

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
BOARD OF TRUSTEES**

**Agenda Item Summary Sheet**

**Committee:** Finance and Facilities

**Date of Meeting:** January 18, 2011

**Agenda Item:** FY2012 Capital Budget Update

- 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 6.5.1, Capital Program Planning, requires the Board of Trustees to establish criteria for and approve a prioritized multi-year capital budget, approve capital project priorities and guidelines, and final capital projects lists.

**Scheduled Presenter(s):** Laura M. King, Vice Chancellor – Chief Financial Officer  
Brian Yolitz, Associate Vice Chancellor Facilities

**Outline of Key Points/Policy Issues:** This agenda item is to update the Board on the Capital Budget process currently underway in preparation for the 2012 legislative session.

**Background Information:** Development of the FY2012-2017 Capital Budget began in March 2010 with proposed Capital Budget Guidelines reflecting the Board’s focus on support of the system strategic plan, stewardship and improvement of existing physical space as well as incorporating recommendation from the recent legislative audit. The Board approved the final FY2012-2017 Capital Budget Guidelines in May 2010.

As part of the FY2012-2017 capital budget development process, all unmet requirements from FY2010 will be scored along with those FY2012 requirements identified as carryover work in the FY2010-2015 capital budget and new FY2012 needs identified by campuses.

**BOARD OF TRUSTEES  
MINNESOTA STATE COLLEGES AND UNIVERSITIES**

<b>BOARD INFORMATION</b>
<b>FY2012 Capital Budget Update</b>

**BACKGROUND**

Development of the FY2012-2017 Capital Budget began in March 2010 with proposed Capital Budget Guidelines reflecting the Board’s focus on support of the system strategic plan, stewardship and improvement of existing physical space as well as incorporating recommendation from the recent legislative audit. The Board approved the final FY2012-2017 Capital Budget Guidelines in May 2010. They are available at: [http://www.finance.mnscu.edu/facilities/capitalbudget/2012/2012official\\_guidelines.pdf](http://www.finance.mnscu.edu/facilities/capitalbudget/2012/2012official_guidelines.pdf)

The FY2012-2017 Capital Budget Guidelines underscore the Chancellor’s and Board’s commitment to rightsizing campuses to reflect demographics, improve space utilization, address deferred maintenance backlog and workforce demands, and ensure strong ties between academic programs and planning and capital projects.

During the September 2010 Board of Trustees meeting, it was noted that should a FY2011 capital bonding bill be advanced by the new governor and legislature, the Minnesota State Colleges and Universities system request will be those Board approved requirements from the FY2010-2015 process that remain unmet along with those additional projects supported by the legislature during the session. This totals \$285.1 million and includes:

HEAPR	\$58.0 million
Line time projects (19)	\$214.0 million
System-wide STEM Initiative	\$4.8 million
Legislative projects (2)	\$8.3 million

As part of the FY2012-2017 capital budget development process, all unmet requirements from FY2010 will be scored along with those FY2012 requirements identified as carryover work in the FY2010-2015 capital budget and new FY2012 needs identified by campuses.

**HIGHER EDUCATION ASSET PRESERVATION AND REPLACEMENT**

HEAPR is the major source of funding for smaller projects that replace roofs; update heating, ventilating and air conditioning systems; repair building exteriors; renovate building interiors for current functions and programs; abate hazardous materials; and make improvements to comply with building and life safety code. HEAPR has consistently been the first priority for the system. HEAPR appropriations are debt-free to the system as the state pays the entire debt service on general obligation bonds.

The FY2000, 2002, and 2004 capital requests for HEAPR were \$100 million for each biennium and rose to \$110 million per biennium for FY2006, 2008, and 2010. Final appropriations for the last three biennium were \$40 million – FY2006, \$55 million – FY2008, and \$52 million – FY2010.

FY2012 HEAPR project requests will be submitted by campuses in February 2011. Based on previous submissions and knowledge of the backlog of maintenance and repair, HEAPR requests in the \$350 million range are anticipated. We expect to recommend the Board again support a HEAPR requirement in the \$110 million range.

**MAJOR CAPITAL PROJECTS**

Diverse, cross disciplinary Project Advisory Teams (PAT) will review and score the 32 proposed major projects under consideration for the FY2012-2017 capital budget. These projects include both returning approved projects from 2010 and new projects submitted for the first time. They also include a number of updated and revised proposals from past capital review processes.

<u>Source</u>	<u>Number</u>	<u>Campuses</u>	Estimated FY2012 Costs <u>(million)</u>	Phase II FY2014 Costs <u>(million)</u>
Prior Board Approved FY2010	19	18	\$225.8	\$128.0
New Submittals	<u>13</u>	<u>13</u>	<u>\$61.8</u>	<u>\$81.0</u>
Total Program Under Review	32	29	\$287.6	\$209.0

As in the past, not all of these projects may be recommended to the Board for FY2012 consideration and approval. As a note, all projects other than HEAPR require the System pay one-third of the debt service on bonds sold, with one-half of that one-third allocated to the campus receiving the project and the other one-half allocated system-wide.

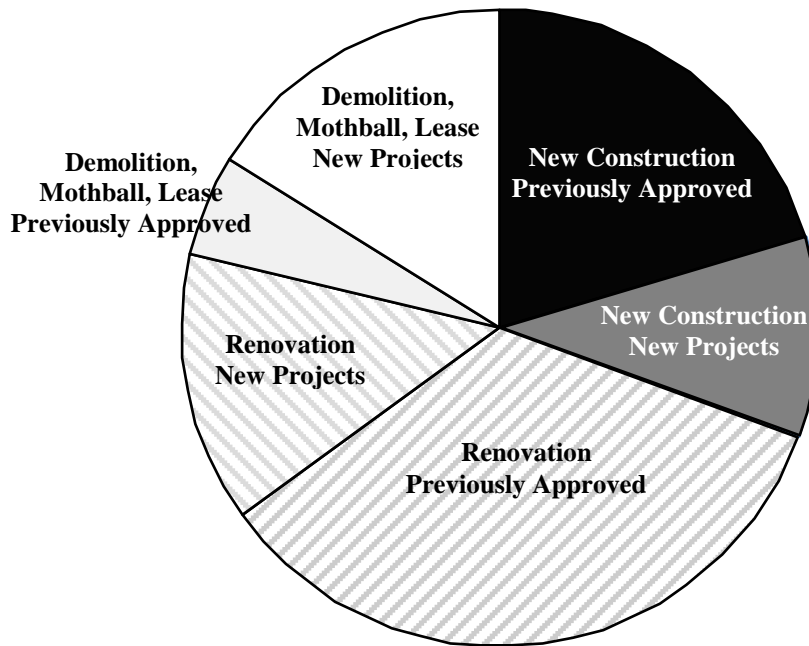
It’s important to highlight the significant difference between the previously approved projects and the new submissions. The 13 current new projects are clearly leaner and emphasize renovation and demolition to downsize their overall facilities footprint. These new and revised projects directly reflect the Board’s goals of rightsizing and reduction of square footage.

Of note are three projects that were submitted for consideration but ultimately not supported in a previous biennium, and now are being revisited after refinement. Originally, these three projects requested over 145,000 square feet in new construction, 48,500 square feet in renovation, and no demolition. They are now being presented for only 41,700 square feet in new construction, over 121,000 square feet in renovation, and 7,500 square feet of demolition at a \$20 million dollar reduction in total requested appropriations. This shift from new construction towards renovation and downsizing and has been the direction in the past two years.

<b>Capital Budget 2012</b>	<b>Request in Dollars</b>	<b>New Construction Sq ft</b>	<b>Renovation Sq Ft</b>	<b>Demolition Mothball Lease Sq ft</b>
<b>Previously Approved from Board for 2010</b>	\$ 225,808,000	474,717	799,507	121,347
<b>New Projects for 2012</b>	\$ 61,826,000	236,795	319,661	374,258

The chart below indicates scope of all submittals being reviewed for the proposed FY2012 Capital Budget cycle. Again, the aggregate is indicating the rightsizing direction of the Board with more renovation and demolition and less proposed new square footage.

**All proposed 2012 Capital Bonding Square Footage  
As of December 2010**



The new square footage in the approved 2010 list is soundly justified as supporting the Board’s Strategic Plan by directly dealing with science building requests that reflect the workforce and economic development needs of the state. Approved 2010 projects had 6 major science projects totally \$108 million dollars reflecting workforce needs. Science and allied health needs presented in 2010 accounted for 317,000 square feet, or 67 percent of the total proposed 474,000 new square footage. These spaces have minor square feet (55,000 sq ft) in renovation but the bulk of these spaces must be new square footage due to growth and expansion of programs.

## **INITIATIVES**

In addition to the major line-item capital projects, smaller “initiative” projects, estimated under \$550,000 each, have been successfully funded in the last three biennia. In July 2010, campuses submitted their initiative project proposals in three categories: science lab renovations, classroom innovation, and energy, a new initiative category. The energy initiative is in response to campuses expressed need for opportunities to directly improve overall energy efficiency and sustainability in areas that do not lend themselves to a major capital project.

Review and analysis by the OOC Facilities Planning staff produced a lean group of projects for scoring this January. At this time, 31 initiative projects totaling \$17.9 million are being brought forwarded for further evaluation and scoring: \$7.3 million in 14 science labs; \$4.6 million in 9 classroom renovations, and \$6 million in 8 energy initiatives. The budget request for three initiatives in these areas in FY2010 was \$12.0 million of which \$3.9 million was funded.

Acquisition of real property has been a part of the Capital Budget request for the last six biennia. Since funding for acquisition without program purpose has only had minor success; the only property acquisitions in this year’s review are extremely modest and directly tied to program needs for Metropolitan State University and Winona State University.

## **NEXT STEPS**

By the January 2011 Board meeting, all major and initiative projects will have been scored by the PAT teams. This review process by teams composed of various disciplines of academic, finance, facilities, technology, student services and geographic regions and type of institution is a unique aspect of the MnSCU capital budget process that has been recognized at the legislature and nationally as a model of sound capital budget development. This process has proven to be both beneficial to the analysis of the projects from the Board’s perspective and has also contributed to sharing of different solutions for facilities needs among campus personnel.

Office of the Chancellor staff will review and group the projects by relative scoring and provide this information to the Board prior to the January meeting. A public hearing is scheduled for February 15, 2011, at Wells Fargo Place where college and university presidents are invited to briefly present their projects and respond to comments generated during the evaluation process and from Board members.

The Chancellor’s preliminary Capital Budget proposal will be presented to Leadership Council in April 2011, followed by a Board presentation in May with a request for Board approval in June 2011. The Capital Budget must be submitted to Minnesota Management and Budget by June 30, 2011 to begin their review and budget development process. Campus visits by key legislative committee members are expected in the summer and fall of 2011.

*Date presented to the Board of Trustees: January 19, 2011*