

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
FINANCE, FACILITIES AND TECHNOLOGY COMMITTEE
MEETING MINUTES
January 19, 2010**

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

Finance, Facilities and Technology Committee Members Absent: Tom Renier, Chair

Other Board Members Present: Cheryl Dickson, David Paskach and Terri Thomas

Leadership Council Representatives Present: Vice Chancellor Laura King, President Richard Davenport

The Minnesota State Colleges and Universities Finance/Facilities Policy Committee held its meeting on January 19, 2010, 4th Floor, Board Room, 30 East 7th Street in St. Paul. Vice Chair Hightower called the meeting to order at 9:05 am. Trustee Hightower reported that Chair Renier was doing well and in the thoughts of the committee.

1. MINUTES OF NOVEMBER 17, 2009

The minutes were approved as submitted.

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

Vice Chancellor King responded to a November meeting inquiry from Trustee Frederick about how much space the system had built and renovated in the past. She noted that from the 2000 to 2008 capital budget cycles, the system renovated 2.9 million square feet; and built or acquired 1.8 million square feet. The system has approximately 21 million square feet of academic space.

Activities regarding the 2010 legislative session have picked up speed. In the case of the system's bonding request, staff presented the capital budget to the Senate Higher Education Committee on January 12th. Associate Vice Chancellor Allan Johnson will update the committee on the latest developments.

State law requires the system to submit a report prior to Feb 1st of each even-numbered year to the legislature addressing six areas of activity. The report has been required since 2002. The Finance Division provided several documents including the MnSCU Master Green Sheet which shows how appropriation is allocated between institutional basic allocations, priority allocations, systemwide set asides and specific legislatively mandated priorities; the allocation framework components; the summary of college/university allocations; information on reallocations of resources for FY09 and FY10. System colleges and universities report \$24.8 million in reallocations for fiscal year 2009 and an additional \$40.6 million for fiscal year 2010.

3. REVENUE FUND UPDATE (*Information*)

Before updating the Committee on the Revenue Fund, Associate Vice Chancellor Allan Johnson updated the committee on the Governor's capital bonding recommendation which was released this week. The Governor's recommendation included \$50M for HEAPR projects and funding for the projects at North Hennepin Community College, Lake Superior College and Mesabi Range Community and Technical College and classroom renovation and demolition at seven campuses. Mr. Johnson noted that earlier passage of a bonding bill is good for Minnesota State Colleges and Universities as there are projects that can get started in spring and summer.

Mr. Johnson began his presentation on the Revenue Fund by reviewing that the legislature gave the Fund authority in 1955 to issue revenue bonds to finance construction and renewal of revenue-generating facilities, primarily student residence halls and student unions at the state universities. Colleges were included in the Fund in 2008. 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 and determined that at current bond rates of 4.5%, the Revenue Fund had the capacity to carry \$346 million in total debt.

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.

Vice Chancellor King responded to Trustee McElroy's inquiry by noting that each institution is responsible for their institution's projects. The revenue fund projects are backed solely by the revenue generated from them. The reserves are kept at the institutional level and can be used for improvements and additional projects.

Trustee Van Houten expressed concern over increased student fees. Mr. Johnson noted that students are involved in project planning and the institution's student senate must confirm that they have been consulted on the project and its financial impact. President Davenport, representing the Finance and Administration Committee of the Leadership Council, commented that students support the projects on his campus. The revenue fund fees are approved in conjunction with the operating budget and tuition. Mr. Johnson noted that some two year colleges will see fees for the first time for student unions. Trustee Hightower inquired if use of the revenue fund was a change in philosophy. Mr. Johnson noted that since colleges were added to the fund in 2008 it may give them the opportunity to update revenue producing facilities to aid in student recruitment, retention and satisfaction.

4. FY 2011 BUDGET OUTLOOK (*Information*)

Vice Chancellor began the discussion about the FY2011 budget outlook by asking the Committee to have a conversation about planning for 2011 through 2013.

Karen Kedrowski began by reviewing the state's economic situation. On December 2, the state economic forecast projected an additional \$1.203 billion general operating fund deficit for the current 2010-2011 biennium after the Governor's unallotment and executive actions.

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.

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 with 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. 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.

Vice Chancellor King has recommended that the colleges and universities take 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. 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.

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, 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.

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 colleges and universities are planning for tuition increases 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. 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.

Vice Chancellor King invited the committee to communicate their views on seeking legislative approval to remove the tuition cap language which 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. Committee members had a thoughtful discussion about seeking removal of the tuition caps but generally the members remained committed to keeping tuition increases under control.

President Davenport reported that Minnesota State University, Mankato is working aggressively on reducing expenses by looking at every single program in terms of cost of instruction and student demand. The University is aware that some of the best, highest quality programs may need to be eliminated if the financial picture does not improve.

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.

5. UPDATE ON ENTERPRISE TECHNOLOGY INVESTMENT PLAN

(Information)

Interim Vice Chancellor Carolyn Parnell reviewed the long-term strategy for IT investments and reviewed the progress that has been made. Ms. Parnell offered her comments that the objective, third-party assessment by In-Sight Solutions and recommended investment plan was an excellent report. The report was the basis for the successful FY08-09 legislative funding request.

Ms. Parnell noted that in FY2006 MnSCU enterprise level IT spending lagged behind comparable institutions. The funding per student has risen from \$47 in FY2006 to \$96 per student in FY2010. This amount does not include what each college or university contributes at their campus.

The legislative funds have enabled the system to strengthen the aging core infrastructure and provide support for new applications and services. This has resulted in a 233% increase in enterprise software applications, a 900% increase in servers with 24/7 operations and a 723% in critical function central services. The ITS staff positions have increased by 32%. Currently the EIC has approved a work plan for FY2010 which placed Students First as one of its top priorities with a funding allocation of \$1.5M.

Ms. Parnell commented that due diligence is needed to determine if ISRS will be able to address the system's needs in the future. When questioned by Trustee Paskach if ISRS would be useful in 10 years she replied that it is too early for her to make that assessment. Currently ISRS is one of the largest single higher education databases in the country and processes more than 100,000 transactions per hour. The ISRS system manages a database of information on more than 6 million unique persons and processes over 27 million financial transactions each year. Ms. Parnell characterized ISRS as a workhorse that is constantly being maintained and enhanced.

Ms. Parnell reported that staff are now working on a tactical plan and an activity based costing study which will show efficiencies and opportunities for improvement. The current ITS budget credits 25.21% of its expenses directly to students and another 59.45% of expenses directly to institutions. The system office's share of expenses is 8.21%.

The 2009 KDV Security Audit indicated significant deficiencies which are being addressed by rigorous monthly reviews with accountability for resolutions. A written progress report is sent to the Chancellor monthly.

In closing her report, Ms Parnell noted that the ITS Division is cognizant of the current economic environment and ongoing budget constraints. The costing analysis will allow the division to be more transparent about the efficiency and effectiveness of operations. The cost to “keep the lights on” will increase each year with new applications (currently \$31M). She noted that the division needs to do better, be more accountable and have a better communication plan with their constituents.

6. FY2009 AND FY2008 AUDITED FINANCIAL STATEMENTS (*Information*)

The results of the system wide audit, revenue fund audit and the twelve individual college and university audits were presented to the Audit Committee in November.

Vice Chancellor King noted this item provides the committee information about the financial health of the system. 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.

The Composite Financial Index (CFI) may be of interest to committee members. The CFI is calculated using four financial ratios taken from the accrual financial statements. A specific weight is assigned to each factor. This CFI calculation methodology is also used by the Higher Learning Commission as a gauge of member institutions’ financial health.

7. PROPOSED AMENDMENTS TO BOARD POLICIES (*First Reading*)

Vice Chancellor King noted that Board Policy 1A.1, Part 6, Subpart H, has established that each board policy and system procedure be reviewed at least once every five years.

Policy 5.13 Information Technology Administration

Due to an error in preparation of this proposed policy amendment the first reading will be continued until the March 2010 committee meeting;

Policy 5.14 Procurement and Contracts

The proposed amendment to Policy 5.14 will provide for annual reports on contracts with values greater than \$100,000. Trustee McElroy suggested that these reports remain available on the web site.

The proposal to increase board pre-approval from \$2,000,000 to \$5,000,000 on contracts and amendments was discussed. Most committee members felt that an increase to a \$3,000,000 limit was appropriate at this time.

The committee agreed with the proposed change to exempt 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 from pre-approval was acceptable. Trustee McElroy suggested that post facto reports on inter-agency and intra-agency agreements be presented to the board on those agreements.

Policy 5.22 Acceptable Use of Computers and Information Technology Resources

The proposed amendment to this policy adds “mobile computing devices and multimedia materials” to the list of technical information resources;

Policy 7.4 Financial Reporting

The proposed changes to this policy note the recent name change of the Department of Finance to Minnesota Management and Budget. The amendment also clarifies that financial statements for individual institutions are designated by Board action. Financial statement will be presented to the Board of Trustees for review and authorization to release;

Policy 7.7 Gifts and Grants Acceptance

The proposed amendment to Policy 7.7 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 systems. The chancellor may also report on other noteworthy gifts and grants. The proposed amendment raises the value of reportable gifts from \$5,000 to \$50,000. Colleges and universities 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.

The proposed policy amendments will be presented for a second reading at the March meeting.

The meeting adjourned at 11:05 am.

Respectfully submitted,
Nancy Lamden, Recorder