in long-term debt, both general obligation and revenue bond debt, are reflected in a declining viability ratio, and this may continue in future years subject to increases in capital bonding support and Revenue Bond sales. Increases in debt service coupled with declining appropriation revenue may place an additional financial burden on some institutions in future years. Similarly, continued negative net operating revenue at multiple colleges and universities will cause financial stress.

Date Presented to the Board: January 20, 2010

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: Proposed Amendments to Board Policies: Policy 5.13 Information Technology Administration; Policy 5.14 Procurement and Contracts; Policy 5.22 Acceptable Use of Computers and Information Technology Resources; Policy 7.4 Financial Reporting; Policy 7.7 Gifts and Grants Acceptance

- [x] Proposed Policy Change
- [ ] Approvals Required by Policy
- [ ] Other Approvals
- [ ] Monitoring
- [ ] Information

Cite policy requirement, or explain why item is on the Board agenda: Board Policy 1A.1, Part 6, Subpart H, has established that each board policy and system procedure is to be reviewed at least once every five years.

Scheduled Presenter(s): Laura M. King, Vice Chancellor - Chief Financial Officer

Outline of Key Points/Policy Issues:
Board policies and procedures are reviewed to:

1. assure contemporary and responsible business practices are maintained
2. assure the system's current financial and operating control mechanisms are sustained or strengthened
3. assure continuity of operations
4. clarify conflicting or misunderstood information
5. eliminate redundancy

Background Information: The Finance Division is responsible for reviewing and proposing amendments to most board policies in Chapters 5, 6, and 7.

First Reading

BOARD OF TRUSTEES
MINNESOTA STATE COLLEGES AND UNIVERSITIES

BOARD ACTION

Proposed Amendments to Board Policies: Policy 5.13 Information Technology Administration; Policy 5.14 Procurement and Contracts; Policy 5.22 Acceptable Use of Computers and Information Technology Resources; Policy 7.4 Financial Reporting; Policy 7.7 Gifts and Grants Acceptance

BACKGROUND

Board Policy 1A.1, Part 6, Subpart H, has established that each board policy and system procedure is to be reviewed at least once every five years. This purpose of this review is to:

1. assure contemporary and responsible business practices are maintained
2. assure the system's current financial and operating control mechanisms are sustained or strengthened
3. assure continuity of operations
4. clarify conflicting or misunderstood information
5. eliminate redundancy

The following policies contain language and syntax revisions in addition to the specific changes noted.

Policy 5.13, Information Technology Administration
As shown in Attachment A, the proposed amendment to Policy 5.13 Information Technology Administration calls for each college and university to ensure that the information technology planning components of its strategic plan are aligned with system planning goals.

Policy 5.14, Procurement and Contracts
As shown in Attachment B, the proposed amendment to Policy 5.14, Procurement and Contracts will:

1. provide for annual reports on procurement contracts with values greater than \$100,000 upon request;
2. require Board approval for contracts, including amendments, with values greater and \$5,000,000. Currently Board approval is required for contracts with values greater than \$2,000,000;
3. clarify that approval by the Board of Trustees is not required for inter-agency and intra-agency agreements, joint powers agreements that do not create a joint powers board, Minnesota Department of Administration master contracts, Office

of Enterprise Technology master contracts or Minnesota State Colleges and Universities master contracts. Currently, these agreements are not specifically addressed in any Board policy.

Policy 5.22 Acceptable Use of Computers and Information Technology Resources
As shown in Attachment C, the proposed amendment to Policy 5.22, Acceptable Use of Computers and Information Technology Resource, adds "mobile computing devices and multimedia materials" to the list of technical information resources.

Policy 7.4, Financial Reporting
As shown in Attachment D, the proposed amendment to Policy 7.4, Financial Reporting, notes the recent name change of the Department of Finance to Minnesota Management and Budget. The proposed amendment also clarifies that financial statements for individual institutions are designated by Board action. Financial statements will be presented annually to the Board of Trustees for its review and authorization to release.

Policy 7.7, Gifts and Grants Acceptance
As shown in Attachment E, the proposed amendment to Policy 7.7, Gifts and Grants Acceptance provides that the Board of Trustees will be periodically updated on the nature and the amount of all gifts and grants with a value in excess of $50,000 accepted by the colleges, the universities, and the system. The chancellor may also report on other noteworthy gifts and grants. The proposed amendment raises the value of reportable gifts is from $5,000 to $50,000. Colleges and university are required to maintain a list of all gifts and grants for submission each fiscal year to the Office of the Chancellor to be incorporated into a comprehensive report to the Board of Trustees.

RECOMMENDED COMMITTEE ACTION
The Finance, Facilities and Technology Policy Committee recommends the Board of Trustees adopt the following motion:

The Board of Trustees approves amending Policy 5.13 Information Technology Administration; Policy 5.14 Procurement and Contracts; Policy 5.22 Acceptable Use of Computers and Information Technology Resources; Policy 7.4 Financial Reporting; and Policy 7.7 Gifts and Grants Acceptance as shown in Attachments A-E.

RECOMMENDED BOARD ACTION
The Board of Trustees approves amending Policy 5.13 Information Technology Administration; Policy 5.14 Procurement and Contracts; Policy 5.22 Acceptable Use of Computers and Information Technology Resources; Policy 7.4 Financial Reporting; and Policy 7.7 Gifts and Grants Acceptance as shown in Attachments A-E.

Date Presented to the Board: January 20, 2010

BOARD OF TRUSTEES
MINNESOTA STATE COLLEGES AND UNIVERSITIES

BOARD POLICY			**5.13**
Chapter	5	Chapter Name	Administration
Section	5.13	Policy Name	Information Technology Administration

Policy 5.13 Information Technology Administration

Part 1. Authority.
Pursuant to Minnesota Statutes § 136F.581, the Board of Trustees has authority for purchases and contracts consistent with Minnesota Statutes § 471.345, the Uniform Municipal Contracting Law, and other pertinent statutes, as well as the authority to utilize any contracting options available to the commissioner of administration under Minnesota Statutes Chapters 16A, 16B and 16C. It is the policy of the Board of Trustees that contracts, including real property leases, shall not exceed five years, including renewals, unless otherwise provided for by law or approved by the chancellor or the chancellor's designee.

Part 2. Responsibilities.
The state colleges, universities, and ~~office of the chancellor~~Office of the Chancellor are responsible for procurement of necessary goods and services and the implementation of contracts that maximize the use of financial resources~~ at the office of the chancellor and each institution~~.

The system-wide procedures for procurement and contracts shall be consistent with Minnesota Statutes § 471.345, the Uniform Municipal Contracting Law, as applicable, and in compliance with other pertinent state and federal laws. The procedures shall provide detailed instructions for campus and system implementation.

Policies and procedures relating to facilities design and construction contracts are addressed in Board Policy 6.5, Capital Program Planning.

Part 3. Accountability/Reporting.
College and university presidents will be held accountable by the chancellor for complying with state and federal laws, Board policy, and system-wide procedures for all purchases and contracts.

Annual reports on procurement contracts with values greater than ~~$50,000~~$100,000 will be available ~~on the system's Web site and in other formats~~ upon request. ~~Unless otherwise authorized in Board policy, all~~ Ccontracts, including amendments, with values greater than ~~$2,000,000~~$5,000,000 ~~shall require pre-approval~~must be approved in advance by the Board of Trustees~~.~~ except as provided in this policy. Approval by the Board of Trustees is not required for inter-agency and intra-agency agreements, joint powers agreements that do not create a joint powers board, Minnesota Department of Administration master contracts, Office of Enterprise Technology master contracts or Minnesota State Colleges and Universities master contracts.

Date of Implementation: 06/21/00
Date of Adoption: 06/21/00

Date & Subject of Revisions:

06/21/06 - Amended Part 1 removing requirement to report exceptions the Board annually. Other technical changes.

BOARD OF TRUSTEES
MINNESOTA STATE COLLEGES AND UNIVERSITIES

BOARD POLICY			**5.14**
Chapter	5	Chapter Name	Administration
Section	5.14	Policy Name	Procurement and Contracts

Policy 5.14 Procurement and Contracts

Part 1. Authority.
Pursuant to Minnesota Statutes § 136F.581, the Board of Trustees has authority for purchases and contracts consistent with Minnesota Statutes § 471.345, the Uniform Municipal Contracting Law, and other pertinent statutes, as well as the authority to utilize any contracting options available to the commissioner of administration under Minnesota Statutes Chapters 16A, 16B and 16C. It is the policy of the Board of Trustees that contracts, including real property leases, shall not exceed five years, including renewals, unless otherwise provided for by law or approved by the chancellor or the chancellor's designee.

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The state colleges, universities, and ~~office of the chancellor~~Office of the Chancellor are responsible for procurement of necessary goods and services and the implementation of contracts that maximize the use of financial resources~~ at the office of the chancellor and each institution~~.

The system-wide procedures for procurement and contracts shall be consistent with Minnesota Statutes § 471.345, the Uniform Municipal Contracting Law, as applicable, and in compliance with other pertinent state and federal laws. The procedures shall provide detailed instructions for campus and system implementation.

Policies and procedures relating to facilities design and construction contracts are addressed in Board Policy 6.5, Capital Program Planning.

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College and university presidents will be held accountable by the chancellor for complying with state and federal laws, Board policy, and system-wide procedures for all purchases and contracts.

Annual reports on procurement contracts with values greater than ~~$50,000~~$100,000 will be available ~~on the system's Web site and in other formats~~ upon request. ~~Unless otherwise authorized in Board policy, all C~~Contracts, including amendments, with values greater than ~~$2,000,000~~$5,000,000 ~~shall require pre-approval~~must be approved in advance by the Board of Trustees~~.~~ except as provided in this policy. Approval by the Board of Trustees is not required for inter-agency and intra-agency agreements, joint powers agreements that do not create a joint powers board, Minnesota Department of Administration master contracts, Office of Enterprise Technology master contracts or Minnesota State Colleges and Universities master contracts.

Date of Implementation: 06/21/00
Date of Adoption: 06/21/00

Date & Subject of Revisions:

06/21/06 - Amended Part 1 removing requirement to report exceptions the Board annually. Other technical changes.

BOARD OF TRUSTEES
MINNESOTA STATE COLLEGES AND UNIVERSITIES

BOARD POLICY			**5.22**
Chapter 5	Chapter Name	Administration	
Section 5.22	Policy Name	Acceptable Use of Computers and Information Technology Resources	

5.22 Acceptable Use of Computers and Information Technology Resources

Policy Statement. Computer and information technology resources are essential tools in accomplishing the mission of Minnesota State Colleges and Universities and its individual institutions. These resources must be used and managed responsibly in order to ensure their availability for the competing demands of teaching, scholarship, administration and other mission-related uses. This policy establishes responsibilities for acceptable use of Minnesota State Colleges and Universities information technology resources.

Part 1. Purpose.

Subpart A. Acceptable use. System information technology resources are provided for use by currently enrolled system students, administrators, faculty, other employees, and other authorized users. System information technology resources are the property of Minnesota State Colleges and Universities, and are provided for the direct and indirect support of the System's educational, research, service, student and campus life activities, administrative and business purposes, within the limitation of available system technology, financial and human resources. The use of Minnesota State Colleges and Universities information technology is a privilege conditioned on adherence to this policy and any procedures or guidelines adopted pursuant to this policy.

Subpart B. Academic freedom. Nothing in this policy shall be interpreted to expand, diminish or alter academic freedom, articulated under board policy and system collective bargaining agreements, or the terms of any charter establishing a System library as a community or public library.

Part 2. Applicability.

This policy applies to all users of System information technology, whether or not the user is affiliated with Minnesota State Colleges and Universities, and to all uses of those resources, wherever located.

Minnesota State Colleges and Universities is not responsible for any personal or unauthorized use of its resources. Security of data transmitted on its information technology resources cannot be fully guaranteed.

Part 3. Definitions.

Subpart A. System. ~~For purposes of this policy,~~ System means the Board of Trustees, the Office of the Chancellor, the state colleges and universities, and any part or combination thereof.

Subpart B. System information technology. System information technology means all System facilities, technologies, and information resources used for information processing, transfer, storage and communications. This includes, but is not limited to, computer hardware and software, computer labs, classroom technologies such as computer-based instructional management systems, and computing and electronic communications devices and services, such as modems, e-mail, networks, telephones ~~(including cellular)~~, voicemail, facsimile transmissions, video, mobile computing devices, and multimedia materials.

Subpart C. Transmit. Transmit means to send, store, collect, transfer or otherwise alter or affect information technology resources or data contained therein.

Subpart D. User. User means any individual, including, but not limited to, students, administrators, faculty, other employees, volunteers, and other authorized individuals using System information technology in any manner, whether or not the user is affiliated with Minnesota State Colleges and Universities.

Part 4. Scope.

Subpart A. Procedures. The chancellor shall adopt procedures under this policy, including, but not limited to: security; employee use, consistent with Minnesota Statutes section 43A.38 and other applicable law; monitoring; unauthorized uses and other limitations on use.~~; and adoption of college and university procedures.~~

Subpart B. Sanctions. Users who violate this policy or related System, college or university procedures shall be subject to disciplinary action through appropriate channels. Violations may be referred to appropriate law enforcement authorities consistent with applicable law and procedures.

Date of Adoption: 7/16/03
Date of Implementation: 7/16/03

Date & Subject of Revisions:
Original date of implementation: 7/16/03
Original date of adoption: 7/16/03

BOARD OF TRUSTEES
MINNESOTA STATE COLLEGES AND UNIVERSITIES

BOARD POLICY			7.4
Chapter	7	Chapter Name	General Finance Provisions
Section	7.4	Policy Name	Financial Reporting

7.4 Financial Reporting

Part 1. Policy Statement.
It is the policy of the Board of Trustees to provide financial statement information that is accurate, timely, reliable and consistent. Information provided to the state as part of the state-wide financial audit will be of high quality and consistent with standards of excellence. The chancellor and presidents will be dedicated to continuous improvement of financial reporting.

It is the policy of the Board of Trustees to seek ~~progress in the attainment of~~ audited financial statements for the system as a whole and ~~all i~~individual institutions as designated by Board action. To that end, the Board of Trustees has adopted a multi-year audit plan. The chancellor shall periodically advise the Board of progress toward the Board's audit plan.

Part 2. Responsibilities.
All financial reports shall be prepared in accordance with the provisions of Minnesota Statutes, official directives of ~~the Department of Finance~~Minnesota Management and Budget, and in conformity with the guidelines of the Governmental Accounting Standards Board (GASB), and the guidelines of the National Association of College and University Business Officers (NACUBO). The colleges and universities must provide accurate, timely, reliable and consistent financial information necessary for the prudent stewardship of the colleges and universities and for systemwide reporting. The reports shall be approved by the vice chancellor - chief financial officer.

The annual Minnesota State Colleges and Universities financial report shall be prepared under the direction of the vice chancellor - chief financial officer and filed with ~~the Department of Finance~~Minnesota Management and Budget as specified by law and governmental accounting standards.

Part 3. Accountability/Reporting.
Financial statements will be presented annually to the Board of Trustees for its ~~information.~~review and authorization to release.

Date of Implementation: 06/21/00
Date of Adoption: 06/21/00

Date & Subject of Revisions:
06/2003 - changes "MnSCU" to "Minnesota State Colleges and Universities"

BOARD OF TRUSTEES
MINNESOTA STATE COLLEGES AND UNIVERSITIES

BOARD POLICY		7.4
Chapter 7	Chapter Name	General Finance Provisions
Section 7.7	Policy Name	Gifts and Grants Acceptance

7.7. Gifts and Grants Acceptance

Part 1. Authority.
Pursuant to Minnesota Statutes § 136F.80, the Board of Trustees may apply for, receive and accept on behalf of the state and for the benefit of any state college or university any grant, gift, bequest, devise or endowment that any person, firm, corporation, foundation, or association may make to the ~~office~~ Office of the ~~chancellor~~ Chancellor or a college or university or any federal, state, or private money made available for the purpose of providing student financial aid at the colleges and universities. Each gift or grant must be consistent with the college, university or system mission.

Part 2. Responsibility.
Each college and university president is authorized on behalf of the institution to accept gifts and grants made to the institution, other than gifts or grants of real property. All gifts and grants over $50,000 shall be reported to the Board of Trustees.

The chancellor is authorized on behalf of the Board of Trustees to accept gifts and grants made to the ~~office~~ Office of the ~~chancellor~~Chancellor, other than gifts or grants of real property.

All gifts and grants of real property shall be formally accepted by the Board of Trustees and shall be subject to appropriate due diligence and conformance with the campus facilities master plan.

All gifts and grants must be recorded in the Minnesota State Colleges and Universities~~'~~ financial system.

System procedures will include criteria for the acceptance of gifts and grants.

Part 3. Transfer of Gift.
A college or university that receives a gift or bequest as provided in Minnesota Statutes § § 136F.80 and § 136F.81 that is intended for the purposes performed by a foundation approved under Minnesota Statutes § 136F.46 may transfer the money to its foundation, provided the money is used only for public purposes.

Part 4. Accountability/Reporting.
No proposal shall be submitted to any funding authority without the signature of the

president (for institutional grants) or the chancellor (for ~~office~~ Office of the ~~chancellor~~ Chancellor grants), or a person designated by the president or chancellor.

The Board of Trustees will be periodically updated on the nature and the amount of all gifts and grants with a value in excess of ~~$5,000~~$50,000 accepted by the colleges, the universities, and the system. The chancellor may also report on other noteworthy gifts and grants. The colleges and universities shall maintain a list of all gifts and grants for submission each fiscal year to the ~~office~~ Office of the ~~chancellor~~ Chancellor to be incorporated into a comprehensive report to the Board of Trustees.

Date of Implementation: 06/21/00
Date of Adoption: 06/21/00

Date & Subject of Revisions:

06/21/06 - Amended Part 2 requiring gifts and grants of real property to be subject to due diligence and conformance with campus facilities master plan. And other technical changes.